



SAN RAFAEL CITY COUNCIL AGENDA REPORT

Department: FINANCE

Prepared by: Paul Navazio, Finance Director

City Manager Approval: _____

TOPIC: GENERAL FUND RESERVE POLICY

SUBJECT: A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SAN RAFAEL UPDATING THE CITY'S GENERAL FUND RESERVE POLICY

RECOMMENDATION:

Adopt a resolution updating the City's General Fund Reserve Policy.

BACKGROUND:

The General Fund is the primary operating fund that pays for general services provided by the City, such as public safety, parks, and library services. The General Fund accounts for all general revenues of the City not specifically levied or collected for other City funds and expenditures related to the delivery of the City's general services. Because such a broad range of critical services are provided through the General Fund, including public safety, the City must set aside adequate financial resources to protect the City against unforeseen circumstances and events, such as revenue shortfalls and unanticipated expenditures, including those caused by catastrophic events.

The City Council adopted a formal General Fund Reserve Policy via Resolution 13832 on November 21, 2014. The policy, which has not been updated since its adoption nearly a decade ago, is intended to:

- Establish target reserve levels and the methodology for calculating reserve levels.
- Establish criteria for the use of reserves and a process to replenish reserves.

The existing General Fund reserve policy includes specific elements, including:

- 1) Setting of the Emergency Reserve policy level equal to 10% of operating expenditures
- 2) Establishing a Public Safety Facilities Reserve for purposes of holding one-third of the three-quarter cent of the voter-approved Measure E transaction and use tax to be used exclusively for Public Safety Essential Facilities.
- 3) A separate reserve for non-public safety facilities and infrastructure.
- 4) Designating an Unassigned Reserve to accumulate funds not otherwise designated or reserved by the City Council for a specific purpose.

FOR CITY CLERK ONLY

Council Meeting: _____

Disposition: _____

ANALYSIS:

This agenda item has been prepared to present for City Council consideration revisions to the City's General Fund Reserve Policy. The proposed revisions are the result of a review of the current policy in light of best practices, an analysis of the predictability and volatility of the City's major General Fund revenue sources (see Attachment 3), a survey of reserve policies across selected comparable jurisdictions (see Attachment 4), and in consideration of the evolving economic and legislative environment that have the potential to impact the City's fiscal position directly.

The Government Finance Officers' Association (GFOA) guidelines suggest maintaining a 2-month operating reserves (17%) but provides that each agency is best suited to establish the appropriate level of reserve based on the factors listed above. The GFOA's guidelines in this regard are also generally most applicable to enterprise funds (whose operations are reliant on monthly collection of user fees).

A survey of General Fund reserve policy levels for agencies within Marin County reflect that most agencies maintain minimum reserve levels in the range of 15% to 25%, with smaller agencies tending toward higher reserve levels. Several agencies have also adopted reserve policies that provides for both and emergency reserve as well as an "economic uncertainty" reserve.

The following is a summary of the proposed revisions to the City's General Fund Reserve Policy as incorporated in Attachment A to the subject resolution:

- Increasing the General Fund Reserve Policy level from 10% to 15% of operating expenditures. This increased reserve level is segmented into two components:
 - *Emergency Reserve* = 10% - to cover expenditures related to unanticipated and unplanned emergencies.
 - *Economic Uncertainty* = 5% - to buffer the impacts of short-term fluctuations in revenues due to economic cycles or loss of tax revenues.
- Establishing a definition of "operating expenditures" to serve as a basis for calculating the amount of funding required to meet the target reserve policy level.
- Updating provisions related to the allowable uses of the General Fund reserve(s) and the process by which reserve levels are to be restored (when utilized).
- Updating the provision covering facilities and infrastructure reserves to include:
 - Eliminating reference to a Measure E reserve within the General Fund reserve policy. This provision is made obsolete by the establishment of a specific Essential Facilities Special Revenue Fund (420) that has been established for this purpose.
 - Establishing a formal Facilities and Infrastructure Reserve within the General Fund of \$1,000,000. While the current policy does not set a specific dollar amount under this category, past practice has been to maintain an assigned reserve of \$600,000.
- Establishing policy priorities for uses of year-end fund balance within the General Fund that exceed the reserve levels established by this policy. Priority uses for such funds include:
 - Contributions to unfunded liabilities
 - Contributions to Self-Insurance fund to address general liabilities and claims
 - Contributions to Vehicle and Equipment Replacement Funds
 - Capital Projects and deferred maintenance
 - Priority one-time projects supporting City Council Goals and Objectives

