



General Fund Reserve Policy

A. **Assignment for Fiscal Stability, Cash Flow and Contingencies.** The City will strive to maintain a minimum unrestricted fund balance of at least 25% of operating expenditures in the General Fund. This represents 90 days of cash flow and is based on the risk assessment methodology for setting reserve levels developed by the Government Finance Officers Association of the United States and Canada in adequately addressing:

- Revenue source stability, local disasters and other financial hardships or downturns in the local or national economy;
- Contingencies for unseen operating or capital needs;
- Unfunded liabilities such as self-insurance, pensions and retiree health obligations;
- Dependency of other funds on the General Fund;
- Institutional changes, such as State budget takeaways and unfunded mandates; and
- Cash flow requirements.

Whenever the City's General Fund unrestricted fund balance falls below this target, the City will strive to restore reserves to this level within five years. As revenues versus expenditures improve, the City will allocate about half to reserve restoration, with the balance available to fund outstanding liabilities, asset replacements, service levels restoration, new operating programs or capital improvement projects.

Circumstances where taking reserves below policy levels would be appropriate include responding to the risks that reserves are intended to mitigate, such as:

- One-time uses in meeting cash flow needs;
- Closing a projected *short-term* revenue-expenditure gap;
- Responding to unexpected expenditure requirements or revenue shortfalls;
- Making investments in human resources, technology, liability reductions, economic development and revenue-base improvements, productivity improvements and other strategies that will strengthen City revenues or reduce future costs; and
- Where a forecast shows an ongoing structural gap, in providing a strategic bridge to the future.

On the other hand, reserves should not be used to fund ongoing costs or projected systemic "gaps." Stated simply, reserves can only be used once, so their use should be restricted to one-time (or short-term) uses.

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In accordance with generally accepted accounting principles, where the unrestricted balance at fiscal year-end meets or is less than this target, the amount will be shown as “assigned” in the City’s audited financial statements.

- B. **Future Capital Project Fund Balance Assignments.** The Council may also assign specific General Fund balance levels for future development of capital projects or other long-term goals that it determines to be in the best interests of the City.
- C. **Other Commitments and Assignments.** In addition to the assignments noted above, unrestricted fund balance levels will be sufficient to meet funding requirements for programs or projects approved in prior years, which are carried forward into the new year; debt service reserve requirements; commitments for encumbrances; and other reserves, commitments or assignments required by contractual obligations, state law or generally accepted accounting principles.

Status: *The City currently has reserves of about 19% of General Fund expenditures. Achieving the 25% target will be a multi-year endeavor.*