

CITY OF



San Rafael

Agenda Item No: 3.a

Meeting Date: November 3, 2014

SAN RAFAEL CITY COUNCIL AGENDA REPORT

Department: FINANCE DEPARTMENT

Prepared by: Mark Moses, *[Signature]*
Finance Director

City Manager Approval: *[Signature]*

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

RECOMMENDATION: ADOPT RESOLUTION

BACKGROUND: The City of San Rafael is committed to adopting sound practices and policies in its management of fiscal issues. For several years, the City has used an informally-established general fund reserve target for emergencies and cash flow. Earlier this year, the City Council Finance Committee asked staff to review the status of the City's fiscal policies, and to bring forward recommended policies for Committee review and eventual adoption by the City Council. This proposed General Fund Reserve Policy was reviewed at the Finance Committee meetings of September 16 and October 23, and is the first of these policies to be presented to the City Council.

ANALYSIS: 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. Because such a broad range of critical services are provided through the General Fund, including public safety, it is important that the City 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 proposed general fund reserve 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.

FOR CITY CLERK ONLY

File No.: _____

Council Meeting: _____

Disposition: _____

The proposed policy addresses four reserve components with the General Fund:

1. Emergency and cash flow reserve
 - a. For sustaining operations in case of unforeseen disasters or catastrophic events;
 - b. For covering sudden operational shortfalls caused by severe drops in revenues that cannot be sufficiently offset by expenditure reductions;
 - c. Set at 10% of operating expenditures.

2. Measure E – Public Safety Facilities Reserve
For holding one-quarter percent of the three-quarter percent Measure E transactions and use tax, until needed for planning and construction of and major improvements to public safety facilities.

3. Other Facilities and Infrastructure
For accumulating funds to be used for the purpose of non-public safety facility planning, construction and major improvements (e.g., library, administrative and non-safety buildings, streets and the stormwater system).

4. Unassigned Reserve
For accumulating funds for general fund uses, but whose specific purpose and disposition has not yet been determined by the City Council.

Staff will provide regular updates on the status of these reserves to the City Council and the City Council Finance Committee in the normal course of its periodic financial reporting, budget development and budget recommendations.

RECOMMENDATION: Staff recommends that City Council adopt the proposed policy.

ATTACHMENT
Resolution

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, the City of San Rafael has operated for several years with an informal General Fund reserve policy, and now desires to establish a formal policy; and

WHEREAS, since the passage of the Measure E Transactions and Use Tax, the City Council wishes to formalize its assignment of and authorize the disposition of a specified portion of those funds; and

WHEREAS, the proposed General Fund Reserve Policy has been reviewed by the City Council Finance Committee which has requested that staff bring this policy to the full City Council for discussion, consideration and approval; and

WHEREAS, the City Council has reviewed and considered the proposed 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 General Fund Reserve Policy that is attached hereto as Exhibit A

I, ESTHER C. BEIRNE, 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 Council of said City on Monday, the 3rd of November 2014, by the following vote, to wit:

AYES: COUNCILMEMBERS:

NOES: COUNCILMEMBERS:

ABSENT: COUNCILMEMBERS:

ESTHER C. BEIRNE, City Clerk



CITY OF SAN RAFAEL POLICIES AND PROCEDURES

Policy No.	
Subject:	General Fund Reserve Policy
Resolution No.	
Issue Date:	November 3, 2014
Revision Date:	
Prepared By:	Mark Moses, Finance Director
Approval Recommended By:	Nancy Mackle, City Manager
City Council Approval Date:	

PURPOSE

The City's General Fund Reserve Policy documents the City's approach to establishing and maintaining sufficient reserves to ensure the continuity of City operations and service delivery. 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.

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 (10% minimum)

An emergency and cash flow reserve 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.

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

The adequacy of the Emergency and Cash Flow Reserve 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.