

Fiscal Resiliency Reserve Policy City of San Pablo

PURPOSE

The purpose of this policy is to establish target minimum levels of unreserved 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), and unplanned, unforeseen program investment opportunities (Contingency Reserve).

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.¹ All uses require City Council approval and must be repaid within three fiscal years.
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. Casino Revenue Sustainability Reserve (Fund 180): At the completion of each annual audit, and following certification of the Comprehensive Annual Financial Report (CAFR) by the City's independent auditor for that particular fiscal year, a percentage of the net change in year-end audited fund balance—up to a maximum 50.0 percent—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. All deposits and withdrawals from the fund are discretionary, but require approval by the Budget, Fiscal & Legislative Standing Committee and a majority approval by resolution of the City Council.

¹ The six-month Reserve Policy was formally adopted on May 4, 2009 (Resolution 2009-033).

4. General Fund Designated Reserves (Fund 100). The Council may designate that funds in the General Fund be designated (earmarked) for:
 - a. The future maintenance or replacement of facilities and equipment, including but not limited to replacement of: vehicles; information technology systems; large capital equipment; facilities and infrastructure maintenance and replacement; etc.
 - b. The future stabilization of costs that might be subject to large cost fluctuations, including but not limited to PERS employee retirement costs; accrued employee leave liability costs; workers' compensation costs; general liability costs; etc.
5. Future Capital Project Reserves. The Council may designate specific fund balance levels for future development of capital projects that it has determined to be in the best long-term interests of the City.

It is the intent of the City Council to limit use of 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.

City Manager's Contingency Account (Fund 100-1310). 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 appropriated through the normal budget cycle. Use of the funds shall follow the City's established spending authority limits as approved in the Purchasing Policy.

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) General Fund Designated Reserves; (4) Future Capital Project Reserves; and (5) Casino Revenue Sustainability Reserve. The City Manager's Contingency Account is budgeted annually.

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, especially for purchases of less than \$5,000. 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.
 - b. City Manager’s Contingency Account: Covers expenses in the \$5,000 to \$50,000 range. After ruling out funding from the departmental budget, the City Manager’s (CM) Contingency Account may be considered. Adopted Purchasing Policy rules apply, such that appropriation requests for expenditures over \$25,000 require City Council approval and may be brought before the Budget, Fiscal & Legislative Committee for review. 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 approved policy purposes and should be significant in size (i.e. over \$50,000). Expenses less than \$50,000 should first seek funding from individual departmental budgets or the CM Contingency Account. Appropriation requests exceeding \$25,000 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.

4. The reserve policy is to be reviewed biennially by the Budget, Fiscal & Legislative Committee and the City Council during the budget review and adoption process.