



**CITY OF ELK GROVE
CITY COUNCIL STAFF REPORT**

AGENDA TITLE: Receive the Fiscal Year 2023-24 Budget Year-End Report, consider a resolution amending the Fiscal Year 2024-25 Budget and Fund Balance Reserve Policy, and approve allocation of reserves to the Pension Trust

MEETING DATE: November 13, 2024

PREPARED BY: Nathan Bagwill, Budget Manager

DEPARTMENT HEAD: Matt Paulin, Director of Finance

RECOMMENDED ACTION:

Staff recommends that the City Council receive and accept the Fiscal Year 2023-24 Budget Year-End Report, adopt a resolution amending the Fiscal Year 2024-25 Budget and Fund Balance Reserve Policy, and approve the allocation of reserves to the City’s Pension Trust.

BACKGROUND INFORMATION:

The City Council adopted the Fiscal Year (FY) 2023-24 Budget at its June 14, 2023, meeting; the Budget was subsequently updated with the Mid-Year report in February 2024 and adoption of the FY 2024-25 Budget in June 2024. This Year-End Report (Report) provides information on the City’s financial condition at the end of the 2023-24 fiscal year, focusing on the General Fund and other significant funds.

This Report compares the Year-End results to the Year-End Estimate and the Final Revised Budget. The Year-End Estimate is included in the Annual Budget and is used as a basis for projecting a fund’s balance and subsequent starting point for the upcoming fiscal year. The Final Revised Budget reflects the original adopted budget, so the comparison captures all the changes from the adopted budget throughout the fiscal year.

This report also recommends an amendment to the FY 2024-25 Budget and the Fund Balance Reserve Policy and the allocation of reserves to the City’s Pension Trust.

ANALYSIS

General Fund

Revenues

At FY 2023-24 year-end, General Fund revenues exceeded the Final Budget by \$4.6 million (5%) and exceeded year-end estimates by \$2.1 million (2%), as presented in **Table 1**. Details related to the revenue sources listed in **Table 1** are discussed further in this section.

Table 1. General Fund Revenues by Source

GENERAL FUND REVENUES					
Revenue Source	FY 24		FY 24 Actuals	YE Est. & Actuals Variance	Variance from Revised Budget
	Final Budget	Revised FY 24 YE Est.			
Sales Tax	\$ 37,894,018	\$ 38,045,242	\$ 37,454,184	\$ (591,058)	\$ (439,834)
Property Tax	\$ 17,390,268	\$ 17,390,268	\$ 17,767,451	\$ 377,183	\$ 377,183
Property Tax In Lieu of VLF	\$ 17,458,201	\$ 17,458,201	\$ 17,700,877	\$ 242,676	\$ 242,676
Property Transfer Tax	\$ 845,000	\$ 845,000	\$ 899,847	\$ 54,847	\$ 54,847
Utility Users Tax	\$ 6,368,000	\$ 6,368,000	\$ 6,540,426	\$ 172,426	\$ 172,426
Transient Occupancy Tax	\$ 2,530,000	\$ 2,530,000	\$ 2,763,386	\$ 233,386	\$ 233,386
Recycling & Waste Franchise Fee	\$ 1,513,300	\$ 1,513,300	\$ 1,526,028	\$ 12,728	\$ 12,728
Cable Franchise Fee	\$ 675,723	\$ 675,723	\$ 679,314	\$ 3,591	\$ 3,591
Gas & Electric Franchise Fee	\$ 150,000	\$ 264,472	\$ 265,311	\$ 839	\$ 115,311
Business Licenses	\$ 125,112	\$ 107,000	\$ 123,808	\$ 16,808	\$ (1,304)
Investments & Miscellaneous	\$ 1,720,000	\$ 3,155,181	\$ 4,284,096	\$ 1,128,915	\$ 2,564,096
Mello Roos - Police Services	\$ 6,035,000	\$ 6,035,000	\$ 6,445,960	\$ 410,960	\$ 410,960
Governance	\$ 3,520,330	\$ 4,050,593	\$ 4,098,693	\$ 48,100	\$ 578,363
Public Protection	\$ 1,586,987	\$ 1,773,290	\$ 1,793,998	\$ 20,708	\$ 207,011
Code Enforcement	\$ 81,600	\$ 147,913	\$ 154,351	\$ 6,439	\$ 72,751
Revenue Total	\$ 97,893,539	\$ 100,359,183	\$ 102,497,731	\$ 2,138,548	\$ 4,604,192

*Excludes Fair Market Value Adjustments

Sales Tax:

Collections for Sales Tax, the General Fund's largest revenue source, were slightly less than the Final Budget by 1% (\$439,834). The variance is primarily due to delayed payments for the fourth quarter, which are anticipated to be received in the first quarter of Fiscal Year 2024-25. Absent the late payments, Sales Tax largely performed within expectations.

According to the City's Sales Tax consultants, sectors that experienced year-over-year growth (comparing FY 2023-24 to FY 2022-23) were autos and transportation (\$207,142, 1.8%) and restaurants and hotels (\$149,622, 3.5%). Sectors that trended down year-over-year were general consumer goods (-\$305,577, -4.2%), building and industry (-\$166,989, -4.6%), and fuel and service stations (-\$231,752, -9%).

While a September reduction to the Federal Funds rate was a signal from the Federal Reserve that inflation is approaching its expectations, relatively high

interest rates and cost of goods are impacting consumers and businesses as sales tax revenue has retracted by approximately 2% year-over-year. Despite this moderate retraction, sales tax revenue is anticipated to remain static or incrementally increase over the remainder of FY 2024-25. Staff continues to monitor these factors and may adjust the anticipated Sales Tax revenue according to ongoing trends and economic forecasts.