FISCAL IMPACT:

There is no direct fiscal impact; the recommendations included in this report would result increase the General Fund reserve level from 10% to 15% for the fiscal year ending June 30, 2025. Based on current budget projections, the General Fund reserve level would increase from \$9.8 million (10% as of June 30, 2024) to \$15.3 million (15% as of June 30, 2025). In addition, the capital facilities and infrastructure reserve level would increase from \$600,000 as of June 30, 2024, to \$1,000,000 as of June 30, 2025.

OPTIONS:

- 1) Adopt the resolution updating the City's General Fund Reserve Policy.
- 2) Provide feedback and request that staff return to the City Council with possible revisions to the proposed General Fund Reserve Policy.
- 3) Take no action and maintain the existing General Fund Reserve Policy, as adopted November 21, 2014.

RECOMMENDED ACTION:

Adopt a resolution updating the City's General Fund Reserve Policy.

ATTACHMENTS:

1. Resolution
2. Exhibit A –General Fund Reserve Policy.
3. Redline version of revisions to General Fund Reserve Policy (2014 version)
4. Historical Trend – General Fund Revenues Budget vs Actual (2112/13 – 2023/24)
5. Survey of General Fund Reserve Policies (selected agencies)

RESOLUTION NO.

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
SAN RAFAEL ADOPTING A GENERAL FUND RESERVE
POLICY**

WHEREAS, the City of San Rafael is committed to ensuring that service to the public is not avoidably disrupted by natural disasters or unforeseen, negative economic events; and

WHEREAS, on November 21, 2014, the City Council of the City of San Rafael adopted Resolution number 13832 establishing a formal General Fund Reserve Policy; and

WHEREAS, the City's General Fund Reserve Policy has not been updated since its formal adoption in November 2014; and

WHEREAS, revisions to the City's General Fund Reserve Policy are warranted in light of the current best practices, evolving financial position of the City, and changes to the economic and statutory environment impacting local government revenues; and

WHEREAS, a discussion of potential revisions to the City's General Fund Reserve Policy was agendized at the April 4, 2024, meeting of the City Council Finance Sub-Committee; and

WHEREAS, the City Council has reviewed and considered the proposed revisions to the City's General Fund Reserve Policy.

NOW, THEREFORE, BE IT RESOLVED, that the City Council of the City of San Rafael does hereby approve and adopt the updated General Fund Reserve Policy that is attached hereto as Exhibit A

I, LINDSAY LARA, Clerk of the City of San Rafael, hereby certify that the foregoing resolution was duly and regularly introduced and adopted at a regular meeting of the City Council of said City on Monday, the 17th of June 2024, by the following vote, to wit:

AYES: COUNCILMEMBERS:

NOES: COUNCILMEMBERS:

ABSENT: COUNCILMEMBERS:

LINDSAY LARA, City Clerk

CITY OF SAN RAFAEL

GENERAL FUND RESERVE POLICY

PURPOSE

The City's General Fund Reserve Policy establishes the target level of operating and capital reserves. Adequate reserves help sustain continuity of City operations and service delivery when adverse or unexpected circumstances affect the City. Reserves are established to provide resources required to minimize service disruption in the event of temporary revenue shortfalls or unexpected one-time expenditures.

This policy is designed to:

- Establish target reserve levels and the methodology for calculating reserve levels.
- Establish criteria for the use of reserves and a process to replenish reserves.
- Establish policy priorities for uses of year-end fund balances within the General Fund that are determined to be in excess of the reserve levels established by this policy.

RESPONSIBILITY

The City Manager shall be responsible for enforcing this policy. The City Manager or his/her designee may issue supplemental procedures and memorandums that detail specific directions that clarify this policy. However, such procedures and directives must be consistent and not conflict with the general provisions of this policy.

