

City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: SEPTEMBER 6, 2016**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
SUBJECT: REVIEW AND ADOPTION OF GENERAL FUND RESERVE POLICY BASED ON THE FINANCE COMMITTEE'S RECOMMENDATIONS

ISSUE:

Review and adopt a proposed General Fund Reserve Policy based on recommendations from the Finance Committee.

RECOMMENDATIONS:

That the City Council:

1. Review and adopt the attached proposed General Fund Reserve Policy setting the minimum reserve level at 15% with 10% in the Emergency Reserve and 5% in the Contingency Reserve (Attachment 1);
2. Set an "aspirational" goal of twenty percent total General Fund Reserves (15% in the Emergency Reserve and 5% in the Contingency Reserve) for the future;
3. Direct staff to return to the City Council in one year (in September 2017) for status of compliance with this policy; and
4. Direct staff to return to the City Council in three years for a formal review of this policy.

COMMITTEE RECOMMENDATION:

The Finance Committee met on February 10, 2016, with Chair Soubrouse, Vice Chair Burnard and Member Perry present, to consider the General Fund Reserve Policy. After discussion the Committee unanimously voted to recommend that the City Council: 1) endorse the proposed General Fund Reserve Policy, requiring City Council action for any future changes to the substantive elements of the policy as further defined in the staff report; (2) directed staff to return to the City Council in one year for status of compliance with this policy; 3) request a formal review of the policy in three years; and (4) set an aspirational goal of twenty percent General Fund Reserves for the future.

BACKGROUND:

It is standard practice in local governments throughout the United States to have a reserve for cash flow needs ("working capital") and/or economic contingencies in one or more funds. Most common are reserves in a government entities' general fund, capital-intensive enterprise funds, and insurance trust funds. For these funds, it is common for unanticipated expenses or economic downturns to have adverse and potentially significant financial impacts absent resources set aside specifically for such occurrences.

DISCUSSION:

While the City of Riverside has maintained sufficient cash flow in various funds for many years, a General Fund Reserve Policy has never been formally approved by the City Council. In an effort to continue to enhance the City's robust set of fiscal policies, enhance transparency, and ensure that these policies are aligned with the City Council's strategic direction, this report is being brought forward for City Council consideration.

Beyond the reasons already listed, establishing formal reserve policies is recommended by the Government Finance Officers Association, and encouraged by the bond rating agencies of Fitch, Standard & Poor's, and Moody's. The rating agencies view government entities very favorably when they establish and maintain reserve policies, particularly at times of fiscal uncertainty.

Recommended Policy Elements

Staff recommends that the following key elements be included in the proposed General Fund Reserve Policy:

1. Differentiate between three categories of reserves :
 - A. The "Emergency Reserve", used for unanticipated emergencies and/or unforeseen major unavoidable expenditures;
 - B. The "Contingency Reserve", used for funding needs during economic downturns, and in cases of unforeseen sudden revenue loss; and,
 - C. The "Surplus Reserve" for monies set aside above the appropriated expenditures and the percentages set for the two other reserves;
2. Specify how and when each of these reserves may be accessed;
3. Specify when these reserves are permitted to be below the policy level, for how long, and in what way(s) they are to be replenished; and
4. Provide a framework through which the reserves may be accessed by the City Council for purposes other than an emergency or an economic downturn.

In establishing the attached General Fund Reserve Policy, these elements were considered resulting in the following types of reserves:

The Emergency Reserve is recommended to be set each June 30 at 10% of the upcoming fiscal year's General Fund expenditure budget. This reserve would only be utilized in a time of an emergency, as defined in the Policy, which must be declared by the two-thirds majority of the City Council. In the event that an emergency is declared and the reserve is accessed, once the emergency has passed, staff would present a situation-specific plan to the City Council for replenishing the reserve over a period not to exceed three years. The occurrence of an emergency that would require access to this portion of the reserve would be an extremely unusual and infrequent occurrence, such as a major natural disaster or a major unforeseen settlement.

The Contingency Reserve is recommended to be set each June 30 at 5% of the upcoming fiscal year's General Fund expenditure budget. This reserve would only be accessible to address unforeseen sudden revenue loss that could not be balanced with other measures. The reserve is intended to provide a "bridge" to facilitate a measured and thoughtful reduction in expenditures during times of economic downturn, rather than making immediate and drastic budget cuts without the time for proper evaluation. Approval of the two-thirds majority of the City Council would be required to access the reserve. Thereafter, staff would be required to present a plan to the City Council to restore the Economic Contingency Reserve to the 5% level over no more than a three year period.

The Surplus Reserve is recommended if General Fund Reserve balances greatly exceed the total 15% requirement of the Emergency Reserve and Contingency Reserve. While it is unlikely this would occur in the short term, the City can use this reserve to gradually increase the reserve levels to the "aspirational" goal of 20%. However, if these reserves reached above 25%, staff would be required to provide Council a report on how to use these additional funds for one-time needed expenditures and bring the balance in this reserve below the 25% maximum level.

In addition, any appropriation from reserves that causes the reserve balance to drop below 15% must be backfilled in subsequent fiscal years, with a plan drafted by staff and approved by the City Council.

Further, any report requesting an appropriation from reserves, regardless of whether it brings the balance below the 15% level, must include an analysis of the impact of the appropriation on the General Fund Reserve balance.

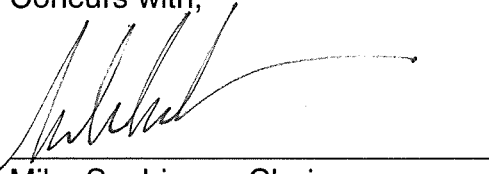
FISCAL IMPACT:

The changes proposed in this policy are anticipated to have a positive fiscal impact on the City's bond ratings. At the same time, there is a direct fiscal impact associated with the General Fund

Reserve Policy. The current General Fund Reserve Level is forecast in the FY 2016-18 at 10% for the Emergency Reserve and 1.5% in the Contingency Reserve. However, as part of the five-year financial plan, staff anticipates that the Contingency Reserve will be restored to 5-6% by year five, for a total General Fund reserve of 15-16%.

Prepared by: Scott G. Miller, Interim Finance Director/Treasurer
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availability of funds: Scott G. Miller, Interim Finance Director/Treasurer
Approved by: Marianna Marysheva-Martinez, Assistant City
Approved as to form: Gary G. Geuss, City Attorney

Concurs with;

A handwritten signature in dark ink, appearing to read 'Mike Soubirous', is written over a horizontal line.

Mike Soubirous, Chair
Finance Committee

Attachments:

1. Recommended General Fund Reserve Policy
2. Presentation