Property Tax/Property Tax In Lieu of Vehicle License Fees (VLF):

Property Tax revenue received in FY 2023-24 was slightly higher (\$377,173, 2%) than the Final Budget, as was Property Tax In Lieu of VLF (\$242,676, 1%).

Property Transfer Tax:

Property Transfer Taxes due on real estate sales is \$1.10 for every \$1,000 of the purchase price of any property sold within City limits. The proceeds are split evenly between the City and the County of Sacramento. Property Transfer Tax revenue was \$54,847 (6%) higher than the Final Budget, reflecting continued strength in real estate transactions.

Utility Users Tax (UUT):

UUT revenue received in FY 2023-24 was \$172,426 (6%) higher than the Final Budget. UUT revenues remain fluid and volatile based on trends among the electric, natural gas, and cable industries.

Transient Occupancy Tax (TOT):

TOT revenue was \$233,386 (9%) above the Final Budget. TOT revenues have continued to trend above expectations as economic activity not tethered to interest rates continues to be steady.

Investments & Miscellaneous:

Investment revenue was significantly higher, \$2,564,096 (149%), above the Final Budget due to continued elevated interest rates and the associated yields on fixed-income securities and cash investments.

Governance, Public Protection and Code Enforcement:

Governance, Public Protection and Code Enforcement revenues were \$858,125 (16%) above the Final Budget largely due to the addition of Cost Allocation Plan charges needed to bring the allocated amount in line with the estimated fair-share cost recovery to the General Fund. These charges were inadvertently excluded from the plan.

Expenditures

At FY 2023-24 year-end, the City expended 96% of the Final Budget in the General Fund, amounting to nearly \$85 million, a savings of \$3.8 million from the Final Budget (4%) and \$3.4 million from the year-end estimates, as shown in **Table 2**. Compared to the Final Budget, the primary sources of savings were Salaries & Benefits (\$2 million) and Operations (\$1.9 million).

Table 2. General Fund Expenditures by Category

GENERAL FUND EXPENDITURES						
Category	FY 24		FY 24 Actuals	YE Est. & Actuals Variance	Variance from Revised Budget	
	Final Revised Budget	FY 24 YE Est.				
Salaries & Benefits	\$ 55,451,050	\$ 55,241,935	\$ 53,445,051	\$ 1,796,884	\$ 2,005,999	
PERS Prepayments	\$ 900,000	\$ 900,000	\$ 900,000	\$ -	\$ -	
Operations	\$ 14,312,340	\$ 14,048,813	\$ 12,425,580	\$ 1,623,233	\$ 1,886,760	
Internal Services	\$ 11,119,945	\$ 11,119,945	\$ 11,119,945	\$ -	\$ -	
Capital Outlay	\$ 318,208	\$ 348,784	\$ 284,191	\$ 64,593	\$ 34,017	
Transfers	\$ 6,665,963	\$ 6,665,963	\$ 6,754,874	\$ (88,911)	\$ (88,911)	
Expense Total	\$ 88,767,507	\$ 88,325,440	\$ 84,929,642	\$ 3,395,798	\$ 3,837,865	

As shown in **Table 3**, Police, Code Enforcement, City Manager, and Human Resources were the primary drivers of the salary savings.

Table 3. General Fund Salaries & Benefits Expenditures by Department

GENERAL FUND SALARIES & BENEFITS					
Category	FY 24		FY 24 Actuals	YE Est. & Actuals Variance	\$ Final RB & Actuals Variance
	Final Revised Budget	FY 24 YE Est.			
City Council	\$ 234,162	\$ 234,250	\$ 171,712	\$ 62,538	\$ 62,450
City Manager	\$ 3,171,783	\$ 3,228,983	\$ 3,078,499	\$ 150,485	\$ 93,285
City Attorney	\$ 1,805,746	\$ 1,802,746	\$ 1,861,369	\$ (58,623)	\$ (55,623)
City Clerk	\$ 589,450	\$ 589,750	\$ 582,801	\$ 6,949	\$ 6,649
Finance	\$ 2,349,604	\$ 2,356,215	\$ 2,337,982	\$ 18,233	\$ 11,622
Human Resources	\$ 926,690	\$ 916,419	\$ 846,579	\$ 69,840	\$ 80,111
Non-Departmental	\$ 31,244	\$ 21,344	\$ 16,760	\$ 4,585	\$ 14,485
Community Events	\$ 267,600	\$ 261,600	\$ 198,013	\$ 63,587	\$ 69,587
Police	\$ 44,682,172	\$ 44,120,529	\$ 43,150,152	\$ 970,377	\$ 1,532,020
Code Enforcement	\$ 1,392,599	\$ 1,710,099	\$ 1,201,187	\$ 508,912	\$ 191,412
Expense Total	\$ 55,451,050	\$ 55,241,935	\$ 53,445,051	\$ 1,796,884	\$ 2,005,999

Most divisions within the Police Department had savings, but those with the most significant savings were Patrol (\$635,000) and Dispatch (\$334,000) due to vacancies. The City Attorney’s Office negative variance was the result of inadvertent underbudgeting for an approved position. The Police Department continues to make strides in filling vacancies in the current fiscal

year, with minimal vacancies in sworn positions. Vacancies also drove the savings in the Code Enforcement and City Manager departments, while the savings in Human Resources were led by lower than anticipated benefit-related costs.

