



## **(PROPOSED THIRD AMENDMENT)**

**(March 3, 2025)**

### **CITY OF SAN PABLO FISCAL RESILIENCY RESERVE POLICY (FRRP)**

#### **PURPOSE**

The purpose of this policy is to establish target minimum levels of audited unassigned fund balance to be maintained in the General Operating Funds for exposure to natural disasters or severe unforeseen emergencies (Catastrophic Reserve), economic uncertainties (Budget Stabilization Reserve), financial liabilities (General Fund Designated Reserves), unplanned, unforeseen program investment opportunities (Contingency Reserve), and strategic saving for capital asset repair and replacement.

#### **POLICY**

To ensure sound fiscal management and preserve City Council discretion in its resource allocation decisions, the City establishes the following fund balance designations, fund targets, and fund uses in the General Operating Funds:

1. Catastrophic Reserve (Fund 150) Equivalent to 50.0 percent (six months) of annual Total Operating Funds budget, including transfers to CIP. Funds may be used to assist with severe natural, financial or legal calamities, including major earthquakes, floods, disruption in City income, major legal judgments against the City, etc.<sup>1</sup> All uses require City Council approval and must be repaid within three fiscal years.

Note: The six-month Reserve Policy was formally adopted on May 4, 2009 (Resolution 2009-033).

2. Budget Stabilization Reserve (Fund 170) Equivalent to 5.0 percent of annual Total Operating Funds budget, including transfers to CIP. This reserve serves as a budget balancing tool to counteract the impacts of economic downturns and declining revenues in the economic cycle. Funds may be used for *unforeseen, unplanned, one-time expenses* that assist the City to develop fiscal resiliency. All uses require City Council approval and must be repaid in the following fiscal year to prevent long-term structural deficits.
3. City Manager's Contingency Reserve (Fund 190) Equivalent to 1.0 percent of annual Total Operating Funds budget, including transfers to CIP. Established as part of the City's fiscal resiliency strategy but separate from reserves, this account provides working capital for

*unforeseen, unplanned, one-time* expenditures in program investment. Funding ~~is~~ may be appropriated through the normal budget cycle or one-time appropriations from audited fund balance. Use of the funds shall follow the City's established spending authority limits as approved in the Purchasing Policy.

4. Building, Facilities, & Parks Maintenance Reserve (Fund 130) Equivalent to 3.0 percent of annual Total Operating Funds budget, including transfers to Building, Facilities, & Parks Maintenance. This reserve serves as a budget balancing tool to counteract the impacts of economic downturns and declining revenues in the economic cycle. Funds may be used for *unforeseen, unplanned, one-time expenses* that assist the City to develop fiscal resiliency. Use of the funds shall follow the City's established spending authority limits as approved in the Purchasing Policy.
5. Asset and Vehicle Replacement Reserve (Fund 140) Equivalent to 2.0 percent of annual Total Operating Funds budget, including transfers to Asset and Vehicle Replacement. This reserve serves as a budget balancing tool to counteract the impacts of economic downturns and declining revenues in the economic cycle. Funds may be used for *unforeseen, unplanned, one-time expenses* that assist the City to develop fiscal resiliency. Use of the funds shall follow the City's established spending authority limits as approved in the Purchasing Policy.
6. General Fund Designated Reserve (Fund 110) At the completion of each annual audit, and following certification of the Annual Comprehensive Financial Report (ACFR) by the City's independent auditor for that particular fiscal year, a percentage of the net change in year-end audited unassigned fund balance—up to a maximum 10.0 percent—may be deposited into the General Fund Designated Reserve (GFDR) Fund 110 for:
  - a. Future one-time expenses related to any unforeseen expenses, including but not limited to, the following: **augment** capital projects; information technology systems and infrastructure upgrades; large capital equipment; facilities, **professional contract services to support current or enhanced City operations/service delivery, and other infrastructure maintenance and replacement costs**; etc.
7. Sales Tax Revenue Sustainability Reserve (Fund: 103) Due to the City's financial condition as reported as of December 13, 2023, the City Council authorized an additional policy amendment following recommended approval from the Budget, Fiscal & Legislative Standing Committee on February 27, 2025.

