



Office of the City Auditor
Ann-Marie Hogan, City Auditor

GENERAL FUND RESERVE POLICY FAILS TO CONVEY THAT MAINTAINING THE RESERVE IS A PRIORITY

MARCH 15, 2016

CITY COUNCIL WORK SESSION

PRESENTED BY ANN-MARIE HOGAN, CIA, CGAP, CITY AUDITOR



WHY RESERVE?

- NATURAL DISASTERS - EARTHQUAKES, FIRES
- FINANCIAL EMERGENCIES – PERS SPIKES
- ECONOMIC CYCLES – WHAT GOES UP MUST COME DOWN



IMPORTANT REMINDER

FUND BALANCE

≠

FUND RESERVE



S&P BOND RATING: AA TO AA+

- HIGH LEVEL OF ACTUAL “AVAILABLE FUND BALANCE” AND “CITY DOESN’T PLAN TO SPEND DOWN RESERVES”
- BERKELEY’S FISCAL POLICIES “GOOD” NOT “STRONG”
 - POLICIES NOT FORMALIZED AND MONITORED (E.G., RESERVE AND DEBT POLICIES)
- AAA: APPROVE & DOCUMENT FISCAL POLICIES, REDUCE PENSION LIABILITIES



RECOMMENDATION #4 - CITY MANAGER

- MAKE GENERAL FUND RESERVE REPORTING MORE TRANSPARENT
 - USE TABLES AND CHARTS
 - PROVIDE TREND ANALYSIS AND FORECASTS
 - EXPLAIN TERMS



RECOMMENDATION #3 - CITY MANAGER

- ASSESS RESERVES GOAL: % OF EXPENDITURES OR % OF REVENUES
- DETERMINE WHAT'S BEST FOR BERKELEY
- USE RISK ASSESSMENT TO DETERMINE



RECOMMENDATION #2 - CITY MANAGER

- PERFORM RISK ASSESSMENT
 - AT LEAST EVERY FIVE YEARS
 - IDENTIFY BERKELEY SPECIFIC RISKS
 - USE GFOA TEMPLATE & GUIDANCE
- AMEND RESERVE POLICY, IF NECESSARY, TO ALIGN WITH CURRENT NEEDS – THEY WILL CHANGE!



RECOMMENDATION #1 - CITY COUNCIL

- AMEND POLICY: INCREASE GOAL & ALIGN WITH BEST PRACTICES
 - 16.7% OF GENERAL FUND
 - PURPOSE, USE, PAYBACK TERMS, AUTHORITY (E.G., MAJORITY VOTE)
 - CONTINGENCY (EMERGENCY) RESERVES AND STABILIZATION (ECONOMIC CYCLES) RESERVES – OPTIONAL SPLIT
 - AMEND WHEN NECESSARY BASED ON RISK ASSESSMENT
- RESERVES DO NOT INCLUDE SET ASIDES (INFRASTRUCTURE & PENSIONS)



BERKELEY GENERAL FUND BALANCE

- \$31.2 MILLION (16.7% OF GENERAL FUND)
 - COVERS 2 MONTHS GENERAL FUND EXPENDITURES;
ABOUT 1 MONTH OF ALL FUND EXPENDITURES
- ABOVE 8% & ON TARGET WITH BEST PRACTICE
- **SET POLICY TO LOCK IN TODAY'S HIGH FUND BALANCE AS BERKELEY'S RESERVE BALANCE**



OPTIONS

- ESTABLISH AUTHORIZATION: MAJORITY VOTE?
- TIMING TO MEET GOAL: NOW? IN ONE YEAR? TWO?



QUESTIONS & ANSWERS