Table 4. General Fund Operating Expenditures by Department

GENERAL FUND OPERATING EXPENDITURES						
Category	FY 24	FY 24	FY 24	YE Est. &	Variance	RB &
	Final Revised Budget	YE Est.	Actuals	Actuals Variance	from Revised Budget	Actuals % Variance
City Council	\$ 177,338	\$ 175,430	\$ 135,900	\$ 39,530	\$ 41,438	23%
City Manager	\$ 2,159,397	\$ 2,479,808	\$ 1,805,658	\$ 674,150	\$ 353,740	16%
City Attorney	\$ 158,765	\$ 161,765	\$ 76,272	\$ 85,493	\$ 82,493	52%
City Clerk	\$ 131,800	\$ 132,126	\$ 117,623	\$ 14,503	\$ 14,177	11%
Finance	\$ 771,319	\$ 699,432	\$ 708,535	\$ (9,103)	\$ 62,784	8%
Human Resources	\$ 833,346	\$ 833,346	\$ 574,892	\$ 258,454	\$ 258,454	31%
Non-Departmental	\$ 534,000	\$ 33,000	\$ 539,072	\$ (506,072)	\$ (5,072)	-1%
Revenue Neutrality	\$ 3,054,049	\$ 3,364,131	\$ 2,901,715	\$ 462,416	\$ 152,334	5%
Community Service Grants	\$ 453,426	\$ 456,174	\$ 423,297	\$ 32,877	\$ 30,130	7%
Community Events	\$ 685,229	\$ 594,540	\$ 464,346	\$ 130,194	\$ 220,883	32%
Police	\$ 5,008,572	\$ 4,799,044	\$ 4,371,297	\$ 427,747	\$ 637,275	13%
Code Enforcement	\$ 345,100	\$ 320,018	\$ 306,975	\$ 13,043	\$ 38,125	11%
Expense Total	\$ 14,312,340	\$ 14,048,813	\$ 12,425,580	\$ 1,623,234	\$ 1,886,760	13%

The divisions within the Police Department with significant savings were Animal Services, Administration, Training, and Real Time Information Center (RTIC). Savings for Animal Services were largely attributable to lower demand than anticipated for certain programs. Savings for Administration are tied to lower than anticipated County fees. Utilization of internal resources for background investigations created greater efficiencies and savings for Training, and lower than anticipated software costs produced savings for RTIC.

Within the City Manager Department, the savings were concentrated in the Public Affairs and Economic Development departments and were primarily related to lower than anticipated costs for promotional and outreach materials, as well as reduced costs for consulting and marketing in professional services.

Fund Balance

General Fund Reserve Balances allocated per the City’s Fund Balance Reserve Policy are summarized in **Table 5**. Given the results of year-end General Fund revenues and expenditures previously discussed, the FY 2023-24 year-end available fund balance is more than \$5.8 million greater than the FY 2023-24 Budget projection.

Table 5. General Fund Balance

GENERAL FUND RESERVE BALANCE - 6/30/2024		
Category	Amount	% of Adjusted Appropriations
Reserve for Economic Uncertainty	\$ 21,039,482	25%
Opportunity Reserve	\$ 4,207,896	5%
Subsequent Year Expenditures	\$ 219,820	0.3%
Transfer to Capital Reserve	\$ 7,254,333	9%
Transfer to Economic Development	\$ 7,254,333	9%
Transfer to Pension Trust	\$ 5,822,550	7%
Total Fund Balance	\$ 45,798,414	54%

The amounts in **Table 5** are based on financial activity currently recorded in the General Fund. Until the FY 2023-24 Annual Financial Report is finalized later this year, these amounts are subject to change per the recommendation of the City’s financial auditors, including those to be transferred to the Capital Reserve Fund and Economic Development Fund.

Fund Balance Reserve Policy – Recommended Amendments

In April of 2019, the City Council adopted a Fund Balance Reserve Policy that provided guidelines for allocating excess reserves. For the General Fund, the fund balance reserve policy calls for a Reserve for Economic Uncertainty (REU) amount of 25% of budgeted appropriations and an Opportunity Reserve of 5% of budgeted appropriations in a given fiscal year. Any reserves in addition to the amounts set aside for REU and Opportunity Reserve are to be divided between Capital Reserves and Economic Development Programs. The proposed amendments to the Fund Balance Reserve Policy offer a third option for excess reserves, which is contributing to the City’s Pension Trust, should Council desire to do so in a given fiscal year. The proposed revisions also include minor and clarifying changes.

In February 2024, the City established the Public Agencies Post-Employment Benefits Trust (Pension Trust) to help prefund its pension obligations and have more control over when and how prepayment funds are used. In September 2024, the City Council adopted the Pension Funding Policy, which established a goal to accumulate an amount in its Pension Trust sufficient to generate investment earnings to cover the City’s Unfunded Accrued Liability payment to CalPERS.

Table 5 represents appropriations to the City’s respective General Fund reserves that are consistent with the FY 2023-24 year-end estimates and further allocates reserves that are over and above the allocations for REU and Opportunity Reserve to the City’s Pension Trust. Doing so would

increase the Pension Trust’s balance from approximately \$1.9 million (as of September 30, 2024) to approximately \$7.7 million. Putting these funds into the Pension Trust supports the City’s Pension Funding Policy’s goals of having a funded ratio of 90% for each of the City’s pension plans and the Trust having assets sufficient to generate investment earnings to cover the City’s annual Unfunded Accrued Liability payment.

Staff recommends the City Council approve the allocation of reserves according to Table 5 in accordance with the revised fund balance reserve policy to provide funding to the City’s Pension Trust.

