

RESOLUTION NO. 67,821-N.S.

ESTABLISHING THE CITY COUNCIL'S POLICY FOR THE GENERAL FUND RESERVES

WHEREAS, the General Fund Reserves ensure the City's ability to maintain vital services to the community during times of economic uncertainty; and

WHEREAS, the City is committed to achieving long-term fiscal stability as well as mitigating the negative impacts of extraordinary risk such as earthquakes, fires, and floods; and

WHEREAS, the prior General Fund Reserve level of 8% is not consistent with GFOA's best practice recommended minimum General Fund Reserve level of 16.7%; and

WHEREAS, specific portions of the reserve should be designated for catastrophic and stabilization purposes and should be reported separately from the General Fund Balance; and

WHEREAS, the use and replenishment of the General Fund Reserves should be defined.

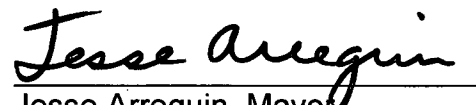
NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the attached exhibit titled General Fund Reserve Policy is hereby adopted.

The foregoing Resolution was adopted by the Berkeley City Council on January 24, 2017 by the following vote:

Ayes: Bartlett, Davila, Droste, Hahn, Maio, Wengraf, Worthington and Arreguin.

Noes: None.

Absent: None.

  
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Jesse Arreguin, Mayor

Attest:   
\_\_\_\_\_  
Mark Numainville, City Clerk

## **City of Berkeley General Fund Reserve Policy**

### **Policy**

The General Fund is the City's primary operating fund. It is not connected to any one revenue source and may be used at the City's discretion. The General Fund is the operation fund that pays for general services provided by the City as well as public safety and capital improvements. The General Fund accounts for all general revenues and expenditures of the City related to the delivery of the City's general services not specifically collected or levied for other City funds.

The City of Berkeley is committed to achieving long-term fiscal stability as well as mitigating the negative impacts of extraordinary risk such as earthquakes, fires, floods, and economic volatility. A key attribute of a financially stable organization is appropriate reserves. Strong reserves position an organization to weather significant economic downturns more effectively, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies such as natural disasters and other catastrophic events. Establishing an adequate General Fund reserve policy allows the City to mitigate current and future financial risks resulting from economic instability or catastrophic loss.

### **Functions of Reserves: Stability and Catastrophic**

The City of Berkeley will establish and maintain an adequate General Fund Reserve ("Reserve") to prepare for the impact of economic cycles and catastrophic events and assure fluctuations in revenue do not impede the City's ability to meet expenditure obligations. When revenues fail to meet the City's normal operating requirements, or the need for disbursements temporarily exceeds receipts, General Fund reserves, upon a two-thirds vote of the City Council, may be used in accordance with the standards set forth herein.

The Reserve shall be comprised of two elements: a Stability Reserve and a Catastrophic Reserve. The Reserve shall not be used for ongoing or new programs or services.

A Stability Reserve will be maintained to mitigate loss of service delivery and financial risks associated with unexpected revenue shortfalls during a single fiscal year or during a prolonged recessionary period. The purpose of the Stability Reserve is to provide fiscal stability in response to unexpected downturns or revenue shortfalls, and not to serve as a funding source for new programs or projects.

A Catastrophic Reserve will be maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other

catastrophic event. The Catastrophic Reserve will be used to respond to extreme, onetime events, such as earthquakes, fires, floods, civil unrest, and terrorist attacks. The Catastrophic Reserve will not be accessed to meet operational shortfalls or to fund new programs or projects.

### **Funding and Functions that are NOT Part of the General Fund Reserves**

Not included in the General Fund Reserves are funds that are set aside for a specific purpose. This would include restricted, committed, and assigned funds.

- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action by the City Council.
- Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

### **Target Reserve Levels**

The General Fund Reserve consists of the total of the Stability Reserve and the Catastrophic Reserve. 55% of the Reserve shall be allocated to the Stability Reserve and 45% to the Catastrophic Reserve.

