

Meeting Date: 4/26/2016

Report Type: Staff/Discussion

Report ID: 2016-00440

Title: Adoption of Proposed General Fund Economic Uncertainty Reserve Policy

Location: Citywide

Recommendation: Pass a Motion adopting the General Fund Economic Uncertainty Reserve Policy.

Contact: Leyne Milstein, Director, (916) 808-8491; Dawn Holm, Budget Manager, (916) 808-5574, Department of Finance

Presenter: Leyne Milstein, Director, (916) 808-8491, Department of Finance

Department: Finance

Division: Finance

Dept ID: 06001011

Attachments:

- 1-Description/Analysis
- 2-General Fund Reserve Policy Survey
- 3-GFOA Best Practice
- 4-FY12-14 Projected Cash Flow Statement
- 5-General Fund Economic Uncertainty Reserve Policy

City Attorney Review

Approved as to Form
Steve Itagaki
4/13/2016 8:51:23 AM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 4/7/2016 4:06:11 PM

Description/Analysis

Issue Detail: At the January 5, 2016, Budget and Audit Committee (Committee) meeting the Finance Director recommended that the Committee consider Council adoption of a formal policy establishing reserve levels for the General Fund. In June 2011, the City Council adopted a goal of establishing a General Fund Economic Uncertainty Reserve (EUR) equivalent to 10% of annual General Fund revenues.

In order to prepare for consideration of a policy the Committee asked staff to provide research on what other cities have implemented relative to establishing reserves. A survey of cities completed by the California Society of Municipal Finance Officers in July 2015 was provided to Committee members on January 12, 2016 (Attachment 1). While the City of Long Beach was not included in the survey results, it is one of Sacramento's "comparable cities." Long Beach's overall reserve policy is 16.7% or two months of operating costs. The Government Finance Officers Association best practice recommends two months of operating revenue or expenditures (Attachment 2).

The recommended policy establishes 10% of annual General Fund budgeted revenues as the minimum level of funding in the City's General Fund EUR and establishes two months of operating expenditures as a target reserve level. For illustrative purposes Attachment 3 demonstrates the need for reserves to cover the annual General Fund cash shortfall in the fall, as property taxes, the largest revenue source in the General Fund, are not received until December/January. The recommended policy also outlines the conditions under which the reserve may be used and describes how the City's expenditure and/or revenue levels will be adjusted to match any new economic realities that are causing the use of fund balance reserves as a financing bridge.

Policy Considerations: The proposed policy (Attachment 4) is consistent with the Mayor and Council's budget priority to adopt financially sound policies and procedures that are prudent and take into account long-term financial planning and stability.

Economic Impacts: None.

Environmental Considerations: This action is not a project subject to CEQA because it involves only general policy and procedure making and does not have the potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. (CEQA Guidelines, §§ 15002(d), 15378, 15061(b)(3).)

Sustainability: None.

Commission/Committee Action: The EUR Policy was presented to the Budget and Audit Committee on April 5, 2016. The Committee approved a Motion to forward the policy to the City Council for adoption.

Rationale for Recommendation: Financial reserves strengthen the City's financial status and provide valuable resources to minimize service disruption in the event of temporary revenue shortfalls or unpredicted one-time expenditures. The purpose of the General Fund

EUR Policy is to establish the targeted level of General Fund operating reserves which are a basic component of a financially strong city.

Financial Considerations: The City has made significant progress towards achieving Council's 10% EUR goal over the past several years. As of July 1, 2016, the General Fund EUR will be approximately 9.8% of the approved General Fund revenue budget for FY2015/16.

| Fiscal Year | EUR Changes (\$ in 000s) | EUR Balance (\$ in 000s) | Budgeted Revenue (\$ in 000s) | EUR as a % of Revenue |
|----------------|-----------------------------|-----------------------------|----------------------------------|-----------------------|
| 2004/05 | \$ 850 | \$ 30,000 | \$308,384 | 9.7% |
| 2005/06 | \$ - | \$ 30,000 | \$347,243 | 8.6% |
| 2006/07 | \$ - | \$ 30,000 | \$385,213 | 7.8% |
| 2007/08 | \$ 3,100 | \$ 33,100 | \$400,280 | 8.3% |
| 2008/09 | \$ (22,560) | \$ 10,540 | \$396,832 | 2.7% |
| 2009/10 | \$ - | \$ 10,540 | \$381,209 | 2.8% |
| 2010/11 | \$ 3,800 | \$ 14,340 | \$362,787 | 4.0% |
| 2011/12 | \$ 5,923 | \$ 20,263 | \$359,869 | 5.6% |
| 2012/13 | \$ 7,502 | \$ 27,765 | \$369,260 | 7.5% |
| 2013/14 | \$ 5,949 | \$ 33,714 | \$372,560 | 9.0% |
| 2014/15 | \$ 5,253 | \$ 38,967 | \$385,213 | 10.1% |
| 2015/16 | \$ - | \$ 38,967 | \$399,209 | 9.8% |