POLICY

It is the policy of the City of San Rafael to ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The Government Finance Officers of America (GFOA) recommends that reserve levels be directly related to the degree of uncertainty the local government faces: the greater the uncertainty, the greater the financial resources necessary. Past experience is to be used as a guide, with particular attention being paid to the following:

- Diversity of revenue base
- Volatility of revenue structure
- Volatility of political environment
- Consistent operating surpluses/occasional or frequent operation deficits
- Uneven cash flows, requiring short-term borrowing

Emergency and Cash Flow Reserve (15% minimum)

The City will maintain an emergency and cash flow reserve equal to 15% of General Fund operating expenditures, exclusive of one-time expenditures and non-operating transfers. The Emergency and Cash Flow reserves will be allocated in the following manner:

- Economic Uncertainty (5%) – these funds are generally designated to mitigate periodic revenue shortfalls due to downturn in economic cycles, and avoid the need for service-level reductions within a fiscal year.
- Emergency Reserves (10%) – these funds are generally designated to mitigate costs of unforeseen emergencies and natural disasters.

Budgeted operating expenditures are to be used for the purposes of budget allocations and projections, and actual operating expenditures are to be used for the purpose of measuring this reserve at fiscal year-end.

The appropriate level of General Fund reserves will be reviewed annually as part of the budget cycle.

Facilities and Infrastructure Reserve

A separate Facilities and Infrastructure Reserve is established to provide funding to cover unplanned emergency repairs to City facilities and infrastructure. This reserve level is established in the amount of \$1,000,000.

Use of Reserve Funds

The General Fund reserve is intended to mitigate the impacts of significant short-term issues, including unexpected revenue shortfalls, unplanned expenditures, or declared emergencies. The reserve(s) established by this policy may be expended only when the City Council determines by resolution that such action is consistent with the purpose and intent of this policy.

It is the intent of the City Council to limit the use of reserves to address unanticipated, non-recurring needs. Reserves shall not be applied to recurring annual operating expenditures. The reserve may, however, be used to strategically allow time for the City to restructure its operations in a deliberate manner (as might be required in an economic downturn), but will only take place in connection with a City Council adopted long-term plan.

Restoration of Reserve Balances

In the event the balance in the Emergency and Cashflow Reserve falls below the minimum level, the City Manager shall recommend a plan to replenish the reserves, within a timeframe not to exceed two years. This recommendation shall be approved by the City Council no later than the time at which the next annual budget is adopted. Any variance from the stipulations established within this policy shall require approval by the City Council.

Excess Fund Balance

At the end of each fiscal year the Finance Department will report on the audited year-end fiscal results. Should the reported fund balance within the General Fund exceed the funding levels

required to meet the reserve levels established by this policy, such funds shall be deemed available for allocation in several areas, subject to City Council approval. The priority for consideration of allocation of excess funds should generally be as follows:

1. Payments toward unfunded liabilities, deferred maintenance and asset replacement.
2. Transfers to other funds, as appropriate, to offset year-end deficits within those funds.
3. Allocation to capital projects with shortfalls in funding sources and/or to provide matching funds for grant awards.
4. Re-appropriation within the subsequent year's operating budget to provide for one-time, non-recurring needs.

Other Considerations

The adequacy of the General Fund Reserve shall be evaluated on an annual basis and in the context of the General Fund long-term forecast. In addition, this General Fund reserve policy assumes that there are sound policies and procedures in place to ensure that there are sufficient funds and assets for the following essential needs:

- encumbrances and other commitments
- projected general liability claims
- projected workers compensation claims
- replacement of vehicles and equipment
- maintenance and replacement of infrastructure
- employee retirement costs
- technology replacement and upgrades

Policies, procedures and funding strategies should be established for each of these areas and, where appropriate, approved by the City Council.

CITY OF SAN RAFAEL GENERAL FUND RESERVE POLICY

PURPOSE

The City's General Fund Reserve Policy establishes the target level of operating and capital reserves. Adequate reserves help sustain continuity of City operations documents the City's approach to establishing and maintaining sufficient reserves to ensure the continuity of City operations and service delivery when adverse or unexpected circumstances affect the City. Reserves are established to provide resources required to minimize service disruption in the event of temporary revenue shortfalls or unexpected one-time expenditures.

