



**CITY OF ELK GROVE
CITY COUNCIL STAFF REPORT**

AGENDA TITLE: Consider a resolution amending the Fund Balance Reserve Policy

MEETING DATE: April 24, 2019

PREPARED BY: Jamie Bandy, Revenue Manager

DEPARTMENT HEAD: Brad Koehn, Director of Finance and Administrative Services

RECOMMENDED ACTION:

Staff recommends that the City Council adopt a resolution amending the Fund Balance Reserve Policy.

BACKGROUND INFORMATION:

The Fund Balance Reserve Policy specifies annual reserve levels that provide the City with flexibility to adapt to local, regional and state-wide economic changes and to stabilize the delivery of City services during periods of economic recession or disaster response. The current General Fund Reserve level is targeted between 15% and 20% of the adjusted appropriations for any given budget year.

ANALYSIS/DISCUSSION:

Increasing fund balance reserve levels will assist the City with navigating future economic uncertainty and cash flow needs; while also providing an immediate resource for emergencies and potential strategic opportunities. The proposed General Fund Economic Uncertainty Reserve target increases the level to between 20% and 25% of the adjusted appropriations.

Based on the Revenue Neutrality agreement with Sacramento County, the City currently receives 30% of the City's allotment of property tax revenue. This agreement will phase out over time and the City's share of property tax revenue will increase by 10% each year until fiscal year 2026 when the City will receive 100% of the City's share of property tax revenue (approximately

5.8 cents of a paid property tax dollar). As the Revenue Neutrality deduction is eliminated, the City will have a higher dependency on property tax revenue, resulting also in higher exposure in an economic downturn. This warrants a review of the current reserve policy.

Staff is proposing an additional reserve fund for consideration, called the Opportunity Reserve. This reserve will add future budget flexibility as it will be available for the purpose of providing funding for projects, acquisitions, or unforeseen events or need. In addition, the Opportunity Reserve may be utilized for unanticipated projects, acquisitions, or other needs identified during the course of a fiscal year. The proposed Opportunity Reserve level is targeted between 0% and 5%.

Allocation of reserves beyond the combined Reserve for Economic Uncertainty and Opportunity Reserve level of 30% of adjusted appropriations shall be reallocated to two purposes: 50% to Capital Reserves and 50% to Economic Development, provided that reserve balances in the next budget year are adequately meeting target ranges.

As of July 1, 2018, the adjusted Reserve balance, after one-time appropriated use of the Reserve, is \$23,058,738. This is an opportune time to revise the target levels and would allocate \$18,141,840 to the Reserve for Economic Uncertainty; \$3,628,368 to the Opportunity Reserve; \$644,265 to the Capital Reserve; and \$644,265 to Economic Development Programs.

Increasing the level of Reserves will also be viewed favorably by the national credit rating agencies and the bond market when City bonds are evaluated by potential bond buyers.

Adoption of this resolution is consistent with City Council's goals of fostering a vibrant, diversified economy, and serving as wise and responsive stewards of fiscal resources.

ALTERNATIVE ACTIONS:

The City Council can choose to retain the current level of reserves; however, it is timely to consider a modification to the Reserve levels.

FISCAL IMPACT:

The existing level of Reserves is sufficient to increase the target levels in the Reserve Policy without an impact to budgeted expenditure authority. This Policy modification will strengthen the City's ability to navigate future

economic challenges and provide the City with the means to respond to opportunities with a healthy Reserve balance.

ATTACHMENTS:

1. Resolution
 - a. Exhibit A: Fund Balance Reserve Policy

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ELK GROVE
AMENDING THE FUND BALANCE RESERVE POLICY**

WHEREAS, the City of Elk Grove had previously established a policy for General Fund Reserve levels to provide the City with flexibility to adapt to economic changes and emergencies; and

WHEREAS, with the Revenue Neutrality deduction decreasing, resulting in an increased dependency on property tax revenue, it is timely for a review of the current Reserve Policy; and

WHEREAS, the City Council of the City of Elk Grove wishes to increase the General Fund Reserve for Economic Uncertainty target level from between 15% and 20% to between 20% and 25% to assist with economic uncertainty, emergencies and cash flow needs; and

WHEREAS, the City Council of the City of Elk Grove wishes to create a new Opportunity Reserve fund with a target level of 0% to 5% to add budget flexibility for the purpose of providing funding for projects, acquisitions, or unforeseen events or need.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Elk Grove hereby adopts the Fund Balance Reserve Policy, attached hereto as Exhibit A and incorporated herein by reference.

