



Reserves Policy

POLICY PURPOSE

The purpose of this policy is to establish general guidelines for the establishment, maintenance and use of reserves. The reserves will generate investment income, provide a margin of safety and stability to protect the City from exposure to catastrophic events and economic impacts and provide flexibility to pursue emergent opportunities.

General Fund Contingency Reserve

The General Fund Contingency Reserve Policy requires that the City strive to maintain a minimum balance of 20% of allocated General Fund (and sub-funds, including but not limited to the General – Measure T Fund) ongoing expenditures of any given year. The contingency reserve balance should be reported annually, with fund transfers to be made annually prior to the closing of the fiscal year.

INTENDED USES FOR RESERVE

- Interruptions in cash inflows

Examples include the State holding back or altering tax disbursements, loss of sales tax receipts of a one-time nature, or a significant economic slowdown. If the cash inflow interruption is of an ongoing nature, reserve use is limited to a consecutive two-year period, not to exceed 50% of the beginning reserve balance.

- Emergencies

In the event of an emergency or disaster such as earthquakes, fires, floods or other such emergencies, the entire balance may be used to temporarily fund recovery costs. It is understood that all aide assistance options will be sought to fund recovery efforts or reimbursement of the General Fund Contingency Reserve for fronting of recovery costs.

- Capital Acquisitions

Up to one-third of the Contingency Reserve balance may be used to finance capital acquisitions, as long as a repayment plan is approved. The repayment plan must be financially feasible based on the City's adopted Long-Term Financial Forecast. Alternative financing options shall be presented for consideration along with the use of the Contingency Reserve.

- Emergent Opportunities

Up to one-third of the Contingency Reserve balance may be used to finance opportunities that directly benefit the City in a variety of ways. These include, yet are not limited to, creating, enhancing, or preserving revenue streams, or otherwise strengthening the City's financial performance.

OTHER CRITERIA FOR USE

A majority vote from the City Council is required to determine that it is necessary to use the Contingency Reserve for any of the uses listed above.

With the exception of the emergency scenario, the reserve contingency balance allocated for other intended uses shall not exceed 50% of the required balance in any given year.

The Reserve fund will strive to maintain a minimum balance, or floor, of 5% of the General Funds' operating budget. A unanimous decision by Council must be made in order to utilize the remaining 5%.

REPLENISHMENT PLAN

Unless a repayment plan is pre-established at the time reserves are allocated, Staff shall bring for Council consideration a replenishment plan, within 90-days of allocation from the reserve. It would be Council's expectation that every effort would be made to replenish the reserve as soon as it is financially feasible and practical to do so.

If the reserve cannot be replenished by the next annual budget, a repayment plan not to exceed five years should be approved by council via a majority vote.

ENTERPRISE FUND RESERVES

The City will strive to have available cash reserve to cover operating shortfalls to be used for both short term cash flow and contingency planning for unforeseen situations such as unexpected increases in costs or declines in revenues, legislative or judicial mandates, new or expanded services or programs, natural disaster emergencies, one-time Council approved non-capital expenditures or capital needs, and interruptions in billing process to customers.

The Enterprise Reserves Policy requires the following Reserves be established and incorporated in the budget development process:

1. Capital Improvement and Capital Replacement Reserves Fund

Each Enterprise shall strive to maintain funds equal to a minimum of 3% of the net depreciable capital assets for capital repair and replacement needs. This reserve addresses the City's long-term capital needs as well. The calculation of funds maintained in this category will exclude any funding anticipated to be obtained from outside sources such as external financing or grants.

2. Operating Reserve

The Water Enterprise shall strive to maintain an operating reserve at a minimum cash level balance equal to 25% of its annual operating expenses. This reserve target is equal to a three month (or 90-day) cushion for normal operations.

The Sewer Enterprise shall strive to maintain an operating reserve at a minimum cash level balance equal to 50% of its annual operating expenses. This reserve target is equal to a six month (or 180-day) cushion for normal operations.

These reserves will strive to bridge the gap between the time expenses are paid and the time revenues from the same service are collected from customers. The funds will ensure continuity of service regardless of cash flow.

3. Debt Reserve

Each Enterprise shall maintain reserve requirements of the outstanding bonds of the respective fund.

REPLENISHMENT PLAN

Unless a repayment plan is pre-established at the time reserves are allocated, Staff shall bring for Council consideration a replenishment plan, with the next budget development cycle. It would be Council's expectation that every effort would be made to replenish the reserve as soon as it is financially feasible and practical to do so. The replenishment plan may not exceed five years.