However, as revenues continue to increase, additional contributions to the reserve will be necessary to reach the 10% target. The recommended policy includes strategies to continue to grow this reserve.

Local Business Enterprise (LBE): No goods or services are being purchased as a result of this report.

| GENERAL FUND RESERVE POLICY SURVEY | | | | |
|------------------------------------|------------------------------|---------|----------------|-------|
| City/Town | General Fund Oper. Budget | Pop. | Reserve Policy | |
| | | | Min. | Up To |
| Anaheim | \$286 Million | 351,400 | 7% | 10% |
| Auburn | \$10 Million | 13,600 | 30% | |
| Cathedral City | \$33.4 Million | 53,000 | 33% | |
| Ceres | \$19.5 Million | 46,500 | 25% | |
| Clovis | \$59.2 Million | 104,300 | 15% | 20% |
| El Centro | \$25.5 Million | 44,800 | 10% | |
| Glendale | \$188 Million | 195,000 | 35% | |
| Hayward | \$140.4 Million | 150,000 | 25% | |
| Hemet | \$41 Million | 82,000 | 20% | |
| La Puente | \$11.5 Million | 40,700 | 25% | |
| Laguna Hills | \$18.6 Million | 31,000 | 35% | |
| Lakewood | \$43 Million | 81,600 | 20% | |
| Lodi | \$46.9 Million | 63,000 | 16% | |
| Mill Valley | \$25.5 Million | 14,000 | 15% | |
| Mission Viejo | \$53.7 Million | 96,700 | 40% | 50% |
| Moorpark | \$17.6 Million | 35,700 | 17% | |
| Palo Alto | \$185.1 Million | 66,000 | 15% | 20% |
| Pittsburg | \$36.9 Million | 67,000 | 30% | |
| Portola Valley | \$4.5 Million | 4,500 | 60% | |
| Rancho Palos Verdes | \$21 Million | 42,500 | 50% | |
| Reedley | \$8.4 Million | 25,500 | 17% | |
| Riverside | \$256 Million | 315,000 | 15% | |
| Salinas | \$101.5 Million | 154,700 | 8% | |
| San Dimas | \$20 Million | 34,000 | 78% | |
| San Juan Capistrano | \$25 Million | 35,900 | 25% | 50% |
| San Leandro | \$93.5 Million | 89,200 | 20% | |
| Santee | \$37.2 Million | 55,800 | 20% | |
| South El Monte | \$12 Million | 20,300 | 20% | |
| South San Francisco | \$84.5 Million | 66,200 | 20% | |
| Stanton | \$19.2 Million | 39,200 | 25% | |
| Suisun City | \$10.9 Million | 28,900 | 20% | |
| Truckee | \$20 Million | 16,500 | 25% | |
| Villa Park | \$2.7 Million | 5,900 | 50% | |
| West Sacramento | \$40 Million | 50,000 | 15% | 20% |
| Yorba Linda | \$29.4 Million | 67,100 | 50% | |
| Yuba City | \$37.4 Million | 66,400 | 15% | |



GFOA Best Practice

Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund (CAAFR, Budget) (2015)

Background. In the context of financial reporting, the term *fund balance* is used to describe the net position of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis.¹ While in both cases *fund balance* is intended to serve as a measure of the financial resources available in a governmental fund; it is essential that differences between GAAP *fund balance* and budgetary *fund balance* be fully appreciated.

1. GAAP financial statements report up to five separate categories of fund balance based on the type and source of constraints placed on how resources can be spent (presented in descending order from most constraining to least constraining): *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.² The total of the amounts in these last three categories (where the only constraint on spending, if any, is imposed by the government itself) is termed *unrestricted fund balance*. In contrast, budgetary fund balance, while it is subject to the same constraints on spending as GAAP fund balance, typically represents simply the total amount accumulated from prior years at a point in time.
2. The calculation of GAAP fund balance and budgetary fund balance sometimes is complicated by the use of sub-funds within the general fund. In such cases, GAAP fund balance includes amounts from all of the subfunds, whereas budgetary fund balance typically does not.
3. Often the timing of the recognition of revenues and expenditures is different for purposes of GAAP financial reporting and budgeting. For example, encumbrances arising from purchase orders often are recognized as expenditures for budgetary purposes, but never for the preparation of GAAP financial statements.

