

GENERAL FUND RESERVE POLICY

INTRODUCTION

Fiscal stability is an important factor for all cities. Sound financial management includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. Such contingencies include but are not limited to:

- Cash flow requirements
- Economic uncertainties including downturns in the local, state or national economy
- Local emergencies and natural disasters
- Loss of major revenue source
- Unanticipated operating or capital expenditures
- Uninsured losses
- Future capital projects
- Vehicle and equipment replacement
- Capital asset and infrastructure repair and replacement

The establishment of prudent financial reserves is important to ensure the long-term financial health of the City.

PURPOSE

Establish guidelines for a General Fund Reserve Policy to maintain a stable revenue structure while providing for the orderly provision of services to the citizens of Placentia, and to assist with maintaining a positive credit rating and to meet seasonal cash flow shortfalls, economic downturns, or a local disaster.

POLICY

It shall be the policy of the City Council of the City of Placentia:

1. To establish a target of and build towards a minimum Contingency Reserve balance in the General Fund of 17% of the General Fund operating expenditures, to address general contingencies and be sufficient to finance operations for a period of two months.
 - a. The General Fund Contingency Reserve balance shall be no more than 5% of operating expenditures until such time as the 2009 Lease Revenue Bonds are fully paid off (expected to occur in June 2019).
 - b. The minimum 17% level of General Fund Contingency Reserve shall be available only as a *temporary revenue* source to be used while an

orderly financial plan for cost reduction or revenue enhancement is developed.

- c. Any use of the General Fund Contingency Reserve shall require the approval of the City Council by means of approved appropriations.
 - d. Whenever the General Fund Contingency Reserve balance falls below the minimum 17% level, either prior to the time when the 17% level is first achieved, or once achieved, should the Contingency Reserve balance drop below 17%, the City Council shall place a priority in restoring the minimum 17% balance.
 - e. If the City Council approves the use of the Contingency Reserve which results in the balance falling below the 17% target level, the City Council shall approve at the same time a plan to replenish the reserve up to the target level within a reasonable time period.
 - f. Each fiscal year during the budget process, this policy will be re-evaluated by City Council to determine if an adequate level of General Fund Contingency Reserve is being maintained based on economic conditions.
2. To commit certain new unrestricted revenues to various reserves to be used for specific purposes.
- a. New Ongoing Revenues

- i. "New Ongoing Revenues" are defined as a new general tax, an increase in the rate of an existing general tax, a new lease of City property or other new, clearly identifiable unrestricted revenue source not previously included in the City's budget at the time of adoption of this policy, which generates at least \$100,000 per year in revenue and is expected to continue for at least a period of 20 years.
- ii. Beginning in FY 2018-19, revenues generated from New Ongoing Revenues will be allocated as follows, until such time as the General Fund Contingency Reserve reaches the 17% target level:

Infrastructure, Vehicles, and Equipment Reserve	50%
Post-Employment Benefits Sustainability Reserve	10%
Employee Recruitment and Retention Reserve	20%
General Fund Contingency Reserve	20%

- iii. When the General Fund Contingency Reserve has reached its 17% target level, revenues generated from New Ongoing Revenues will be allocated as follows:

Infrastructure, Vehicles, and Equipment Reserve	60%
Post-Employment Benefits Sustainability Reserve	10%
Employee Recruitment and Retention Reserve (including additional staff)	30%

- iv. New Ongoing Revenues deposited into the above reserve accounts may be appropriated for ongoing or one-time expenditures.

b. New One-time Revenues

- i. New One-time Revenues are defined as either: (1) unrestricted revenue from new one-time events (for example, property sales, etc.) of at least \$100,000 (excluding recapturing of lost funds); (2) a new, clearly identifiable unrestricted revenue source of at least \$100,000 per year and not previously included in the City’s budget at the time of adoption of this policy, which is expected to continue for a period of less than 20 years; or (3) unanticipated positive General Fund budget variances of any amount (i.e., positive changes in General Fund financial position greater than final budgeted amounts).
- ii. Beginning in FY 2018-19, revenues generated from New One-time Revenues will be allocated as follows, until such time as the General Fund Contingency Reserve reaches the 17% target level:

Infrastructure, Vehicles, and Equipment Reserve	40%
Post-Employment Benefits Sustainability Reserve	10%
General Fund Contingency Reserve	50%

- iii. When the General Fund Contingency Reserve has reached its 17% target level, revenues generated from New One-time Revenues will be allocated as follows:

Infrastructure, Vehicles, and Equipment Reserve	80%
Post-Employment Benefits Sustainability Reserve	20%

- iv. New One-time Revenues deposited into the above reserve accounts may only be spent on one-time expenditures.

c. Purposes of Reserves

- i. Infrastructure, Vehicles, and Equipment Reserve: This reserve will be utilized to fund capital improvement projects that improve public roads and adjacent rights-of-way infrastructure, parks and public facilities, and vehicle and major equipment replacement.
- ii. Post-Employment Benefits Sustainability Reserve: This reserve is for the purpose of making post-employment benefits (e.g., pension and retiree health benefits) sustainable, by setting aside funds to address unfunded liabilities, to reduce the impact of cost increases on the operating budget and to fund these programs based on sound actuarial methods.
- iii. Employee Recruitment and Retention Reserve: This reserve serves multiple purposes. It is for the purpose of ensuring that City employees are compensated at levels comparable to employees in similar positions in cities similar to Placentia, to encourage employee retention and to stay competitive with other cities for hiring talented individuals. Part of employee retention is ensuring that the City is adequately staffed so this reserve may also be used to increase staffing levels based on the future growth of the City or to improve efficiency. This reserve may also be used to restore service levels for all City programs cut during the preparation of the 2018-19 budget, using the 2017-18 budget as a baseline.

d. Use of Reserves

- i. The City Administrator may request from the City Council the ability to utilize the reserves in this section for their specified purposes, as part of the annual budget process or at any other time during the fiscal year.
- ii. Any use of the reserves shall require the majority approval of the City Council by means of approved appropriations.

- iii. To ensure that new ongoing expenditures funded from reserve funds do not exceed the deposits of New Ongoing Revenues into those reserve funds, the City Administrator may temporarily alter the reserve funding priorities specified in section 2a. above by no more than 5%, in the development of the annual budget.
- e. Accounting and Reporting of New Ongoing Revenues and Reserve Accounts
 - i. New Ongoing Revenues and each reserve account specified in this section shall be accounted for in separate funds for budgeting purposes.
 - ii. Reports shall be prepared at the time of budget adoption, as part of the mid-year budget review and at fiscal year-end that demonstrate compliance with this policy and indicate the portions of each reserve account balance that can be spent on one-time expenditures and ongoing expenditures.
 - iii. New Ongoing Revenues and New One-time Revenues shall be included as General Fund revenues, and all reserve accounts specified in this section shall be reported as committed fund balances of the General Fund in the City's Comprehensive Annual Financial Report.
- 3. To ensure that future General Fund budgets promote fiscal sustainability
 - a. All General Fund budgets should be structurally balanced, such that ongoing revenues equal or exceed ongoing expenditures.
 - b. The Contingency Reserve and one-time revenues should be used only for one-time expenditures. Ongoing expenditures should be funded only from ongoing revenues.
 - c. A mid-year budget review shall be conducted each year to verify projections and recommend adjustments as necessary so that the budget remains balanced.
 - d. Conservative budget planning shall be utilized to identify potential problems and solutions.
 - e. Careful, five- and ten-year budget projections shall also be developed and updated to keep the budget in check and to determine continued fiscal sustainability.

4. Any future bond covenants shall be written to be compliant with this General Fund Reserve Policy.

This policy shall be a policy of the City Council of the City of Placentia and is subject to change by resolution based on a 4/5ths affirmative vote of the Council.