At the completion of each annual audit, and following certification of the Annual Comprehensive Financial Report (ACFR) by the City's independent auditor for that particular fiscal year, a percentage of the net change in year-end audited unassigned fund balance—up to a maximum 10.0 percent into the Sales Tax Revenue Sustainability

Reserve (Fund: 103).

The purpose of the reserve is to mitigate against the potential impact that a sudden shutdown or unforeseen decline/loss of annual sales tax revenue (i.e., Measure K passed on 2012, Measure S passed in November 2020, or any future sales tax measure passed by local voters for funding general municipal services) would have on the City's ability to maintain current City operations and service levels.

8. General Liability Sustainability Reserve (Fund: 104) Due to the City's financial condition as reported as of December 13, 2023, the City Council authorized an additional policy amendment following recommended approval from the Budget, Fiscal & Legislative Standing Committee on February 27, 2025.

At the completion of each annual audit, and following certification of the Annual Comprehensive Financial Report (ACFR) by the City's independent auditor for that particular fiscal year, a percentage of the net change in year-end audited unassigned fund balance—up to a maximum 5.0 percent may be deposited into the General & Pension (CalPERS) Liability Reserve (Fund: 104).

The purpose of the reserve is to mitigate against the potential impact that a sudden shutdown and/or unforeseen increases of the City's ability to cover annual premium costs for sustaining current City general liability coverage.

9. Pension (CalPERS) Liability Sustainability Reserve (Fund: 105) Due to the City's financial condition as reported as of December 13, 2023, the City Council authorized an additional policy amendment following recommended approval from the Budget, Fiscal & Legislative Standing Committee on February 27, 2025.

At the completion of each annual audit, and following certification of the Annual Comprehensive Financial Report (ACFR) by the City's independent auditor for that particular fiscal year, a percentage of the net change in year-end audited unassigned fund balance—up to a maximum 5.0 percent may be deposited into the Pension (CalPERS) Liability Sustainability Reserve (Fund: 105).

The purpose of the reserve is to mitigate against the potential impact that a sudden shutdown or unforeseen decline/loss of available general fund revenue would have on any unforeseen Pension Liabilities associated with contracted CalPERS Retirement Service Plans.

10. Casino Revenue Sustainability Reserve (Fund 180) At the completion of each year-end annual audit, and following certification of the **Annual Comprehensive Financial Report (ACFR)** by the City's independent auditor for that particular fiscal year, **at the**

City Manager's discretion, a portion of the net change in year-end audited unassigned fund balance may be deposited into the Casino Revenue Sustainability Reserve (Fund 180). The purpose of the reserve is to mitigate against the potential impact that a sudden shutdown or loss of casino revenue would have on the City's ability to maintain current operations and service levels.

It is the intent of the City Council to limit use of the above reserves to address *unanticipated, one-time needs*. Changing economic conditions that require ongoing funding considerations should be addressed through the budget cycle rather than through the use of reserves/fund balance.

All deposits and withdrawals from these funds require approval by the Budget, Fiscal & Legislative Standing Committee and a majority approval by resolution of the City Council.

## **FUNDING**

The City recognizes that the funding levels delineated in the policy are targets and may take multiple years to achieve. The following dictates how the reserves will be funded.

At the end of each fiscal year, the Finance Department will report on the audited year-end fiscal results. Should actual Total Operating Funds revenues exceed expenditures and encumbrances, a year-end net increase in fund balance shall be reported and used to reestablish fund balances in the following order: (1) Catastrophic Reserve; (2) Budget Stabilization Reserve; (3) City Manager's Contingency Reserve; (4) Building, Facilities, & Parks Maintenance Reserve; (5) Asset and Vehicle Replacement Reserve; (6) General Fund Designated Reserve; (7) Sales Tax Revenue Sustainability Reserve; (8) General Liability Sustainability Reserve; (9) Pension (CalPERS) Liability Sustainability Reserve; and (10) Casino Revenue Sustainability Reserve.

