

RESOLUTION NO. ##,###-N.S.

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

WHEREAS, the General Fund Reserves ensures 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, floods, public health emergencies and pandemics; and

WHEREAS, the current General Fund Reserve level of 17.43% is consistent with GFOA's best practice recommended minimum General Fund level of 16.7%; and

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

WHEREAS, when using the General Fund Reserves the City should specify the purpose for the use of reserve funds, the time frame in which the reserve funds can be used, and how much will be used during that time frame. In addition the use and replenishment of the General Fund Reserves policy should allow flexibility in the timeframe in which the reserve funds can be used and the definition of catastrophic reserve should be amended to include public health emergencies and pandemics.

Commented [SH1]: This section will need to be rewritten to reflect the changes to be adopted.

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

City of Berkeley General Fund Reserves 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, [public health emergencies, pandemics](#), 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 Reserves policy allows the City to mitigate current and future financial risks resulting from economic instability or catastrophic loss.

Commented [SH2]: As recommended by the Budget and Finance Committee

Functions of Reserves: Stability and Catastrophic

The City of Berkeley will establish and maintain adequate General Fund Reserves ("Reserves") 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 Reserves shall be comprised of two elements: a Stability Reserve and a Catastrophic Reserve. The Reserves 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, [unless such programs or projects are directly related to recovery from the unexpected shortfall or recessionary period, and have been duly approved by the City Council.](#)

Commented [SH3]: Because General Fund reserves technically fund all General Fund expenditures, it's important to note that they can be allocated to support a General Fund budget that includes new programs or projects related to recovery that have been approved by the City Council

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, terrorist attacks, [public health emergencies and pandemics](#). The Catastrophic Reserve will not be accessed to meet operational shortfalls or to fund new programs or projects, [unless such programs or projects are directly related to the response to the catastrophic event, and have been duly approved by the City Council.](#)

Commented [SH4]: As proposed by the Budget and Finance Committee

Commented [SH5]: Because General Fund reserves technically fund all General Fund expenditures, it's important to note that they can be allocated to support a General Fund budget that includes new programs or projects related to response to the event that have been approved by the City Council

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 Reserves Levels

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

Effective immediately, the target level for the Reserves shall be a minimum of 13.8% of 2017 Adopted General Fund Revenues with an Intermediate Goal of a minimum of 16.7% [2020 Adopted General Fund Revenues](#) by the end of Fiscal Year 2020, if financially feasible. The Council hereby adopts a long-term goal of Reserves of a minimum of 30% of [the same year's Adopted](#) 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 Reserves level.

Commented [SH6]: Clarifications – original policy is vague on which year's Adopted General Fund Revenues reserves will be measured against. Without clarification, this could be read to mean 16.7% and 30% of 2017 Adopted General Fund Revenues.

[Attaining the long-term goal of General Fund Reserves of a minimum of 30% of the same year's Adopted General Fund Revenues is important to the long-term financial health and stability of the City.](#) Starting in Fiscal Year 2018, to achieve the City's intermediate and long-term Reserves Goals, 50% of Excess Equity above the first \$1 M shall be allocated to Reserves, [until such time as the 30% long-term goal has been achieved, at which time only amounts necessary to maintain 30% reserves shall be allocated to Reserves by application of this formula.](#) Additional Excess Equity [or other available funds](#) may be allocated to Reserves by a majority vote of the City Council [at any time.](#)

Commented [SH7]: Moved from another location in the Policy – belongs here

Commented [SH8]: Clarification that the automatic allocations to Reserves will end once 30% reserves have been achieved, and additional funds, if any, are to be allocated by majority vote of the Council.

Commented [SH9]: Clarifies that Council may allocate any available funds it deems advisable to Reserves, not just excess equity.

Methodology to Meet Reserve Levels

[The General Fund Reserves are 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.](#)

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

Commented [SH10]: All of this is accounted for according to accounting standards. Not sure this is actually correct, and in any case this isn't the correct place for these policies to be stated. Suggest removing this and amending the correct policy/ies if the Finance Director believes these questions are not already handled in our existing rules, regs and financial practices. Also conflicts/confuses statements made under the heading **Funding and Functions that are NOT Part of the General Fund Reserves**

~~Attaining the long term goal of General Fund Reserves of a minimum of 30% of General Fund Revenues is important to the long term financial health and stability of the City.~~

Appropriation and Replenishment of the General Fund Reserves

No more than one-third (1/3) of General Fund Reserves shall be appropriated per year, per event. Appropriation of General Fund Reserves shall be for the purposes stated in this Policy. A catastrophic event may require an immediate response and also trigger unexpected revenue shortfalls during a single fiscal year or during a prolonged recessionary period, in which case the City Council may appropriate funds from both Catastrophic and Stability Reserves to respond to the same event in the same year, so long as the total amount appropriated does not exceed 30% of all General Fund Reserves.

Commented [SH11]: This is moved up to a prior section of the Policy

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.

Commented [SH12]: This reflects, expands and clarifies changes proposed by the Budget and Finance Committee.

Usage of the General Fund Stability Reserve

The General Fund Stability Reserve shall only be drawn upon if all of the following criteria are met:

1. City revenues are insufficient to meet normal operating expenses.
2. A hiring freeze has been implemented, with exceptions only for designated positions as appropriate to maintain essential and core services to the public that support public health, safety, and welfare. Essential services will be determined at the time of fiscal emergency with a recommendation from the City Manager to be approved by City Council.
3. User fees and services charges are being fully utilized for those services for which they were collected.
4. A declaration of fiscal emergency is made by ordinance before drawing on the reserves. Fiscal emergency is defined as the following:

Commented [SH13]: This existing section of the policy already addresses some of the concepts the Budget and Finance Committee's proposed amendments tried to address, but the concepts are more tightly and completely covered here already.

- a. When General Fund revenues increase less than 3% from the prior fiscal year.
- b. When the City needs to mitigate State or Federal budget actions that may reduce revenue or increase expenditures.
- c. When the City must absorb liability settlements in excess of available resources in the City's litigation designation.

The General Fund Stability Reserve shall only be used in the following manner:

1. Stability Reserve funds shall be prioritized to preserve essential services and necessary staffing levels determined at the time of the fiscal emergency with a recommendation from the City Manager to be approved by the City Council.
2. All other reasonable and available expenditure reduction measures shall have been taken by the City Manager and the City Council before using one-time funding to support operational positions.
3. Operational positions shall not receive Stability Reserve funds for longer than two years except in extreme conditions.