Effective immediately, the target level for the Reserve shall be a minimum of 13.8% of 2017 Adopted General Fund Revenues with an Intermediate Goal of a minimum of 16.7% by the end of Fiscal Year 2020, if financially feasible.

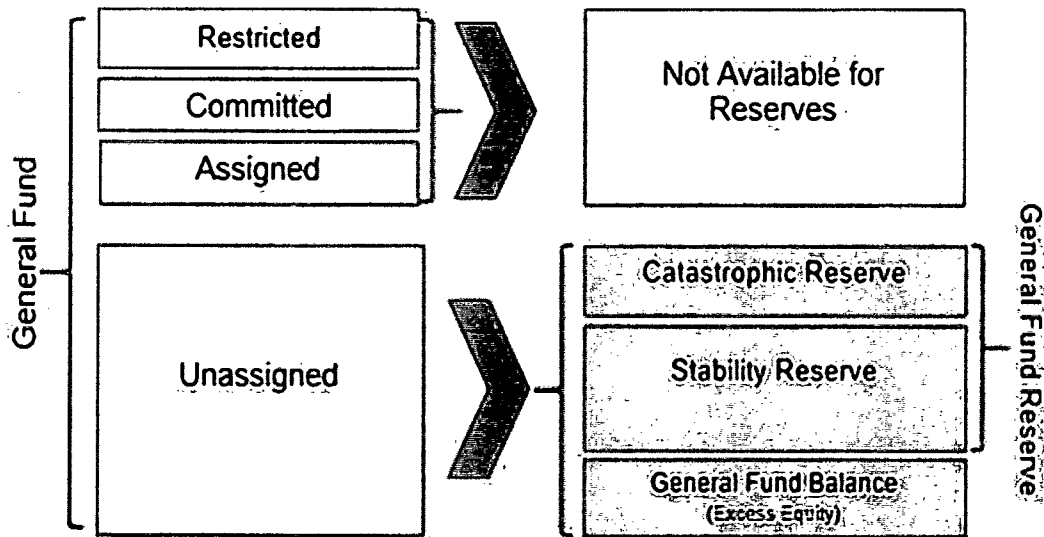
The Council hereby adopts a Long Term Goal of a Reserve of a minimum of 30% of General Fund Revenues, to be achieved within no more than 10 years. Based on a risk assessment (according to best practices), to be updated at least every five years, the Council may consider increasing or lowering the General Fund Reserve level.

Starting in Fiscal Year 2018, to achieve the City's Intermediate and Long Term Reserve Goals, 50% of Excess Equity above the first \$1M shall be allocated to Reserves. Additional Excess Equity may be allocated to Reserves by a majority vote of the City Council.

### **Methodology to Meet Reserve Levels**

The General Fund Reserve is separate from the General Fund Balance. The sum of the Stability Reserve and the Catastrophic Reserve and the amount determined to be

Excess Equity is deemed to be General Fund Unassigned Fund Balance. Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. The following graphic shows the relation between these funds as well as other restricted, committed, and assigned general fund monies.



Excess Equity is most commonly a non-recurring source of revenue and shall only be used for one-time, nonrecurring expenditure needs of the City. Excess Equity should be reported separately from the General Fund Reserves .

Attaining the Long Term Goal of 30% Reserves is important to the long-term financial health and stability of the City

**Replenishment of the General Fund Reserves**

The City Manager shall recommend a replenishment schedule for all monies proposed for appropriation from the General Fund Reserves. The replenishment schedule shall be adopted simultaneous with the appropriation to withdraw Reserve funds or, if infeasible due to emergency circumstances, no more than 3 months from the date of the withdrawal appropriation. Repayment shall begin no more than 5 years from the date of withdrawal and be completed within 10 years from the date of withdrawal.

While staff envisions that, in most cases, repayment will start as soon as possible, the repayment guidelines are meant to reflect a commitment to maintain a sufficient Reserve, while also recognizing that a use of Reserve funds may occur during an economic downturn and it may be necessary to postpone repayment while the economy improves.