The effect of these and other differences on the amounts reported as *GAAP fund balance* and *budgetary fund balance* in the general fund should be clarified, understood, and documented.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance in the general fund.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or liquidity (e.g., rating agencies) are likely to favor higher levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, who may prefer that fund balance in excess of a government's formal policy requirements, be used for other purposes.

Recommendation. GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.³ Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period.⁴ In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.

Appropriate Level. The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, 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 regular general fund operating expenditures.⁵ The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.⁶ Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

1. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
3. The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds;

4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;
5. Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

Use and Replenishment.

The fund balance policy should define conditions warranting its use, and if a fund balance falls below the government's policy level, a solid plan to replenish it. In that context, the fund balance policy should:

1. Define the time period within which and contingencies for which fund balances will be used;
2. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;
3. Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.

Generally, governments should seek to replenish their fund balances within one to three years of use. Specifically, factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets;
2. Recovering from an extreme event;
3. Political continuity;
4. Financial planning time horizons;
5. Long-term forecasts and economic conditions;
6. External financing expectations.

Revenue sources that would typically be looked to for replenishment of a fund balance include nonrecurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and there is a defensible rationale). Year-end surpluses are an appropriate source for replenishing fund balance.

Unrestricted Fund Balance Above Formal Policy Requirement. In some cases, governments can find themselves in a position with an amount of unrestricted fund balance in the general fund over their formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future. Amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed. Additionally, an education or communication strategy, or at a minimum, explanation of large changes in fund balance is encouraged. In all cases, use of those funds should be prohibited as a funding source for ongoing recurring expenditures.

Committee: Budget**Notes:**

- 1 For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.
- 2 These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
- 3 Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.
- 4 See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).
- 5 In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.
- 6 In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues and/or expenditures, that decision should be followed consistently from period to period.

CITY OF SACRAMENTO
PROJECTED CASH FLOW STATEMENT - GENERAL FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2014
(\$ in 000's)