Any year-end operating surplus which results in reserve balances which exceed the level required by the reserve policy shall be deemed available for reallocation in the operating budget to provide for one-time, non-recurring needs, subject to City Council approval.

## PROCEDURES

1. Unassigned fund balances can be assigned through City Council action or designated by the City Council or City Manager. A designation is defined as a government's self-imposed limitation on the use of otherwise available, expendable financial resources in governmental funds.
2. Appropriation or use of funds from the Catastrophic Reserve, Budget Stabilization Reserve or the Casino Revenue Sustainability Reserve or any variance from the stipulations established within this policy shall require City Council action accompanied by the following:
  - a. A Statement of Findings supporting the appropriation of reserves or modification to the policy;
  - b. A plan for replenishing the reserve within established time frames when the appropriation causes the reserve to fall below minimum funding levels.
3. Implementation guidelines are as follows:
  - a. Departmental Budgets: Departments are to use their own adjusted budgets first. If an unbudgeted expense is approved and departmental budgets are running short at the end of the year, Finance will work with the Department to ensure they are "made whole" with a transfer of funding from the City Manager's (CM) Contingency Account or any other available funding sources. Adopted Purchasing Policy rules apply
  - b. City Manager's Contingency Reserve: Covers unforeseen expenses. After ruling out funding from the departmental budget, the City Manager's (CM) Contingency Reserve may be considered. Adopted Purchasing Policy rules apply. A Statement of Findings is not necessary.
  - c. Casino Revenue Sustainability Reserve: All deposits and withdrawals from this fund are discretionary, but require approval by the Budget, Fiscal & Legislative Standing Committee and a majority approval by resolution of the City Council. A Statement of Findings is not necessary.
  - d. Budget Stabilization Reserve: Expenses shall be limited to the Adopted Purchasing Policy rules apply. Expenses less than Adopted Purchasing Policy rules apply should first seek funding from individual departmental budgets or the CM Contingency Reserve. Appropriation requests exceeding the Adopted Purchasing Policy rules apply and may require approval of the Budget, Fiscal & Legislative Committee in

addition to a Statement of Findings and approval by a majority of the full City Council.

- e. Catastrophic Reserve: Expenses shall be limited to the approved policy purposes and should be catastrophic in size. Use and appropriation of these funds requires a Statement of Findings and/or Declaration of Emergency subject to City Council approval.
  - f. Internal Service Funds (excluding City Manager's Contingency Reserve): Expenses shall generally be budgeted with the City's operating budget for planned repair and replacement of capital assets or unforeseen facility, building, parks, maintenance costs. Funds may also be used for unplanned expenses if all other methods of funding have been exhausted. Use of the funds shall follow the City's established spending authority limits as approved in the Purchasing Policy.
  - g. Sales Tax Revenue Sustainability Reserve: All deposits and withdrawals from this fund are discretionary, but require approval by the Budget, Fiscal & Legislative Standing Committee and a majority approval by resolution of the City Council. A Statement of Findings is not necessary.
  - h. General Liability Sustainability Reserve: All deposits and withdrawals from this fund are discretionary, but require approval by the Budget, Fiscal & Legislative Standing Committee and a majority approval by resolution of the City Council. A Statement of Findings is not necessary.
  - i. Pension (CalPERS) Liability Sustainability Reserve: All deposits and withdrawals from this fund are discretionary, but require approval by the Budget, Fiscal & Legislative Standing Committee and a majority approval by resolution of the City Council. A Statement of Findings is not necessary.
4. This adopted Fiscal Resiliency Reserve Policy (FRRP) may be reviewed biennially by the Budget, Fiscal & Legislative Committee, and the City Council during the budget review and adoption process.