This policy is designed to:

- Establish target reserve levels and the methodology for calculating reserve levels.
- Establish criteria for the use of reserves and a process to replenish reserves.
- Establish policy priorities for uses of year-end fund balances within the General Fund that are determined to be in excess of the reserve levels established by this policy.

~~The General Fund is the main operating fund that pays for general services provided by the City, such as public safety, parks and library services. The General Fund accounts for all general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the delivery of the City's general services.~~

RESPONSIBILITY

The City Manager shall be responsible for enforcing this policy. The City Manager or his/her designee may issue supplemental procedures and memorandums that detail specific directions that clarify this policy. However, such procedures and directives must be consistent and not conflict with the general provisions of this policy.

POLICY

It is the policy of the City of San Rafael to ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The Government Finance Officers of America (GFOA) recommends that reserve levels be directly related to the degree of uncertainty the local government faces: the greater the uncertainty, the greater the financial resources necessary. Past experience is to be used as a guide, with particular attention being paid to the following:

- Diversity of revenue base
- Volatility of revenue structure

- Volatility of political environment
- Consistent operating surpluses/occasional or frequent operation deficits
- Uneven cash flows, requiring short-term borrowing

~~The City's General Fund Reserves shall be comprised of the following four components:~~

Emergency and Cash Flow Reserve (1015% minimum)

~~The City will maintain a~~An emergency and cash flow reserve equal to 15% of General Fund operating expenditures, exclusive of one-time expenditures and non-operating transfers. The Emergency and Cash Flow reserves will be allocated in the following manner:

- Economic Uncertainty (5%) – these funds are generally designated to mitigate periodic revenue shortfalls due to downturn in economic cycles, and avoid the need for service-level reductions within a fiscal year.
- Emergency Reserves (10%) – these funds are generally designated to mitigate costs of unforeseen emergencies and natural disasters.

Budgeted operating expenditures are to be used for the purposes of budget allocations and projections, and actual operating expenditures are to be used for the purpose of measuring this reserve at fiscal year-end.

The appropriate level of General Fund reserves will be reviewed annually as part of the budget cycle.

Facilities and Infrastructure Reserve

A separate Facilities and Infrastructure Reserve is established to provide funding to cover unplanned emergency repairs to City facilities and infrastructure. This reserve level is established in the amount of \$1,000,000.

~~will be maintained for the purposes of (1) sustaining General Fund operations in the case of a public emergency, such as a natural disaster or other unforeseen catastrophic event; and (2) to cover sudden operating shortfalls caused by (a) a severe drop in revenues that cannot be sufficiently offset by a corresponding reduction in expenditures and/or other available resources, or (b) an unforeseen, unavoidable expenditure that must be paid from the General Fund. Under Governmental Accounting Standards Board Statement No. 54, this reserve will be assigned.~~

~~This reserve level is measured as a percentage of annual operating expenditures. Budgeted operating expenditures are to be used for the purposes of budget allocations and projections, and actual operating expenditures are to be used for the purpose of measuring this reserve at fiscal year-end.~~

Use of Reserve Funds

The General Fund reserve is intended to mitigate the impacts of significant short-term issues, including unexpected revenue shortfalls, unplanned expenditures, or declared emergencies. Theis

reserve(s) established by this policy may be expended only when the City Council determines by resolution that such action is consistent with the purpose and intent of this policy.

It is the intent of the City Council to limit the use of reserves to address unanticipated, non-recurring needs. Reserves shall not be applied to recurring annual operating expenditures. The reserve may, however, be used to strategically allow time for the City to restructure its operations in a deliberate manner (as might be required in an economic downturn), but will only take place in connection with a City Council adopted long-term plan.

Restoration of Reserve Balances

In the event the balance in the Emergency and Cashflow Reserve falls below the minimum level, the City Manager shall recommend a plan to replenish the reserves, within a timeframe not to exceed two years. This recommendation shall be approved by the City Council no later than the time at which the next annual budget is adopted. Any variance from the stipulations established within this policy shall require approval by the City Council.

