

Mayor
Willard Rodarmel
Mayor Pro Tem
John Plourde
Council Members
John Gordon
John Murray
William Siegel



**Office of the
City Manager**

119 Fox Street
Lemoore ♦ CA 93245
Phone ♦ (559) 924-6700
FAX ♦ (559) 924-9003

To: Lemoore City Council SS Item #3
From: Jeff Brittz, City Manager
Date: June 2, 2011
**Subject: Discussion - Proposed Amendments - Strategic Financial
Policy - Asset Replacement Program**

Discussion:

On December 5, 2000, the City adopted a Strategic Financial Policy (attached). The Policy established a number of important financial protections, including Reserve Levels, an Infrastructure/Facility Capital Fund, Reporting Requirements, Public Hearings prior to Debt Issuance, and Asset Replacement Accounts.

Asset Replacement Accounts were established primarily to avoid the need to finance vehicles and equipment by creating a dedicated savings account for those purposes. Since its implementation, the Asset Replacement Program has worked exactly as intended; the City has not needed to use lease/purchases or other financing mechanisms for what should be considered routine replacements, such as fire trucks, refuse vehicle, patrol cars, etc. In the 1990s, it was common for the City to use such instruments.

However, now that the program has been in place for more than a decade, we believe some minor amendments are in order. The first suggested amendment is simple, the Policy refers to tracking assets over \$1,000 and calculating depreciation on those assets. Many years ago, at the suggestion of our auditors, we switched the floor amount for tracking assets from \$1,000 to \$2,500. Changing this requirement from \$1,000 to \$2,500, or even \$5,000 is recommended.

The second item has to deal with the total amounts deposited annually per fund. Currently, it is equal to a given year's depreciation calculation. What we have noticed is that in some cases, the balances are growing beyond what is likely to be needed. The reason for that is that assets acquired through other funding sources, such as Redevelopment, grants, etc. are ultimately booked as City assets, and contribute to the depreciate schedule, causing it to rise over time, even though the City would not plan on using the Asset Replacement funds to replace such assets. In other cases, grants pay for what would be considered an replacement item, such as a grant-funded refuse truck, which causes the schedule to again rise.

Staff is proposing a modified contribution schedule to account for these rising balances. See the table below:

Fund	FY Ending Balance 100% of Depreciation	FY Ending Balance 75% of Depreciation	FY Ending Balance 50% of Depreciation	FY Ending Balance 25% of annual depreciation
General Fund	\$0 - 1,500,000	\$1,500,001 - 2,500,000	\$2,500,001 - 3,000,000	\$3,000,001 +
Water Fund	\$0 - 1,000,000	\$1,000,001 - 2,000,000	\$2,000,001 - 2,500,000	\$2,500,001 +
Refuse Fund	\$0 - 500,000	\$500,001 - 1,000,000	\$1,000,001 - 1,500,000	\$1,500,001+
Sewer Fund	\$0 - 1,000,000	\$1,000,001 - 2,000,000	\$2,000,001 - 2,500,000	\$2,500,001 +
Fleet Fund	\$0 - 50,000	\$50,001 - 100,000	\$100,001 - 150,000	\$150,001 +

This revised contribution schedule will ensure that all of the funds continue to receive annual apportionments, but as the fund balances rise, the contributions amounts go down. This is a far more predictable way of dealing with the rising balances rather than simply electing, from time to time, to forgo contributions. Additionally, it allows the funds to be used for their original intent, without tying up resources unnecessarily.

On Tuesday afternoon, I will present the Council with some charts that better depict what I am proposing, as well as answer questions that you may have.

Budget Impact:

None at this time.

Recommendation:

That the Council discuss the proposed amendments to the Asset Replacement Program in the Strategic Financial Policy. Should the Council be comfortable with the recommended changes, I will draft a revised Policy for your consideration on June 21st.