

SUBJECT:**GENERAL FUND RESERVE
POLICY****POLICY
NUMBER****200-07****EFFECTIVE
DATE****07-01-2019**

PURPOSE: The City is committed to prudent fiscal practices and maintaining adequate General Fund reserves to ensure consistent, uninterrupted municipal services in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures, as well as the credit worthiness of the City. The General Fund Reserve Policy (the Policy) establishes the appropriate level of unassigned fund balance in the General Fund, sets conditions warranting its use, and outlines the plan to replenish it if the balance fell below the Policy level.

POLICY:

The General Fund is the City's primary operating fund. It is not connected to any one revenue source and pays for general services provided by the City as well as public safety and capital improvements. A key attribute of financially stable organization is having appropriate level of reserves. It allows the City to mitigate current and future financial risks resulting from economic instability or catastrophic loss.

1. The City shall establish and maintain adequate financial reserves in order to prepare for the impact economic cycles and physical disasters have upon essential services to the public and assure annual fluctuation in revenue do not impeded the City's ability to meet expenditure obligations.
2. Fund balance as a measurement of financial resources available in a governmental fund is used in both financial reporting and budget. There are differences between the two and will likely result in different amounts reported in the financial statements and the budget. Financial statements report the total of all General Fund and its sub-funds' fund balances, yet budgetary fund balance typically focuses on the General Fund itself only. In addition, the timing difference in recognition of revenues and expenditures also contributes to the variance between the two. For example, encumbrances arising from purchase orders and contracts reduces budgetary fund balance, yet it has no impact on the financial statements.
3. In the context of financial reporting, the term *fund balance* is used to describe the difference between the assets and liabilities reported in a governmental fund. Under current accounting standards, there are five separate components of fund balance:
 - *Nonspendable Fund Balance* (inherently non-spendable, such as inventory)
 - *Restricted Fund Balance* (externally enforceable limitations on use, such as grants, contributions, or endowments)

- *Committed Fund Balance* (self-imposed limitation on use through City Council action)
- *Assigned Fund Balance* (limitation resulting from intended use)
- *Unassigned Fund Balance* (residual net resources)

The first two components listed above are not specifically addressed in the Policy due to the nature of their restrictions.

4. Committed Fund Balance

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal period, however, the amount can be determined subsequently.

Three types of committed reserves are set aside by the City to address unforeseen emergencies or disasters, significant changes in the economic environment, and key initiatives including economic development, infrastructure and capital projects.

Catastrophic Reserve

Funds reserved under this category shall be used to mitigate costs associated with public emergency such as a natural disaster or other unforeseen catastrophic events. The Catastrophic Reserve shall be used to respond to extreme, one-time events, such as earthquakes, fires, floods, civil disturbance, and terrorist attacks. This reserve will not be used to meet operation shortfalls or to fund new programs or personnel. It will be restricted and only expanded in the event such expenditures are necessary to ensure the safety of the City's residents and their property.

Stability Reserve

Stability Reserve shall be maintained to mitigate financial risks associated with unexpected revenue shortfalls due to changes in the economic environment. In times of economic downturn, if revenues are insufficient to meet the normal operating requirements of essential services, funds contained in the Stability Reserve may be used if authorized by two-third vote of the City Council.

Designated Revenues Reserve

The City Council may designate certain one-time revenue generated from non-operating activities outside the City's normal operations (Designated Revenues). These one-time revenues include but not limited to proceeds from sale of City property, settlement, contribution, or one-time project and/or transaction. The Designated Revenues are committed by formal action of the City Council. Upon

request from the City Manager, Designated Revenues may be appropriated for departmental use if authorized by two-third vote of the City Council. Those Designated Revenues not appropriated at fiscal year end are reported as Committed Fund Balance.

5. Target Levels for Committed Fund Balance

The Government Finance Officers Association (GFOA) recommends, at a minimum, that general purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their General Fund of no less than two months of regular General Fund operating revenues or expenditures. Following sound financial practices and adhering to the GFOA recommendation, the City commits to maintaining a minimum level of 16.7% (or two months) of adopted operating revenues, with a goal of reaching 30% over time. This target reserve level does not include the amount set aside for Designated Revenues Reserve.

The 30% target reserve level will be allocated as follows:

- 16.7 % Stability Reserve, and
- 13.3% Catastrophic Reserve

6. Methodology to Meet Target Reserve Levels

At the end of each fiscal year, the Finance Department reports on the audited fiscal results. Should actual General Fund revenues exceed expenditures and encumbrances/carryovers, a year-end operating surplus shall be reported. The year-end surplus could be used to support funding the target reserve levels as recommended by the City Manager and approved through the adoption of the biennial budgets.

7. Replenishment of General Fund Reserves

A replenishment schedule shall be adopted simultaneously with the appropriation from the reserve funds, with the exception of the use of the Designated Revenues Reserve. Replenishment shall begin no later than 5 years from the year of the appropriation and be completed within 10 years.

8. Assigned Fund Balance

Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, are considered as Assigned Fund Balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the City Manager. Assigned Fund Balance could include:

- Encumbrances – goods and services on purchase orders and contracts that are to be delivered
- Carryover – appropriation by City Council for specific projects or programs that were not completed and not encumbered by fiscal year end.
- GASB 31 Gain – unrealized investment gains that have been recorded in the financial statement in accordance with governmental accounting standards.
- Set Asides – amount designated for certain capital replacement, reduction of debt, special events or non-recurring expenditure needs of the City.

9. Unassigned Fund Balance

Unassigned fund balance results from fund balance exceeds the combined total of non-spendable, restricted, committed and assigned fund balances. Upon final close of the fiscal year, any unassigned fund balance may be used to fund liabilities, including but not limited to debt service, pension, and other post-employment benefits. Priority shall be given to those items that relieve General Fund budget or financial and operating constraints in the future.

10. Excess Unrestricted Fund Balance

In the event the unrestricted fund balance exceeds the Policy requirement, at the end of each fiscal year, any excess may be used to fund the activities that relieve budget or financial operating constraints in the future, subject to City Council approval, including but not limited to:

- Debt reduction, including outstanding long-term obligation, pension, and other post-employment benefit;
- Revenue generating initiatives that result in continuous revenue stream; and
- Cost saving efforts that result in ongoing cost reduction; and
- One-time expenditures that advances a goal of the City Council's priorities.