Excess Fund Balance

At the end of each fiscal year the Finance Department will report on the audited year-end fiscal results. Should the reported fund balance within the General Fund exceed the funding levels required to meet the reserve levels established by this policy, such funds shall be deemed available for allocation in several areas, subject to City Council approval. The priority for consideration of allocation of excess funds should generally be as follows:

1. Payments toward unfunded liabilities, deferred maintenance and asset replacement.
2. Transfers to other funds, as appropriate, to offset year-end deficits within those funds.
3. Allocation to capital projects with shortfalls in funding sources and/or to provide matching funds for grant awards.
4. Re-appropriation within the subsequent year's operating budget to provide for one-time, non-recurring needs.

Other Considerations

The adequacy of the General Fund Reserve ~~Emergency and Cash Flow Reserve~~ shall be evaluated on an annual basis and in the context of the General Fund long-term forecast. In addition, this General Fund reserve policy assumes that there are ~~also~~ sound policies and procedures in place to ensure that there are sufficient funds and assets for the following essential needs:

- encumbrances and other commitments
- projected general liability claims
- projected workers compensation claims
- replacement of vehicles and equipment
- maintenance and replacement of infrastructure
- employee retirement costs
- technology replacement and upgrades

Policies, procedures and funding strategies should be established for each of these areas and, where appropriate, approved by the City Council.

~~In the event the balance in the Emergency and Cashflow Reserve falls below the minimum level, the City Manager shall recommend a plan to replenish the fund within a timeframe not to exceed three years. This recommendation shall be approved by the City Council no later than the time at which the next annual budget is adopted. Any variance from the stipulations established within this policy shall require approval by the City Council along with a statement of findings supporting the temporary or ongoing modification to this policy.~~

~~**Measure E—Public Safety Facilities Reserve**~~

~~In November 2013, the San Rafael voters passed Measure E, a three-quarter percent transactions and use tax (TUT), effective April 1, 2014. On May 5, 2014, the City Council directed staff to set aside one-quarter percent (or one-third of these tax proceeds) for the purpose of public safety facility planning, construction and major improvements. This portion of Measure E revenues are assigned to this reserve, so that they can be used later to directly fund facility related costs, or to cover debt service costs and payments associated with the financing of these improvements.~~

~~The City Manager is directed to assign these funds (i.e., the one-quarter percent TUT) to this reserve as they are received, and is authorized to expend these funds for qualified public safety facility costs as described above. The City Manager shall report periodically to the City Council on the status of these funds.~~

~~**Other Facilities and Infrastructure**~~

~~The purpose of this assigned reserve is to accumulate funds to be used for the purpose of non-public safety facility construction and major improvements (e.g., library, administrative and non-safety buildings, streets and the stormwater system).~~

~~**Unassigned Reserve**~~

~~Any available General Fund balances not reserved or included in one of the assigned reserves will be maintained as “unassigned,” until such time it is allocated to one of the other reserves or appropriated for General Fund purposes.~~