PASSED AND ADOPTED by the City Council of the City of Elk Grove this 24th day of April 2019

STEVE LY, MAYOR of the
CITY OF ELK GROVE

ATTEST:

APPROVED AS TO FORM:

JASON LINDGREN, CITY CLERK

JONATHAN P. HOBBS
CITY ATTORNEY



City of Elk Grove Fund Balance Reserve Policy

Date: 4/24/19 Revised:	Department: Finance Division: Budget	Authority: Resolution # _____
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Summary of the Fund Balance Reserve Policy

- 1.0 **SCOPE:** To establish policies for budgeting for and spending from Fund Reserves.
- 1.1 **PURPOSE:** This Policy is intended to provide a framework for establishing annual reserve levels during the budget process that will provide the City with flexibility to adapt to local, regional and state wide economic changes and to stabilize the delivery of City services during periods of operational budget deficits while continuing to maintain sufficient balance for emergency spending.
- 1.2 **POLICY:** The Fund Reserve Policy establishes guidelines governing budgeted reserve balances in all perpetual funds as well as procedures for spending such balances and allocating excess reserves.
- 1.3 **DEFINITIONS:** When appearing in this policy, the following terms shall have the corresponding definitions.
 - 1.3.1 **“Adjusted Appropriations”** shall mean total appropriations minus appropriations for one-time activity, debt service and non-operating transfers to other funds.
 - 1.3.2 **“CAFR”** shall mean the Comprehensive Annual Financial Report of the City of Elk Grove.
 - 1.3.3 **“Capital Projects Reserve”** shall mean the portion of fund balance specifically designated to fund long term capital projects, including repair of such projects.
 - 1.3.4 **“Reserve for Economic Uncertainty”** shall mean portion of fund balance established for the purpose of providing consistent delivery of City services during periods of economic recession or disaster response.
 - 1.3.5 **“Opportunity Reserve”** shall mean a portion of the fund balance for the purpose of providing funding for projects or acquisitions or for an unforeseen event or need.
 - 1.3.6 **“Other Operating Fund Reserves”** shall mean the Stabilization Reserves fund balance of operating funds other than the general fund.
 - 1.3.7 **“Other Restricted Reserves”** shall mean together the Other Operating fund balance, the Capital Projects fund balance and the Gas Tax fund balance.
 - 1.3.8 **“Restricted Reserves”** shall mean Restricted fund balance as reported on the City’s CAFR. Generally, these are reserves designated for a specific purpose, not available for general use within a specific fund.
 - 1.3.9 **“Unrestricted Reserves”** shall mean Unrestricted fund balance as reported on the City’s CAFR. Generally, these are reserves are not designated for a specific purpose, and are available for general use within a specific fund.

General Fund Contingency Reserves

2.0 PROCEDURES: When creating the annual budget each year, the City Council will adhere at a minimum to the following guidelines when considering the General Fund Contingency Reserves.

2.0.1 Reserve for Economic Uncertainty (REU) Levels

The City deems it desirable to retain a Reserve for Economic Uncertainty level of 25% of the Adjusted Appropriations for any given Budget Year. The Reserve balance as a percentage of Adjusted Appropriations shall be no less than 20% of General Fund Adjusted Appropriations. The City Council will approve any fund balance between 20% and 25% of Adjusted Appropriations as part of the Annual Budget Resolution, provided that the level of Reserves is not reduced below 20%. These reserves will be reported as part of the Committed Reserve Balance in the City's CAFR.

The Reserve for Economic Uncertainty:

- a.) Economic Uncertainty Reserve. An Economic Uncertainty Reserve will be maintained to minimize the effects of major economic uncertainties, including local disasters, State budget difficulties and other severe financial hardships or unforeseen changes in revenues and/or expenditures and will be available for budget stabilization. The Reserves is also available to minimize the immediate financial impact of disasters and claims which will not be reimbursable from insurance or Federal or State Government.

