

# CITY OF FRESNO

## RESERVE MANAGEMENT ACT



**MARCH 31, 2011**

The following policies are enacted to develop responsible, comprehensive Fund Balance/Reserve management policies for the City of Fresno and to comply with Government Accounting Standards Board Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

## TABLE OF CONTENTS

	Page
Article I	Introduction
	Policy .....4
	Objectives .....4
Article II	Definitions ..... 5-12
Article III	Criteria for Establishing Appropriate Non-Operating Reserve Levels .....13
	Section 1 - Purpose and Priority of Reserve Fund .....13
	Section 2 - Negative Budgetary Event Risk .....13
	Section 3 - Operating Fund Size .....13
	Section 4 - Revenue Streams/Cash Flow Issues .....13
	Section 5 - Elasticity of Revenue.....13
	Section 6 - Discretionary Authority .....14
Article IV	Unassigned Fund Balance Reserve Use and Replenishment .....14
	Section 1 - Unassigned Fund Balance Reserve Structure .....14
	Section 2 - Minimum and Maximum Range .....15
	Section 3 - Use of Unassigned Fund Balance Reserve(s) to Address Structural Imbalance .....15
	Section 4 - Replenishment of Unassigned Fund Balance .....16
Article V	Prioritization Hierarchy of Reserve Funds..... 16
Article VI	Deficit Financing/Fund Balance Reserve Policy .....16
	Section 1 - Transfers Between Funds ..... 16-17
	Section 2 - Negative Balances .....18
	Section 3 - Negative Interest..... 18-19
	Section 4 - Prior Year Spending in Current Fiscal Year .....19
	Section 5 - Reporting .....19
Article VII	Non-Operating General Fund Reserve Policy.....19
	Section 1 - Establishment of Non-Operating General Fund Reserve Accounts .....20
	Section 2 - Limitations of Fund Use .....20
	Section 3 - Committed General Fund Balance Reserve Policy for Economic Uncertainties and Emergencies ..... 20-22
	Section 4 - Committed General Fund Balance Reserve Policy for Contingency Stabilization ..... 22-24
Article VIII	Utility Enterprise Reserve Fund Policy.....24
	Section 1 - Operating Reserve Funds – Water and Wastewater..... 24-25
	Section 2 - Capital Reserve Fund .....25

	Section 3 - Rate Stabilization Reserve Fund.....	25
	Section 4 - Dedicated Reserve for Efficiency and Savings .....	25
	Section 5 - Replenishment of Reserve .....	25-26
Article IX	Development and Resource Management Unassigned Fund Balance Reserve Policy .....	26
Article X	Risk Management Assigned Fund Balance Reserve Policy .....	27
Article XI	Facilities Capital Expenditure Assigned Fund Balance Reserve Policy .....	28
Article XII	Technology Related Assigned Fund Balance Reserve Policy .....	28
	Section 1 - Hardware .....	29
	Section 2 - Software .....	29
Article XIII	ADA Improvement Assigned Fund Balance Reserve Policy .....	30
Article XIV	Committed Pension Stabilization Fund Balance Reserve Policy .....	31
Article XV	The 27 <sup>th</sup> Payroll Period Assigned Fund Balance Reserve .....	31-32
Article XVI	Annual Fund Balance Types - Status Report .....	32
Article XVII	Five Year Reserve Rate Review .....	32
Article XVIII	Deviations From Policy .....	33
Article XIX	Authority To Use Fund Balance .....	33
Article XX	One Year Review .....	33
Article XXI	Effective Date .....	33
Exhibits		
	A. Prioritization Hierarchy of Reserve Funds .....	34
	B. Annual Reserve Status Report .....	35
	C. Calif. Cities General Fund Reserve Policy Comparison .....	36
	D. Cyclical Reserve Index History .....	37
	E. Matrix Summary for all Reserve Funds .....	38
	F. Summary of Fund Types and Funding Requirements .....	39
	G. Utility Enterprise Operating Reserve Fund Balances .....	40

## **ARTICLE I INTRODUCTION**

### **CITY OF FRESNO RESERVE MANAGEMENT POLICIES**

The overall objective of fund balance (reserve) reporting is to isolate that portion of fund balance that is unavailable to support the following period's budget. In many ways, fund balance represents working capital, which can either be used as a liquidity reserve or for spending in future years. A comprehensive fund balance/reserve management policy provides guidelines for the major funds of the City of Fresno and provides a structured approach in setting reserve levels in specifically designated funds.

This fund balance/reserve management policy is intended to guide prudent use of resources to provide for the much needed services to taxpayers and to maintain sound management practices. It is essential that governments maintain adequate levels of fund balance reserve to mitigate risks and provide a back-up for revenue shortfalls.