Measure E

On November 8, 2022, Elk Grove voters approved Measure E, which is a one-cent local sales tax to help address services the community identified as important, including reducing crime; addressing homelessness; improving 9-1-1, police, fire, and emergency disaster and medical response; enhancing programs to combat youth crime and gang prevention; maintaining streets; improving traffic; maintaining parks; clean and safe public areas; and economic development. The revenues are shared between the City and Cosumnes Community Services District as defined by an approved tax-sharing agreement.

Table 6 summarizes the Measure E activity in Fiscal Year 2023-24.

Table 6. Fund 109 - Measure E

Category	FY 24			YE Est. & Actuals Variance	Variance from Revised Budget
	Final Revised Budget	FY 24 YE Est.	FY 24 Actuals		
Revenue Total*	\$ 28,250,000	\$ 28,000,000	\$ 34,094,163	\$ 6,094,163	\$ 5,844,163
Salaries-Benefits	\$ 2,172,416	\$ 2,167,916	\$ 2,341,861	\$ (173,945)	\$ (169,445)
Operating Expenses	\$ 14,324,277	\$ 10,820,423	\$ 11,954,514	\$ (1,134,091)	\$ 2,369,764
Capital Projects	\$ 1,919,796	\$ 3,823,204	\$ 1,877,117	\$ 1,946,086	\$ 42,678
Internal Services	\$ 570,531	\$ 570,531	\$ 570,531	\$ -	\$ -
Transfers	\$ 245,672	\$ 245,672	\$ 245,672	\$ -	\$ -
Expense Total	\$ 19,232,692	\$ 17,627,745	\$ 16,989,695	\$ 638,050	\$ 2,242,997
Surplus / (Deficit)	\$ 9,017,308	\$ 10,372,255	\$ 17,104,467	\$ 6,732,213	\$ 8,087,160
Available Fund Balance	\$ 14,432,420	\$ 15,787,366	\$ 22,519,579		

*Excludes Fair Market Value Adjustments

Revenues for the first full year of Measure E came in higher than estimated, as the City’s sales tax consultants provided conservative estimates given it was a new tax. The new Measure E staff positions were budgeted at mid-step, but many ended up being filled at a higher step, which contributed to the variance. The current year budget recognizes these costs and the compensation budget was developed accordingly. Spending in operating categories continues to ramp up and a few large initiatives that were planned

for FY 2023-24 are now set to occur in the current fiscal year, such as spending for the City’s interim homeless shelter. Spending on economic development projects such as Project Elevate pre-development and Grant Line Business Park infrastructure (\$250,000 each) were also reprogrammed into fiscal year 2025. Large variances in the year-end estimates when compared to actuals are specific to tax sharing, which grows in conjunction with revenues that came in higher than projections. For Capital, there was also a \$1.5 million pavement maintenance project that rolled into FY 2025. Given the significant revenue increases, staff is evaluating how to make best use of the Measure E tax revenues consistent with community priorities and will develop an updated expenditure plan as part of the FY 2024-25 Budget.

Special Revenue Funds

Gas Tax

The State of California imposes per-gallon excise taxes on gasoline and diesel fuel and sales taxes on gasoline and diesel fuel with allocations dedicated to transportation. Gas Tax Street Maintenance funding provides various transportation infrastructure maintenance services, including implementing the City’s Pavement Management Program, constructing capital projects, and coordinating with other entities as needed.

Table 7. Fund 221 - Gas Tax

Category	FY 24	FY 24 YE Est.	FY 24 Actuals	YE Est. & Actuals Variance	Variance from Revised Budget
	Final Revised Budget				
Revenue Total*	\$ 5,223,745	\$ 5,046,376	\$ 5,344,110	\$ 297,734	\$ 120,365
Salaries-Benefits	\$ 1,267,591	\$ 1,267,591	\$ 1,179,202	\$ 88,389	\$ 88,389
Operating Expenses	\$ 2,193,734	\$ 2,642,260	\$ 1,954,277	\$ 687,983	\$ 239,457
Capital Outlay	\$ 461,479	\$ 615,248	\$ 390,941	\$ 224,307	\$ 70,538
Capital Outlay Rollover	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers	\$ 720,569	\$ 720,569	\$ 720,568	\$ 1	\$ 1
Expense Total	\$ 4,643,373	\$ 5,245,668	\$ 4,244,988	\$ 1,000,680	\$ 398,385
Surplus / (Deficit)	\$ 580,372	\$ (199,292)	\$ 1,099,122	\$ 1,298,414	\$ 518,751
Available Fund Balance	\$ 4,580,468	\$ 3,800,804	\$ 5,099,218		

*Excludes Fair Market Value Adjustments

The revenues received in FY 2023-24 came close to the Final Budget. Like the Gas Tax, the Senate Bill 1 Local Streets and Roads Fund (Fund 227) also came close to year-end revenue estimates. The year-end forecast for both funds was developed using the January 12, 2024, League of California Cities Local Streets and Roads Revenue estimates report.

Compared to the Final Budget, Operating Expenses were lower than anticipated due to less than anticipated utilization of consulting and professional services and less repair work than forecasted. These categories include contingencies for unanticipated events, which were not needed.