Updated, 06/27/13

| | December | | | | | | | | | | | | | Total | FY 2014 Adopted Budget |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|------------------------------|
| | July | August | September | October | November | 1-15 | 16-31 | January | February | March | April | May | June | | |
| Beginning Cash Balances | \$ 62,891 | \$ 85,495 | \$ 77,224 | \$ 66,911 | \$ 43,139 | \$ 19,717 | \$ 11,057 | \$ 45,124 | \$ 58,314 | \$ 49,679 | \$ 36,064 | \$ 34,917 | \$ 42,846 | | |
| Receipts | | | | | | | | | | | | | | | |
| Property Taxes | 9 | 1,353 | 2 | 12 | 3 | 55 | 33,562 | 12,402 | 41 | 7 | 26,478 | 9,740 | 9 | 83,673 | 83,673 |
| Property Taxes In Lieu VLF | - | - | - | - | - | - | - | 15,807 | - | - | - | 15,806 | - | 31,613 | 31,613 |
| Property Taxes in Lieu ST (Triple Flip) | - | - | - | - | - | - | - | 8,165 | - | - | - | 8,164 | - | 16,329 | 16,329 |
| Sales and Use Tax | 3,337 | 4,449 | 4,702 | 3,404 | 4,539 | - | 4,221 | 3,471 | 4,419 | 4,047 | 3,156 | 4,209 | 5,022 | 48,976 | 48,976 |
| Public Safety Sales Tax | 331 | 426 | 360 | 340 | 348 | - | - | 761 | 332 | 509 | 277 | 313 | 455 | 4,452 | 4,452 |
| Utility Users Tax | 5,793 | 3,670 | 5,353 | 5,950 | 3,977 | 2,077 | 2,216 | 4,844 | 5,052 | 5,108 | 5,304 | 4,567 | 5,071 | 58,982 | 58,982 |
| Transient Occupancy Tax | 423 | - | 153 | 299 | 273 | 261 | - | 176 | 242 | 235 | 165 | 334 | 726 | 3,287 | 3,287 |
| Other Taxes | 1,518 | 931 | 1,340 | 1,165 | 577 | 485 | 442 | 1,432 | 961 | 1,292 | 1,567 | 745 | 1,307 | 13,762 | 13,762 |
| Licenses and Permits | 853 | 1,125 | 805 | 911 | 714 | 729 | 186 | 954 | 1,137 | 1,041 | 1,013 | 1,005 | 1,080 | 11,553 | 11,553 |
| Fines, Forfeitures, & Penalties | 780 | 850 | 505 | 1,274 | 714 | 530 | 2 | 1,486 | 362 | 1,321 | 959 | 1,577 | 1,675 | 12,035 | 12,035 |
| Interest, Rents, Concessions | 61 | 55 | 152 | 110 | 69 | 38 | - | 101 | 120 | 95 | 64 | 103 | 85 | 1,053 | 1,053 |
| Intergovernmental | 109 | 2,741 | 2,157 | 756 | 759 | 168 | 79 | 1,515 | 293 | 729 | 491 | 1,329 | 955 | 12,081 | 12,081 |
| Charges, Fees, & Services | 2,960 | 2,718 | 2,393 | 2,852 | 2,889 | 1,751 | 1,852 | 3,645 | 3,429 | 2,784 | 5,370 | 5,058 | 8,313 | 46,014 | 46,014 |
| Contributions From Other Funds | 2,336 | 2,336 | 2,337 | 2,336 | 2,336 | 2,337 | - | 2,336 | 2,336 | 2,337 | 2,336 | 2,336 | 2,337 | 28,036 | 28,036 |
| Miscellaneous | 10 | 10 | 11 | 10 | 10 | 11 | - | 10 | 10 | 11 | 10 | 10 | 11 | 124 | 124 |
| Receivables | 250 | - | - | - | - | - | - | - | - | - | - | - | (250) | - | - |
| Measure U Revenues | 1,839 | 2,453 | 2,592 | 1,877 | 2,502 | - | 2,327 | 1,914 | 2,436 | 2,231 | 1,740 | 2,320 | 2,769 | 27,000 | 27,000 |
| TRANS Proceeds | 33,000 | | | | | | | | | | | | | 33,000 | 33,000 |
| Total Receipts | \$ 53,609 | \$ 23,117 | \$ 22,862 | \$ 21,296 | \$ 19,710 | \$ 8,442 | \$ 44,887 | \$ 59,019 | \$ 21,170 | \$ 21,747 | \$ 48,930 | \$ 57,616 | \$ 29,565 | \$ 431,970 | \$ 398,970 |
| Disbursements | | | | | | | | | | | | | | | |
| Employee Services (Salary & Benefits) | 17,477 | 17,280 | 14,201 | 23,166 | 15,198 | 8,288 | 5,301 | 16,570 | 14,775 | 16,405 | 21,642 | 13,490 | (5,904) | 177,889 | 177,889 |
| PERS retirement | 4,462 | 4,462 | 4,461 | 6,692 | 4,462 | 2,231 | 2,231 | 4,461 | 4,462 | 4,462 | 4,461 | 6,692 | 4,461 | 58,000 | 58,000 |
| SCERS Retirement Contribution | 595 | 595 | 596 | 595 | 595 | 596 | - | 595 | 596 | 595 | 596 | 595 | 596 | 7,145 | 7,145 |
| Other Services & Supplies | 5,250 | 6,004 | 10,408 | 7,825 | 7,149 | 4,137 | 1,718 | 9,717 | 6,568 | 10,345 | 6,238 | 7,835 | 9,838 | 93,032 | 93,032 |
| Property/Capital Outlay | 305 | 117 | 152 | 160 | 179 | 650 | 373 | 577 | 772 | 461 | 2,702 | 1,577 | 2,192 | 10,217 | 10,217 |
| Debt Service | (43) | - | 872 | 2,847 | 12,920 | - | - | - | 64 | 289 | (206) | 6,035 | 718 | 23,496 | 23,496 |
| Operating Transfers | 428 | 428 | 429 | 428 | 428 | - | 429 | 428 | 428 | 429 | 428 | 429 | 429 | 5,141 | 5,141 |
| Payables & Prepaid Items | | | | | | | | | | | | | | - | - |
| Measure U Expenses | 2,531 | 2,502 | 2,056 | 3,355 | 2,201 | 1,200 | 768 | 2,399 | 2,140 | 2,376 | 3,134 | 1,953 | (855) | 25,760 | 25,760 |
| TRANS Repayment | | | | | | | | 11,082 | | | 11,082 | 11,081 | | 33,245 | 33,245 |
| Total Disbursements | \$ 31,005 | \$ 31,388 | \$ 33,175 | \$ 45,068 | \$ 43,132 | \$ 17,102 | \$ 10,820 | \$ 45,829 | \$ 29,805 | \$ 35,362 | \$ 50,077 | \$ 49,687 | \$ 11,475 | \$ 433,925 | \$ 400,680 |
| Ending Cash Balance | \$ 85,495 | \$ 77,224 | \$ 66,911 | \$ 43,139 | \$ 19,717 | \$ 11,057 | \$ 45,124 | \$ 58,314 | \$ 49,679 | \$ 36,064 | \$ 34,917 | \$ 42,846 | \$ 60,936 | | |
| Measure U Set-aside Reserve | (692) | (49) | 536 | (1,478) | 301 | (1,200) | 1,559 | (485) | 296 | (145) | (1,394) | 367 | 3,624 | 1,240 | 1,240 |
| Ending Cash Balance + Measure U Reserve | 84,803 | 77,175 | 67,447 | 41,661 | 20,018 | 9,857 | 46,683 | 57,829 | 49,975 | 35,919 | 33,523 | 43,213 | 64,560 | | |

