



## ***Recommended Reserve Policy for General Fund***

***Finance Department***

***Finance Committee  
February 10, 2016***

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## **Background**

1. Reserve policies are standard best practices for government agencies
2. Most common for:
  - a) General Fund
  - b) Capital-intensive enterprise funds
  - c) Insurance trust funds
3. Designed to:
  - a) Provide funds to address emergencies and economic contingencies
  - b) Enhance transparency
  - c) Align with the City Council's strategic direction



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## Why Have Reserve Policies?

1. Key element of sound financial planning
2. Facilitates addressing unforeseen financial challenges
3. Provides credit rating agencies and others with comfort that management will adhere to fiscal policies
4. Exact level is less important than willingness to adhere to policies



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## General Fund Reserve History

1. The General Fund's reserve policy has been modified four times in the last 20 years
2. These modifications have always been informal in nature with no formal motion of the City Council and no formal written policy

Date	Reserve Policy Level
Prior to Fiscal Year 1998/99	\$1,820,000
Fiscal Year 1998/99	\$5,000,000
Fiscal Year 1999/00	\$10,000,000
Fiscal Year 2000/01	10%
Fiscal Year 2001/02	15%



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## Recent History

1. The reserve has routinely been above the 15% level, reaching a high of over 30%
2. Gradual declines were experienced during the recession:
  - a. Spending from the reserve for mid-year items
  - b. Operating losses in the early years of the recession while expenditures were reduced
  - c. Subsequent increases in the General Fund budget resulted in a declining percentage even without a decline in the dollar amount of the reserve



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## Current Status

1. General Fund reserve stands at 15%
2. Fiscal year 2015/16 marked the first time that an appropriation to the reserve was required to keep the balance at or above 15%
3. Current year projections indicate a likely draw on reserves during the current fiscal year
4. Appropriate time to formalize policy and seek City Council concurrence with policy elements



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## Peer Cities Survey

22 Cities over 200,000 in population

- a. 20 have a policy in place
- b. Average of 13% reserve policy
- c. Excluding cities over 400,000 in population, average is 15%



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## GFOA Best Practice

1. Establish a formal reserve policy
2. Have the City Council approve the policy
3. Provide a framework within which to increase or decrease the balance when inconsistent with the policy level
4. Consider factors including
  - a. predictability of revenues
  - b. volatility of expenditures
  - c. exposure to potential one-time expenses
5. Recommends no set minimum balance level



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## Staff-Recommended Policy Elements

1. Differentiate between two categories of reserves
  - a. Emergency Reserve (10%)
  - b. Economic Contingency Reserve (5%)
2. Specify criteria for use of each
3. Specify when the reserves may be below these levels, for how long, and how they are to be replenished
4. Specify when an excess balance situation occurs and how that balance is to be utilized
5. Provide a framework for the City Council to make mid-year appropriations from the reserve other than in an emergency or economic downturn



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## Emergency Reserve

1. Set each June 30 at 10% of the following year's operating expenditure budget (currently \$25.7 million)
2. Only to be utilized in times of a City Council-declared emergency situation such as a major natural disaster
3. Reserve replenishment would be situation-specific
  - a. May not exceed five years
  - b. Accounts for unknown situations
  - c. Requires replenishment within five years



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## Economic Contingency Reserve

1. Set each June 30 at 5% of the following year's operating expenditure budget (currently \$12.8 million)
2. Only to be accessible in times of economic downturn as determined by the City Council
3. Reserve replenishment would:
  - a. Be triggered when the economic downturn has ended
  - b. Requires replenishment within three years
4. Emergency Reserves may not be accessed for Economic Contingency Reserve purposes



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## Excess Reserves

1. When reserves exceed 25% an excess reserve situation would exist
2. Would require staff to make recommendations to the City Council to reduce reserves below the 25% level
  - a. Deferred capital projects
  - b. Vehicle or equipment purchases
  - c. Other one-time expenditures



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## Appropriations From Reserves

1. When the balance is above 15% and the appropriation will not reduce the balance below 15%, appropriations may be made
2. When balance would drop below 15%
  - a. Balance must be increased to 15% as part of the following fiscal year's budget adoption process
  - b. Would essentially require budget cuts in an equivalent amount absent additional revenue
  - c. Requires the staff report to include a complete list of other unfunded budget needs in the General Fund to provide context for the appropriation



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## Recommendations

That the Finance Committee:

1. Review and provide comment regarding the proposed reserve policy;
2. Recommend to the City Council that they endorse this policy, including requiring City Council action for any future changes to the substantive elements of the policy; and
3. Direct staff to return to the City Council in one year for a status of compliance with the policy.

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