Table 8. Fund 256 –CFD 2005-1 Maintenance Services

Category	FY 24		FY 24 Actuals	YE Est. & Actuals Variance	Variance from Revised Budget
	Final Revised Budget	FY 24 YE Est.			
Revenue Total	\$ 5,060,912	\$ 5,340,703	\$ 5,886,576	\$ 545,873	\$ 825,664
Salaries & Benefits	\$ 727,399	\$ 726,888	\$ 746,081	\$ (19,193)	\$ (18,682)
Operating Expenses	\$ 5,554,966	\$ 5,472,012	\$ 4,588,971	\$ 883,041	\$ 965,995
Capital Outlay	\$ 14,000	\$ 13,952	\$ 13,702	\$ 250	\$ 298
Transfers	\$ 422,550	\$ 422,550	\$ 422,550	\$ -	\$ -
Expense Total	\$ 6,718,915	\$ 6,635,402	\$ 5,771,303	\$ 864,098	\$ 947,612
Surplus / (Deficit)	\$ (1,658,003)	\$ (1,294,698)	\$ 115,273	\$ 1,409,971	\$ 1,773,276
Available Fund Balance	\$ 9,152,066	\$ 9,515,371	\$ 10,925,342		

CFD 2005-1 is the maintenance Community Facilities District for Laguna Ridge, The increase in FY 2023-24 revenues was driven by increased direct-levy revenues, higher than anticipated rental fee revenue at District 56, and increased interest earnings. Operating Expenses were lower than anticipated as park maintenance costs came in below budget and the City brought some landscaping costs in-house during the year which reduced contracted expenses. For the first time in several years, revenues exceeded expenses in this fund.

Capital Funds

Roadway and City-Wide Capital Facilities Fees (CFFs)

The Elk Grove Roadway Fee (Fund 328) is a Citywide multi-zonal impact fee program that typically funds the center lanes and medians of major roadways, intersections, freeway interchanges, and bridges.

Table 10. Fund 328 - Elk Grove Roadway Fee

Category	FY 24		FY 24 Actuals	YE Est. & Actuals Variance	Variance from Revised Budget
	Final Revised Budget	FY 24 YE Est.			
Revenue Total*	\$ 8,300,656	\$ 8,255,242	\$ 8,851,528	\$ 596,286	\$ 550,872
Salaries & Benefits	\$ 20,488	\$ 21,238	\$ 20,934	\$ 304	\$ (446)
Operations & Maintenance	\$ 940,000	\$ 78,752	\$ 79,751	\$ (1,000)	\$ 860,249
Capital Projects	\$ 2,558,013	\$ 3,718,587	\$ 2,408,013	\$ 1,310,574	\$ 150,000
Overhead Allocation	\$ 1,831,701	\$ 1,245,388	\$ 1,831,701	\$ (586,313)	\$ -
Capital Outlay Rollover	\$ -	\$ -	\$ -	\$ -	\$ -
Expense Total	\$ 5,350,202	\$ 5,063,965	\$ 4,340,399	\$ 723,566	\$ 1,009,803
Surplus / (Deficit)	\$ 2,950,454	\$ 3,191,277	\$ 4,511,129	\$ 1,319,852	\$ 1,560,675
Available Fund Balance	\$ 48,572,307	\$ 48,813,130	\$ 50,132,982		

*Excludes Fair Market Value Adjustments

Roadway Fee revenues trended above year-end estimates by approximately \$550,000. The FY2023-24 revenue budget for Roadway Fee was increased significantly (\$3 million) at the midpoint of the fiscal year due to higher than anticipated building activity during the year. The program revenues ended up coming in lower than projections as they were offset by higher than anticipated application of developer fee credits. The interest revenue for this fund performed very well and made up the difference resulting in this fund coming in above budget in overall revenues. Although the City attempts to predict when a developer will pull building permits (CFF fees are due at building permit), those dates can change due to factors not in the City's control.

Most of the expenditure savings in Fund 328 are in the Operations and Capital Projects categories. The Operations savings are primarily attributable to an amount the City typically reserves for fee reimbursements with developers that Development Services may approve during the year.

The revenues for the other CFF Funds mostly follow a similar pattern, with program fee revenues exceeding final budget, which indicates continued construction and permitting activity. The expenditures of the other CFF Funds are broadly in line with their final budgets, with any significant savings being in the Capital Project category.

FY 2024-25 BUDGET AMENDMENT

Every year, the Development Services Department budgets for various development application processing services based upon forecasts of potential projects and development activity. Based upon development activity to date, staff's forecast for environmental review was under-projected and additional budget authority in the amount of \$600,000 is being requested. This additional funding will allow the City to undertake the necessary environmental review for development projects in compliance with state law (e.g., California Environmental Quality Act).

Staff recommends amending the Fiscal Year 2024-25 Budget for Development Services in the amount of \$600,000 for additional environmental review services for development application processing.

ALTERNATIVE ACTIONS

The City Council could choose not to accept staff's recommendations to review the FY 2023-24 Budget Update Report, update the City's Fund Balance Reserve Policy, amend the Development Services FY 2024-25 Budget, and allocate reserves to the City's Pension Trust.

However, not reviewing the budget report would result in the Council not being informed of the City's financial condition after the prior fiscal year. Not updating the Fund Balance Reserve policy and approving the allocation of reserves to the Pension Trust would not be consistent with the recently-adopted Pension Funding Policy. Additionally, not amending the Development Services budget would prevent the City from conducting required environmental reviews; therefore, staff does not recommend these alternatives.

FISCAL IMPACT

There is no fiscal impact from accepting the year-end report. Contributing \$5.8 million to the Pension Trust is consistent with the City's goals of having a funded ratio of 90% for each of the City's pension plans and the Pension Trust having assets sufficient to generate investment earnings to cover the City's annual Unfunded Accrued Liability payment.