2.0.2 Plan to Replenish Reserve for Economic Uncertainty

Any appropriation of the REU below the 20% minimum shall be accompanied by findings articulating the need for the use of the REU and a plan for the replenishment of the REU within a reasonable period not to exceed three (3) budget years.

2.0.3 Use of Reserve for Economic Uncertainty

All use of the REU must be approved by a majority (three votes) of the City Council. The exception is the event that a disaster situation is declared. In the event of a declared emergency, the City Manager may expend REU without prior City Council approval. After the emergency, the City Council shall evaluate the current REU level, and if necessary, publish, as an amendment to the current Budget Resolution, findings for the replenishment of the reserves within a reasonable period not to exceed three budget years.

2.0.4 Opportunity Reserve

The City deems it desirable to retain an Opportunity Reserve level of a maximum 5% of the Adjusted Appropriations for any given Budget Year to be used for special projects, acquisitions, or other need. In addition, the Opportunity Reserve may be utilized for unanticipated projects, acquisitions, or other needs identified during the course of a fiscal year.

2.0.5 Allocation of Reserves above the REU and Opportunity Reserves

When the City successfully retains a Reserve for Economic Uncertainty amount beyond 25% and an Opportunity Reserve beyond 5% of Adjusted Appropriations for a given Budget Year the close out of the Fiscal Year will include the reallocation of reserves over the 30% to two purposes: one half to Capital Reserves and one half to Economic Development Programs. Maintaining the target level funding for the projected fund balance amounts in the next Fiscal Year will be considered before a transfer of reserves is initiated.

Other Restricted Reserves

3.0 PROCEDURES: When creating the annual budget each year, the City Council shall adhere, at a minimum, to the following guidelines when considering Other Restricted Reserves.

3.0.1 Other Operating Funds Reserves

The City deems it desirable to retain a Stabilization Reserve level of between 10% to 25% of revenues in other operating funds for any given budget year. Stabilization Reserves will be set aside each Budget Year to provide budget stabilization or to fund unanticipated projects deemed necessary. The City Council will approve any fund balance between 10% and 20% of other on-going operating revenues as part of the Annual Budget Resolution. If the level of Stabilization Reserves falls below 10%, the City may over several Fiscal Years restore the level of Reserve to the desirable level of over 10%. These reserves will be reported as part of the Committed Reserve Balance in the City's CAFR.

3.0.2 Capital Reserves

These reserves will be reported as part of the Committed Reserve Balance in the City's CAFR.

Capital Reserves may be used to fund long term capital projects, including repair of such projects, at the discretion of the City Council. Expenditures from Capital Reserves will be approved in the Budget and/or Capital Improvement Program.

3.0.3 Use of Other Restricted Reserves

The Other Operating Fund Reserves and the Capital Reserve (together the "Other Restricted Reserves") expenditures shall meet the requirements of Section 2.0.3.

3.0.4 Plan to Replenish Other Restricted Reserves

Any appropriation of the Other Restricted Reserves below their respected stated minimums shall be accompanied by findings articulating the need for the use of the Other Restricted Reserves and a plan for the replenishment of the Other Restricted Reserves within a reasonable period not to exceed three budget years.

3.0.5 Allocation of Excess Other Restricted Reserves

In the event the City successfully retains Other Reserves amounts beyond their respected maximums for a given budget year, the excess balance shall remain in the given fund to be appropriated by the City Council for use in future budget years.

Unrestricted Reserves

4.0 PROCEDURES: When creating the annual budget each year, the City Council will adhere at a minimum to the following guidelines when considering Unrestricted Reserves.

4.0.1 Unrestricted Reserves

The City deems it desirable to retain an Unrestricted Reserves to be monitored annually at the discretion of the City Council. These reserves will be available for City Council consideration for unforeseen projects or events that are requested to be brought forth for consideration.

4.0.2 Use of Unrestricted Reserves

All Unrestricted Reserves expenditures must be approved by a majority vote of the City Council.