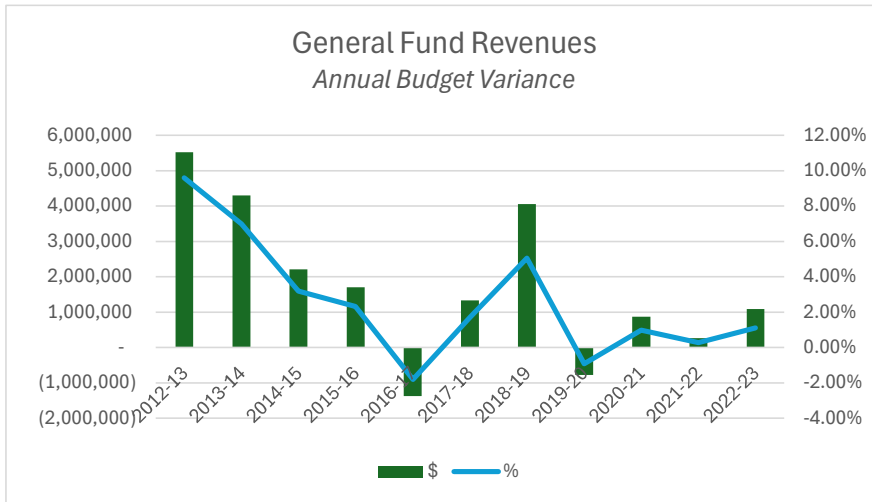
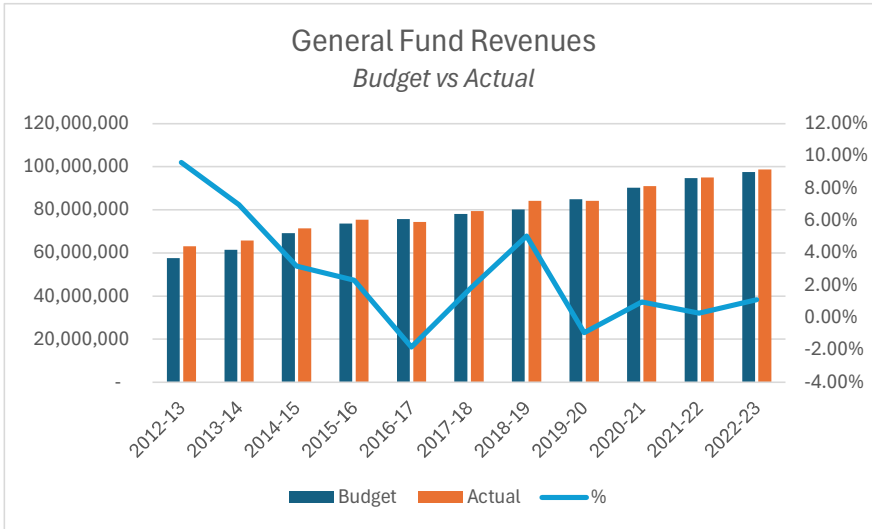
RECONCILIATION WITH REPORTING

~~Total General Fund Reserves will be based on, and reconciled to, the General Fund fund balance. The sum of the Emergency and Cashflow Reserve, Measure E—Public Safety Facilities Reserve, Non-Public Safety Facilities Reserve, Unassigned Reserve and contractual commitments (i.e., outstanding purchase orders) shall equal the unrestricted and uncommitted fund balance.~~

Historical Budget vs Actual Variance Analysis
General Fund Revenues

	Budget	Actual	Variance	
			\$	%
2012-13	57,605,218	63,132,129	5,526,911	9.59%
2013-14	61,495,042	65,793,253	4,298,211	6.99%
2014-15	69,164,980	71,374,058	2,209,078	3.19%
2015-16	73,752,116	75,455,506	1,703,390	2.31%
2016-17	75,725,525	74,354,577	(1,370,948)	-1.81%
2017-18	78,080,787	79,414,391	1,333,604	1.71%
2018-19	80,189,911	84,245,518	4,055,607	5.06%
2019-20	84,984,261	84,204,553	(779,708)	-0.92%
2020-21	90,191,135	91,068,211	877,076	0.97%
2021-22	94,764,987	95,030,706	265,718	0.28%
2022-23	97,640,802	98,729,172	1,088,370	1.11%
2023-24*	100,017,060	103,560,733	3,543,673	3.54%

* Estimate for FY 2023-24



General Fund Reserve Policy Survey

(City of Sausalito Survey - March 2024)

	General Fund	Reserve Level	Comments
Belvedere	\$ 8,585,407	50%	
Corte Madera	22,500,000	20%	
Fairfax	13,790,000	25%	
Larkspur	21,000,000	25%	
Mill Valley	32,700,000	15%	
Novato	49,300,000	15%	
Ross	10,100,063	exceed 30% \$1.5M	Operating Economic
San Anselmo	26,559,595	20%	
San Rafael	100,000,000	10%	
Sausalito	20,340,377	5% 10%	Economic Emergency
Tiburon	12,972,850	25%	
Marin County	594,209,961	5% to 10%	

Other Agencies (selected)

	General Fund	Reserve Level	Comments
Napa	\$ 122,000,000	20%	15% - Operating 5% - Emergency
Berkeley	280,000,000	30%	16.5% - Economic Stability (55%) 13.5% = Catastrophic (45%)
Santa Rosa	201,600,000	15% to 17%	
Benicia	58,470,000	20%	
Vacaville	150,275,000	16% - 25% 20%	2-mos. to 3 mos. (Target)
Davis	72,900,000	15%	Economic & Emergency
Woodland	65,400,000	20%	Economic & Emergency