The costs for completing the required environmental reviews are the responsibility of project applicants. The requested increase to budget authority in Development Services will allow the City to enter into contracts and issue task orders with its on-call environmental consultants. Pursuant to these contracts, the City is only obligated to pay the invoices once corresponding payment is made by the applicant. Therefore, there is no impact to the City's General Fund or other operations.

ATTACHMENTS:

1. Resolution amending the Fund Balance Reserve Policy
 - a. Exhibit A: Fund Balance Reserve Policy - Amended
 - b. Exhibit B: FY 2024-25 Budget Adjustment
2. Amended Fund Balance Reserve Policy – Red Lined

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ELK GROVE
AMENDING THE FUND BALANCE RESERVE POLICY AND
FISCAL YEAR 2024-2025 BUDGET**

WHEREAS, the City of Elk Grove (City) adopted the Fund Balance Reserve Policy on February 11, 2009 (Resolution No. 2009-37), to establish General Fund Reserve levels to provide the City with flexibility to adapt to economic changes and emergencies; and

WHEREAS, in April 2019, the City Council established the General Fund Reserve for Economic Uncertainty target level to be between 20% and 25% of budgeted appropriations to assist with economic uncertainty, emergencies, and cash flow needs, and established an Opportunity Reserve fund with a target level of 0% to 5% of budgeted appropriations to add budget flexibility for the purpose of providing funding for projects, acquisitions, or unforeseen events or need; and

WHEREAS, in February 2024, the City established the Public Agencies Post-Employment Benefits Trust (Pension Trust) to help prefund its pension obligations and have more control over when and how prepayment funds are used; and

WHEREAS, in September 2024, the City Council adopted the Pension Funding Policy, which established a goal to accumulate an amount in its Pension Trust Fund sufficient to generate investment earnings to cover the City’s Unfunded Accrued Liability payment to CalPERS; and

WHEREAS, the City Council wishes to add an option to the Fund Balance Reserve Policy to contribute to the Pension Trust.

WHEREAS, staff has proposed amendments to the Fiscal Year 2024-25 budget to reflect increased demand for Development Services’ services in the Development Fund (Fund 295).

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Elk Grove hereby:

- 1) Amends the Fiscal Year 2024-25 Operating Budget as presented in Exhibit B attached hereto;
- 2) Adopts the Amended Fund Balance Reserve Policy, attached hereto as Exhibit A; and
- 3) Authorizes the City Manager to allocate the Fiscal Year End 2023-24 reserves according to the following table:

GENERAL FUND RESERVE BALANCE - 6/30/2024		
Category	Amount	% of Adjusted Appropriations
Reserve for Economic Uncertainty	\$ 21,039,482	25%
Opportunity Reserve	\$ 4,207,896	5%
Subsequent Year Expenditures	\$ 219,820	0.3%
Transfer to Capital Reserve	\$ 7,254,333	9%
Transfer to Economic Development	\$ 7,254,333	9%
Transfer to Pension Trust	\$ 5,822,550	7%
Total Fund Balance	\$ 45,798,414	54%

PASSED AND ADOPTED by the City Council of the City of Elk Grove this 13th day of November 2024

BOBBIE SINGH-ALLEN, MAYOR of the
CITY OF ELK GROVE

ATTEST:

APPROVED AS TO FORM:

JASON LINDGREN, CITY CLERK

JONATHAN P. HOBBS
CITY ATTORNEY



City of Elk Grove Fund Balance Reserve Policy

Date: 4/24/19 Revised: 11/13/24	Department: Finance Division: Budget	Authority: Resolution No. 2024-XXX
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Table of Contents

SUMMARY OF THE FUND BALANCE RESERVE POLICY	1
1.0 SCOPE:	1
1.1 PURPOSE:	1
1.2 POLICY:.....	1
1.3 DEFINITIONS:.....	1
1.3.1 “ACFR”	<i>Error! Bookmark not defined.</i>
1.3.2 “Adjusted Appropriations”	1
1.3.3 “Capital Projects Reserve”	1
1.3.4 “Reserve for Economic Uncertainty”	1
1.3.5 “Opportunity Reserve”	1
1.3.6 “Other Operating Fund Reserves”	1
1.3.7 “Other Restricted Reserves”	1
1.3.8 “Restricted Reserves”	1
1.3.9 “Unrestricted Reserves”	1
GENERAL FUND CONTINGENCY RESERVES	2
2.0 PROCEDURES:	2
2.0.1 Contingency Reserve Levels	2
2.0.2 Plan to Replenish Contingency Reserves	2
2.0.3 Use of Contingency Reserves	2
2.0.4 Allocation of Excess Contingency Reserves	2
2.0.5 Allocation of Reserves above the REU and Opportunity Reserve	3
OTHER RESTRICTED RESERVES	3
3.0 PROCEDURES:	3
3.0.1 Other Operating Funds Reserves	3
3.0.2 Capital Projects Reserves	3
3.0.3 Use of Other Restricted Reserves	3
3.0.4 Plan to Replenish Other Restricted Reserves	4
3.0.5 Allocation of Excess Other Restricted Reserves	4
UNRESTRICTED RESERVES	4
4.0 PROCEDURES:	4
4.0.1 Unrestricted Reserves.....	4
4.0.2 Use of Unrestricted Reserves	4