General Fund Economic Uncertainty Reserve Policy

I. PURPOSE

To establish the targeted level of General Fund operating reserves, a basic component of a financially strong city. Adequate reserves help sustain City operations when adverse or unexpected circumstances affect the City, providing resources to minimize service disruption in the event of temporary revenue shortfalls or unpredicted one-time expenditures. This policy establishes the amounts the City will strive to maintain in its Economic Uncertainty Reserve (EUR) and the conditions under which the reserve may be used.

2. BACKGROUND

Financial reserves strengthen the City's financial status and provide valuable resources for unexpected events. Every fund of the City represents a stand-alone financial set of accounts and has its own operating characteristics, financial capabilities, and constraints. The level of reserves needed should be based on the financial and operating characteristics of each fund. In June 2011, the City Council adopted a goal of establishing a General Fund EUR equivalent to 10% of annual General Fund revenues.

According to the Government Finance Officers Association (GFOA), it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) in order to protect taxpayers and employees from unexpected changes in financial conditions.

GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain an unrestricted budgetary fund balance in their General Fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures (<http://www.gfoa.org/appropriate-level-unrestricted-fund-balance-general-fund>).

This policy establishes 10% of annual General Fund budgeted revenues as the minimum level of funding in the City's General Fund EUR and establishes two months of operating revenues as a target reserve level. The policy also outlines the methods the City will utilize to achieve the target reserve level, defines the conditions under which these funds can be used and describes how the City's expenditure and/or revenue levels will be adjusted to match any new economic realities that are causing the use of fund balance reserves as a financing bridge.

3. POLICY

3.1 Minimum and Target Reserve Levels

The City will maintain an EUR at a minimum of 10% of budgeted General Fund revenues. The City will seek to achieve and maintain a General Fund EUR equal to two months of regular on-going General Fund expenditures, including transfers (i.e. 17% of General Fund expenditures).

The EUR shall be reported as a commitment of fund balance in the General Fund for external financial reporting. Appropriations from the EUR may only be made by a vote of the City Council to meet a critical, unpredictable financial need.

3.2 Methods to Achieve Funding Levels

Funding of the EUR will generally come from excess revenues over expenditures or one-time revenues.

At a minimum, during the budget process, staff shall review the current and five-year projected reserves to ensure that they are appropriate given the economic and financial risk factors the City faces.

3.3 Criteria for Expenditure of Reserve Funds

The EUR is intended to contend with significant short-term issues, inclusive of unexpected revenue shortfalls, higher than anticipated expenditures, or declared emergencies.

It is the intent of the Council to limit use of the EUR to address unanticipated, non-recurring needs. Reserves shall not normally be applied to recurring annual operating expenditures. The EUR may, however, be used strategically to allow time for the City to restructure its operations in a deliberate manner (as might be required in an economic downturn), but such use will only take place in the context of a Council-adopted long-term plan.

3.4 Timeline for Replenishment of the EUR

If the EUR is drawn down below the minimum level, a plan will be developed and implemented to replenish the reserve, generally from future surpluses. Replenishing the EUR will be a priority use of one-time resources. Generally, the City should seek to replenish the EUR to the minimum reserve level within one to three years.