

**GENERAL FUND RESERVE POLICY****INTRODUCTION**

Fiscal stability is an important goal 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, as well as assist with maintaining a positive credit rating and meet seasonal cash flow shortfalls, economic downturns, or a local disaster.

**DEFINITIONS**

1. Contingency Reserve Balance – an amount held in the General Fund for known and unknown contingencies. Contingency Reserve funds consist of funds that are classified either unassigned fund balance or committed reserves.
2. Contingency Reserve Balance Goal (“Reserve Goal”) – is expressed as a percentage of the budgeted annual General Fund Operating Expenditures and is established by a majority vote of the City Council. (The Reserve Goal history is found in Appendix A.)
3. General Fund Balance Categories – Fund balances should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent.

- a. Nonspendable fund balance – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
  - b. Restricted Fund Balance –Fund Balance should be reported as restricted when constraints placed on the use of the recourses are either:
    - i. Externally imposed by creditors, grantors, contributors, or laws, or regulations of other governments; or
    - ii. Imposed by law through constitutional provision or enabling legislations
  - c. Committed fund balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (resolution or ordinance) it employed to previously commit those amounts.
  - d. Assigned fund balance – Amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance.
  - e. Unassigned fund balance – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.
4. New Ongoing Revenues – a new general tax, an increase in the rate of an existing tax, a new lease of City property, or a 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.
  5. New One-Time Revenues – 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)

**POLICY**

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

1. To establish a Reserve Goal for the General Fund. The Reserve Goal shall be reviewed by the City Council at least once per year during the normal city budgeting cycle to determine if the Reserve Goal needs to be redefined. The City Council may also adjust the Reserve Goal as needed at times other than the budget cycle. Such a change, however, must be made as a regular agenda item and cannot be made as part of the Consent Calendar.
  - a. The Contingency Reserve Balance shall be available only as a *temporary revenue* source.
  - b. Any use of the Contingency Reserve Balance shall require the approval of the City Council by means of approved appropriations. Any such appropriation must be approved as a regular agenda item and not as part of the consent calendar.
  - c. Whenever the Contingency Reserve Balance falls below the Reserve Goal, the City Council shall place a priority on restoring the Contingency Reserve Balance.
  - d. If the City Council approves the use of any portion of the Contingency Reserve Balance which results in the Contingency Reserve Balance falling below the Reserve Goal level, the City Council shall approve at the same time a plan to replenish the Contingency Reserve Balance to the Reserve Goal within a reasonable time period.
  - e. Each fiscal year as a part of the budget process, a multi-year pro-forma of the General Fund identifying the annual adjustment to the Contingency Reserve Balance shall be presented to members of the community for an independent citizen review and later presented to City Council. The pro forma forecast shall be for a period of no less than five (5) years beyond the current fiscal year being budgeted and the "Forecast" and shall form the basis of determining whether the expected level of General Fund's Contingency Reserve Balance satisfies the Reserve Goal for the entire duration of the Forecast.
  
2. To commit certain new, unrestricted revenues to various reserves to be used for specific purposes.
  - a. New Ongoing Revenues Allocation
    - i. The allocation of New Ongoing Revenues to various purposes shall be determined based upon whether the forecasted level of the Contingency Reserve Balance exceeds the Reserve Goal as determined by the Forecast performed in Section 1.e herein.
  
    - ii. If the forecasted Contingency Reserve Balance falls below the

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Reserve Goal, New Ongoing Revenues will be allocated as follows, until such time as the General Fund Contingency Reserve Balance satisfies the Reserve Goal.

Infrastructure, Vehicles, and Equipment	40%
Post-Employment Benefits Sustainability	10%
Employee Recruitment and Retention	30%
General Fund Contingency Reserve	20%

- iii. If the current level of the Contingency Reserve Balance meets or exceeds the Reserve Goal, revenues generated from New Ongoing Revenues will be allocated as follows:

Infrastructure, Vehicles, and Equipment	50%
Post-Employment Benefits Sustainability	10%
Employee Recruitment and Retention (including additional staff)	30%
General Fund Contingency Reserve	10%

- iv. New Ongoing Revenues allocated to the above categories may be appropriated for ongoing or one-time expenditures.

b. New One-Time Revenues Allocation

- i. The allocation of New Ongoing Revenues to various purposes shall be determined based upon whether the forecasted level of the Contingency Reserve Balance exceeds the Reserve Goal as determined by the Forecast performed in Section 1.e herein.

iii. If the forecasted Contingency Reserve Balance falls *below* the Reserve Goal, New One-Time Revenues will be allocated as follows, until such time as the Contingency Reserve Balance satisfies the Reserve Goal:

iv.

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

v. If the current level of the Contingency Reserve Balance *meets or exceeds* the Reserve Goal, revenues generated from New One-Time Revenues will be allocated as follows:

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

vi. New One-Time Revenues allocated to the above categories may only be spent on one-time expenditures.

c. Accounting and Reporting of New Ongoing Revenues

- i. 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.
- ii. New Ongoing Revenues shall be accounted for using a dedicated special revenue fund.
- iii. Reports for each new ongoing special revenue fund 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 percentages of each reserve account balance that can be spent on one-time expenditures and ongoing expenditures.

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 Balance and One-Time revenues should be used only for one-time expenditures. Ongoing expenditures should be funded only from ongoing revenues.

A mid-year budget review shall be conducted each year to verify projections and recommend adjustments as necessary so that the budget remains balanced.

- c. Conservative budget planning shall be utilized to identify potential problems and solutions.
    - d. 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 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 4/5<sup>ths</sup> affirmative vote of the Council.

Appendix A: General Fund Contingency Reserve Goal History

Date of City Council Adoption	General Fund Reserve Goal
June 5, 2018	17%
January 26, 2021	25%