Summary of the Fund Balance Reserve Policy

- 1.0 **SCOPE:** To establish policies for budgeting for and spending from Fund Reserves.
- 1.1 **PURPOSE:** This Policy is intended to provide a framework for establishing annual reserve levels during the budget process that will provide the City with flexibility to adapt to local, regional and statewide economic changes and to stabilize the delivery of City services during periods of operational budget deficits while continuing to maintain sufficient balance for emergency spending.
- 1.2 **POLICY:** The Fund Reserve Policy establishes guidelines governing budgeted reserve balances in all perpetual funds as well as procedures for spending such balances and allocating excess reserves.
- 1.3 **DEFINITIONS:** When appearing in this policy, the following terms shall have the corresponding definitions.
 - 1.3.1 **“ACFR”** shall mean the Annual Comprehensive Financial Report of the City of Elk Grove.
 - 1.3.2 **“Adjusted Appropriations”** shall mean total appropriations minus appropriations for one-time activity, debt service and non-operating transfers to other funds.
 - 1.3.3 **“Capital Projects Reserve”** shall mean the portion of fund balance specifically designated to fund long term capital projects, including repair of such projects.
 - 1.3.4 **“Reserve for Economic Uncertainty”** shall mean a portion of fund balance established for the purpose of providing consistent delivery of City services during periods of economic recession or disaster response.
 - 1.3.5 **“Opportunity Reserve”** shall mean a portion of the fund balance for the purpose of providing funding for projects or acquisitions or for an unforeseen event or need.
 - 1.3.6 **“Other Operating Fund Reserves”** shall mean the Stabilization Reserves fund balance of operating funds other than the General Fund.
 - 1.3.7 **“Other Restricted Reserves”** shall mean together the Other Operating fund balance, the Capital Projects fund balance and the Gas Tax fund balance.
 - 1.3.8 **“Restricted Reserves”** shall mean Restricted fund balance as reported on the City’s ACFR. Generally, these are reserves designated for a specific purpose, not available for general use within a specific fund.
 - 1.3.9 **“Unrestricted Reserves”** shall mean Unrestricted fund balance as reported on the City’s ACFR. Generally, these are reserves are not designated for a specific purpose, and are available for general use within a specific fund.

General Fund Contingency Reserves

2.0 PROCEDURES: When creating the annual budget each year, the City Council will adhere at a minimum to the following guidelines when considering the General Fund Contingency Reserves.

2.0.1 Reserve for Economic Uncertainty (REU) Levels

The City deems it desirable to retain a Reserve for Economic Uncertainty level of 25% of the Adjusted Appropriations for any given Budget Year. The Reserve balance as a percentage of Adjusted Appropriations shall be no less than 20% of General Fund Adjusted Appropriations. The City Council will approve any fund balance between 20% and 25% of Adjusted Appropriations as part of the Annual Budget Resolution, provided that the level of Reserves is not reduced below 20%. These reserves will be reported as part of the Committed Reserve Balance in the City's ACFR.

The Reserve for Economic Uncertainty:

- a.) Economic Uncertainty Reserve. An Economic Uncertainty Reserve will be maintained to minimize the effects of major economic uncertainties, including local disasters, State budget difficulties and other severe financial hardships or unforeseen changes in revenues and/or expenditures and will be available for budget stabilization. The Reserves is also available to minimize the immediate financial impact of disasters and claims which will not be reimbursable from insurance or Federal or State Government.

2.0.2 Plan to Replenish Reserve for Economic Uncertainty

Any appropriation of the REU below the 20% minimum shall be accompanied by findings articulating the need for the use of the REU and a plan for the replenishment of the REU within a reasonable period not to exceed three (3) budget years.

2.0.3 Use of Reserve for Economic Uncertainty

All use of the REU must be approved by a majority (three votes) of the City Council. The exception is the event that a disaster situation is declared. In the event of a declared emergency, the City Manager may expend REU without prior City Council approval. After the emergency, the City Council shall evaluate the current REU level, and if necessary, publish, as an amendment to the current Budget Resolution, findings for the replenishment of the reserves within a reasonable period not to exceed three budget years.

2.0.4 Opportunity Reserve

The City deems it desirable to retain an Opportunity Reserve level of a maximum 5% of the Adjusted Appropriations for any given Budget Year to be used for special projects, acquisitions, or other need. In addition, the Opportunity Reserve may be utilized for unanticipated projects, acquisitions, or other needs identified during the course of a fiscal year.

2.0.5 Allocation of Reserves above the REU and Opportunity Reserves

When the City successfully retains a Reserve for Economic Uncertainty amount beyond 25% and an Opportunity Reserve beyond 5% of Adjusted Appropriations for a given Budget Year the close out of the Fiscal Year will generally include the reallocation of reserves over the 30% to two purposes: one half to Capital Reserves and one half to Economic Development Programs. Maintaining the target level funding for the projected fund balance amounts in the next Fiscal Year will be considered before a transfer of reserves is initiated. Contributions to the City's Pension Trust may also be considered as the City sets aside funds to prefund its pension liabilities.

Other Restricted Reserves

3.0 PROCEDURES: When creating the annual budget each year, the City Council shall adhere, at a minimum, to the following guidelines when considering Other Restricted Reserves.

3.0.1 Other Operating Funds Reserves

The City deems it desirable to retain a Stabilization Reserve level of between 10% to 25% of revenues in other operating funds for any given budget year. Stabilization Reserves will be set aside each Budget Year to provide budget stabilization or to fund unanticipated projects deemed necessary. The City Council will approve any fund balance between 10% and 20% of other on-going operating revenues as part of the Annual Budget Resolution. If the level of Stabilization Reserves falls below 10%, the City may over several Fiscal Years restore the level of Reserve to the desirable level of over 10%. These reserves will be reported as part of the Committed Reserve Balance in the City's ACFR.

