



Kathryn Harrison  
Councilmember District 4

## REVISED AGENDA MATERIAL

**Meeting Date:** June 27, 2017

**Item Number:** 40

**Item Description:** General Fund Stability Reserve Usage Criteria

**Submitted by:** Councilmember Harrison

Our office would like to add the following revisions to this Item.



Councilmember Lori Droste  
District 8

ACTION CALENDAR

June 27, 2017

(Continued from May 30, 2017)

To: Honorable Mayor and Members of the City Council  
From: Councilmembers Lori Droste, Susan Wengraf, and Linda Maio  
Subject: General Fund Stability Reserve Usage Criteria

**RECOMMENDATION**

Discuss the following General Fund Stability Reserve Usage Policies and Adopt policies such as those proposed, requiring a ~~two-thirds majority~~ vote of the City Council to amend them.

Proposed Criteria:

The General Fund Stability Reserve shall only be drawn upon by a ~~two-thirds majority~~ -vote of the City Council 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 services to the public.~~
- 2. User fees and services charges are being fully utilized for those services for which they were collected.

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.~~
- 1. ~~All other r~~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.
- 2. Operational positions shall not receive Stability Reserve funds for longer than two years except in extreme conditions.

~~Following recommendation from the City Manager, the City Council shall, from time to time, recognize and define “essential services”, “appropriate levels” of such services, and “extreme conditions”.~~

~~Any draw-down of Stability Reserve funds shall coincide with the adoption of a plan to repay the dollar amount of the draw-down. If adopting a repayment plan immediately is infeasible due to emergency circumstances, it~~ A repayment plan shall be adopted no more than 3 months from the date of the withdrawal appropriation. The level of the Stability Reserve shall be restored as economic recovery occurs, ~~consistent with the maintenance of essential services, with~~ Repayment ~~to~~ should begin no more

than 5 years from the date of withdrawal and be completed within 10 years from the date of withdrawal.

### **BACKGROUND**

In January 2017, Berkeley City Council voted to establish a minimal general fund reserve level and designate specific portions of the reserve for stabilization and catastrophic purposes. In doing so, City Council promised to revisit the criteria that would be followed if the City needed to use its reserve funds.

Our City Auditor Ann-Marie Hogan, along with the GFOA (Government Finance Officers Association), recommends “a robust policy that addresses the specific circumstances under which the reserve can be tapped and for what purpose...”

The City Manager originally proposed the following criteria for use of the Stability Reserve:

*In times of economic downturn, if revenues are insufficient to meet the normal operating requirements of essential services, funds contained in the Reserve may be used if authorized by a two-thirds vote of the City Council, based on the following principles:*

- 1. Staffing levels in essential services shall be temporarily maintained, in order to avoid or reduce the necessity for immediate lay-offs: only in extreme conditions will reserves be used to support operational positions for longer than two years;*
- 2. A hiring freeze must be implemented for designated positions as appropriate to maintain essential services to the public;*
- 3. All other reasonable and available expenditure reduction measures have been taken by the City Manager and the City Council before using one-time funding to support operational positions;*
- 4. User fees and services charges will be fully utilized for those services for which they were collected;*
- 5. The level of the Reserve shall be restored in a timely manner as economic recovery occurs, consistent with the maintenance of essential services:*
- 6. “Essential services”, “appropriate levels” of such services, and “extreme conditions” shall be recognized from time to time by the City Council upon the recommendation of the City Manager.*

The recommended policies are adapted from the City Manager’s proposal.

### **FISCAL IMPLICATIONS**

Adopting Stability Reserve fund usage policies can help improve the City’s bond rating, resulting in lower borrowing costs; while failing to follow best practices for reserve funds could negatively impact the ability of our City to function properly in times of economic downturn.

### **ENVIRONMENTAL SUSTAINABILITY**

None

### **CONTACT**

Lori Droste, Councilmember District 8 981-7180



Councilmember Lori Droste  
District 8

ACTION CALENDAR

July 11, 2017

*(Continued from June 27, 2017)*

To: Honorable Mayor and Members of the City Council  
From: Councilmembers Lori Droste, Susan Wengraf, and Linda Maio  
Subject: General Fund Stability Reserve Usage Criteria

**RECOMMENDATION**

Discuss the following General Fund Stability Reserve Usage Policies and Adopt policies such as those proposed, requiring a two-thirds vote of the City Council to amend them.

Proposed Criteria:

The General Fund Stability Reserve shall only be drawn upon by a two-thirds vote of the City Council 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 services to the public.
3. User fees and services charges are being fully utilized for those services for which they were collected.

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.
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.

Following recommendation from the City Manager, the City Council shall, from time to time, recognize and define “essential services”, “appropriate levels” of such services, and “extreme conditions”.

Any draw-down of Stability Reserve funds shall coincide with the adoption of a plan to repay the dollar amount of the draw down. If adopting a repayment plan immediately is infeasible due to emergency circumstances, it shall be adopted no more than 3 months from the date of the withdrawal appropriation. The level of the Stability Reserve shall be restored as economic recovery occurs, consistent with the maintenance of essential services, with repayment to begin no more

than 5 years from the date of withdrawal and be completed within 10 years from the date of withdrawal.

## **BACKGROUND**

In January 2017, Berkeley City Council voted to establish a minimal general fund reserve level and designate specific portions of the reserve for stabilization and catastrophic purposes. In doing so, City Council promised to revisit the criteria that would be followed if the City needed to use its reserve funds.

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- 2. A hiring freeze must be implemented for designated positions as appropriate to maintain essential services to the public;*
- 3. All other reasonable and available expenditure reduction measures have been taken by the City Manager and the City Council before using one-time funding to support operational positions;*
- 4. User fees and services charges will be fully utilized for those services for which they were collected;*
- 5. The level of the Reserve shall be restored in a timely manner as economic recovery occurs, consistent with the maintenance of essential services:*
- 6. “Essential services”, “appropriate levels” of such services, and “extreme conditions” shall be recognized from time to time by the City Council upon the recommendation of the City Manager.*

The recommended policies are adapted from the City Manager’s proposal.

## **FISCAL IMPLICATIONS**

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## **ENVIRONMENTAL SUSTAINABILITY**

None

## **CONTACT**

Lori Droste, Councilmember District 8 981-7180

