



**REVIEW AND ADOPTION OF GENERAL  
FUND RESERVE POLICY BASED ON THE  
FINANCE COMMITTEE'S  
RECOMMENDATIONS**

***Finance Department***

***City Council  
September 6, 2016***

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## **Background**

1. Having reserve policies are standard best practices for government agencies
2. Reserves and reserve policies are key elements of sound financial planning
3. Reserve policies are mandated according to Government Accounting Standards Board Pronouncement 54
4. Robust reserve policies are highly recommended by the Government Finance Officers Association
5. Reserve Policies are most common for:
  - a. General Funds
  - b. Certain Internal Service Funds
  - c. Insurance Trust Funds
  - d. Enterprise Funds



2

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## Why Have Reserve Funds?

1. Provides funds to address emergencies or unanticipated expenses
2. Supports Cash Flow needs within each Fund
3. Sometimes used as part of replacement reserves
4. Aligns with the City Council's strategic direction of a 2 Year Budget and a 5 Year Economic Plan
5. Provides credit rating agencies and others with comfort that management will adhere to fiscal policies and have funds to pay bond debt
6. Crucial to keeping balance in lean revenue years and to use for contingency purposes



3

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## Riverside - Recent History

1. The reserve has been up and down- at times as low as 9% and reaching as high as over 30%
2. In recent years, there has been a gradual decline as Riverside weathered the recession and the economy has been slow to come back
3. Use of Reserves has included:
  - a. Spending from the reserve for mid-year supplemental items
  - b. Operating losses in the years revenues did not equal expenditures
  - c. Significant increases in the General Fund budget resulting in a declining percentage on paper without a decline in the dollar amount of the reserve



4

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## Riverside - Current Status

1. General Fund reserve for June 30, 2016 is projected to be at approximately 11.5%
2. While the FY 2015/16 budget was supposed to appropriate monies to the reserve to keep the balance at 15%, significant impacts to revenues with expense increases prevented that from occurring
3. FY 2016-17 year projections indicate a smaller draw on reserves unless revenues come in lower than estimated; with a stabilized reserve projected in FY 2017-18
4. Finance Committee recommended formalizing a reserve policy and seek City Council concurrence with policy elements



5

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## Recommended Policy Elements

1. Differentiate between three categories of reserves:
  - a. Emergency Reserve (10%)
  - b. Contingency Reserve (5%)
  - c. Surplus Reserve (>15% and <25%)
2. Specify specific criteria for use of each
3. Specify procedure used when drawing upon reserves and how they are to be replenished
4. Specify what excess reserves balances are and how that balance is to be utilized
5. Require super-majority vote to use reserves
6. Try to work toward a 20% reserve goal level



6

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## Emergency Reserve

1. Set each new budget year at 10% of the next FY's GF operating expenditure budget
2. Only to be utilized in times of a City Council-declared emergency situation such as a major natural disaster or unforeseen emergency by a 2/3rds vote
3. Approved Plan for reserve replenishment would be required:
  - a. Requires staff to submit plan for Council approval
  - b. Requires replenishment within three years



7

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## Contingency Reserve

1. Set each new budget year at 5% of the next FY's operating expenditure budget
2. Only to be accessed in times of economic downturn as determined by the City Council with a 2/3rds majority vote
3. Reserve replenishment would:
  - a. Requires report from staff on the plan to replenish the reserve
  - b. Requires replenishment within three years
4. Contingency Reserves may not be accessed for supplemental economic purposes



8

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## Surplus Reserves

1. When reserves exceed 15%, additional monies up to 25% would go into the surplus reserves
2. If Reserves climb over 25%, staff would be required to make recommendations to the City Council to reduce reserves below the 25% level for possible expenditures such as:
  - a. Deferred capital projects
  - b. Unfunded Liabilities
  - c. Vehicle or equipment purchases
  - d. Other one-time expenditures



9

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## Summary

- In general, this policy requires a GF Reserve balance of 10% in Emergency Reserve and 5% in Contingency Reserve. Any appropriation reducing the balance below these amounts requires a 2/3 vote by the City Council with the following caveats:
  1. Requires staff to develop plans and submit to Council for approval to replace reserve expenditures below the combined 15%
  2. Balance must be increased to 15% as part of the following fiscal year's budget adoption process
  3. Could/would essentially require budget cuts in an equivalent amount to replace reserves absent additional revenue
  4. Appropriations from reserves are for specific things only



10

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## 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;
2. Set an "aspirational" goal of 20% 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.



11

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