3.0.2 Capital Reserves

These reserves will be reported as part of the Committed Reserve Balance in the City's ACFR.

Capital Reserves may be used to fund long term capital projects, including repair of such projects, at the discretion of the City Council. Expenditures from Capital Reserves will be approved in the Budget and/or Capital Improvement Program.

3.0.3 Use of Other Restricted Reserves

The Other Operating Fund Reserves and the Capital Reserve (together the "Other Restricted Reserves") expenditures shall meet the requirements of Section 2.0.3.

3.0.4 Plan to Replenish Other Restricted Reserves

Any appropriation of the Other Restricted Reserves below their respected stated minimums shall be accompanied by findings articulating the need for the use of the Other Restricted Reserves and a plan for the replenishment of the Other Restricted Reserves within a reasonable period not to exceed three budget years.

3.0.5 Allocation of Excess Other Restricted Reserves

In the event the City successfully retains Other Reserves amounts beyond their respected maximums for a given budget year, the excess balance shall remain in the given fund to be appropriated by the City Council for use in future budget years.

Unrestricted Reserves

4.0 PROCEDURES: When creating the annual budget each year, the City Council will adhere at a minimum to the following guidelines when considering Unrestricted Reserves.

4.0.1 Unrestricted Reserves

The City deems it desirable to retain an Unrestricted Reserves to be monitored annually at the discretion of the City Council. These reserves will be available for City Council consideration for unforeseen projects or events that are requested to be brought forth for consideration.

4.0.2 Use of Unrestricted Reserves

All Unrestricted Reserves expenditures must be approved by a majority vote of the City Council.

EXHIBIT B
Quarterly Budget Update Amendment - November
Fiscal Year 2024-25

Account Number	Account Description	Current Revised Budget	Amendments	Proposed Revised Budget
295 - Development				
Revenue Adjustment:				
	Transfer from Fund Balance		\$ 600,000	\$ 600,000
	Total Revenue Adjustments	\$ -	\$ 600,000	\$ 600,000
Expense Adjustment:				
	2953120-5202104	\$ 674,034	\$ 600,000	\$ 1,274,034
	Total Expense Adjustments	\$ 674,034	\$ 600,000	\$ 1,274,034

Fund Balance Projection - November
Fiscal Year 2024-25

Fund	Fund Balance on July 01, 2024	Current Revised Budget	Amendments	Proposed Revised Budget
295 - Development Fund				
	Revenues	\$ 11,504,728		\$ 11,504,728
	Expenditures	\$ 11,905,125	\$ 600,000	\$ 12,505,125
	Surplus / (Deficit)	\$ (400,397)	\$ (600,000)	\$ (1,000,397)
Available Fund Balance	\$ 7,199,463	\$ 6,799,066		\$ 6,199,066



City of Elk Grove Fund Balance Reserve Policy

Date: 4/24/19	Department: Finance	Authority: Resolution No. 2019-
Revised: <u>11/13/24</u>	Division: Budget	<u>0832024-XXX</u>

Table of Contents

SUMMARY OF THE FUND BALANCE RESERVE POLICY	1
1.0 SCOPE:	1
1.1 PURPOSE:	1
1.2 POLICY:.....	1
1.3 DEFINITIONS:.....	1
<u>1.3.1</u> “ACFR”	<u>1</u>
1.3.12 “Adjusted Appropriations”	1
1.3.2 “CACFR”	11
1.3.3 “Capital Projects Reserve”	1
1.3.4 “Reserve for Economic Uncertainty Contingency Reserves”	1
<u>1.3.5</u> “Opportunity Reserve”	<u>1</u>
1.3.56 “Other Operating Fund Reserves”	1
1.3.67 “Other Restricted Reserves”	1
1.3.78 “Restricted Reserves”	1
1.3.89 “Unrestricted Reserves”	1
GENERAL FUND CONTINGENCY RESERVES	2
2.0 PROCEDURES:	2
2.0.1 Contingency Reserve Levels	2
2.0.2 Plan to Replenish Contingency Reserves	2
2.0.3 Use of Contingency Reserves	2
2.0.4 Allocation of Excess Contingency Reserves	2
<u>2.0.5</u> Allocation of Reserves above the REU and Opportunity Reserve	<u>3</u>
OTHER RESTRICTED RESERVES	3
3.0 PROCEDURES:	3
3.0.1 Other Operating Funds Reserves	3
3.0.2 Capital Projects Reserves	3
3.0.3 Use of Other Restricted Reserves	3
3.0.4 Plan to Replenish Other Restricted Reserves	4
3.0.5 Allocation of Excess Other Restricted Reserves.....	4
UNRESTRICTED RESERVES	4
4.0 PROCEDURES:	4
4.0.1 Unrestricted Reserves.....	4
4.0.2 Use of Unrestricted Reserves	4

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~~1.3.2 “CAFRACFR” shall mean the Comprehensive Annual Comprehensive Financial Report of the City of Elk Grove.~~

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3.0.3 Use of Other Restricted Reserves

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3.0.4 Plan to Replenish Other Restricted Reserves

Any appropriation of the Other Restricted Reserves below their respected stated minimums shall be accompanied by findings articulating the need for the use of the Other Restricted Reserves and a plan for the replenishment of the Other Restricted Reserves within a reasonable period not to exceed three budget years.

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Unrestricted Reserves

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4.0.2 Use of Unrestricted Reserves

All Unrestricted Reserves expenditures must be approved by a majority vote of the City Council.