#### **POLICY**

It is the policy of the City of Fresno to provide for the continuity of City government by planning ahead for recognized economic uncertainties and major expenditures particularly those that are unplanned. To achieve reserve goals the City must minimize the cost of City debt through "pay as you go" policies; by exercising prudent debt and liability management policies and following sound fiscal management policies that prioritize the City's core services. The City will establish various reserve fund balance accounts that will develop funding for emergencies, contingencies, liabilities and planned major capital expenditures. In addition, the City will adopt the provisions of Governmental Accounting Standards Board Statement (GASB) no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

#### **OBJECTIVES**

The purpose of this Fund Balance/Reserve Management Policy is to assist the City in the pursuit of the following equally important objectives:

1. Build adequate reserves which will provide the City the resources necessary for financial stabilization, particularly during times of unforeseen emergencies and economic downturns;

2. Establish sound fiscal reserve policies that will serve as the foundation for ensuring that strong fiscal management policies guide future City decisions;
3. Provide a clear understanding of the goals and objectives of all funds maintained by the City particularly those with constraints or designations making them unavailable for current expenditure, including its unassigned fund balances/;
4. Provide prudent guidelines regarding the establishment, use and replenishment of City unassigned fund balances/reserves;
5. Guide the City in meeting its short-term and long-term obligations;
6. Establish a process for periodic reporting and review of the City's various fund balances (reserves); and
7. Enhance the City's credit ratings received from rating institutions through the establishment of clearly delineated Fund/Reserve policies that promote strong fiscal management.
8. Bring the reserve policies in full compliance with GASB 54 financial reporting requirements.

## **ARTICLE II DEFINITIONS**

### **Assigned Fund Balance**

The Assigned Fund Balance category covers that portion of a fund balance that reflects the City's intended use of resources. Certain funds, designated by the highest level of decision making for the City or by a body such as a finance committee or Council or by an official designated for that purpose (City Manager or Controller), determines that a portion of fund balance would be set-aside during the budget process as a contingency for unanticipated, non-emergency needs that are identified during the fiscal year. Assigned Fund Balances can be further designated and identified for use for a specific purpose, i.e. used for unanticipated expenditures such as a spike in fuel prices or revenue shortfalls caused by an unanticipated economic slowdown.

### **Budget**

A plan of financial operation containing an estimate of proposed expenditures for a given period (usually a fiscal year) and a proposed forecast of revenues (receipts) to cover them. A budget is also a plan that outlines an organization's financial and operational goals and strategies in monetary terms.

**Capital Expenditures** are expenditures creating future benefits. A capital expenditure is incurred when monies are spent either to buy fixed assets or to add to the value of an existing fixed asset with a useful life that extends beyond the fiscal year. In accounting, a capital expenditure is added to an asset account ("capitalized"), thus increasing the asset's basis (the cost or value of an asset). The general rule (even for municipalities) is that if the property acquired has a useful life longer than the /fiscal year, the cost must be capitalized. The capital expenditure costs are then amortized or depreciated over the life of the asset in question.

**Capital Improvement Plan (Program)**, or CIP; the Capital Improvement Plan (CIP) forecasts the City's capital needs over generally a five-year period based on various City-adopted long-range plans, goals and policies. Capital projects are generally large-scale endeavors in terms of cost, size and benefit to the community. The underlying strategy of the CIP is to plan for land acquisition, construction, and major maintenance of public facilities necessary for the safe and efficient provision of services. A critical element of a balanced CIP is the provision of funds to preserve or enhance existing facilities and provide new assets that will aid responsiveness to service needs and community growth.

The goals of the CIP are to:

- Provide a balanced program for capital improvements given reasonable anticipated funding/revenues over a five-year planning period;
- Illustrate unmet capital needs based on projected anticipated funding levels, and;
- Provide a plan for capital improvements which can be used in preparing the capital budget for the coming two fiscal years.

The benefits of the CIP is that it allows for a systematic evaluation of all potential projects at the same time and provides for the ability to stabilize debt as well as consolidate projects providing for reduced borrowing costs.

### **Capital Project**

A long term investment project requiring relatively large sums to acquire, develop, improve, and/or maintain, to the extent that development impact fees are used as funding for CIP programs, they cannot be used for "maintenance" a capital asset (such as land and buildings, including such municipal improvements as streets, sewers, fire stations, and parks) to the extent that development impact fees are used as funding for CIP programs, they cannot be used for "maintenance". A Capital Project is a project that helps maintain or improve a City asset, often called infrastructure. To be included in the Capital Budget, a project must meet ONE of the following requirements criteria:

- It is a new construction, expansion, renovation, or replacement project for an existing facility or facilities. The project must have a total cost of at least \$10,000 over the life of the project. Project costs can include the cost of land, engineering, architectural planning, and contract services needed to complete the project; or

- It is a purchase of major equipment (assets) costing \$50,000 or more with a useful life of at least 10 years, or
- It is a major maintenance or rehabilitation project for existing facilities with a cost of \$10,000 or more and an economic life of at least 10 years.

**Charter Section 1212: Unappropriated Reserve Fund (also referred to as Restricted Fund Balance, but not yet changed in the Charter and/or Code)**

Fresno City Charter Section 1212 established a fund known as the “Unappropriated Reserve Fund” for the purpose of meeting unforeseen contingencies and emergencies of the City for such amount as established by the Council. Said fund shall remain intact except by the affirmative vote of at least five members of the Council with a statement declaring the reason for its use. Though not codified, the applied GASB 54 meaning shall mean the Committed Fund Balance.

**Comprehensive Annual Financial Report (CAFR)**

A Comprehensive Annual Financial Report (CAFR) is a set of government financial statements, which go beyond the minimums set for Annual Financial Reports completed by public sector entities by the National Council on Governmental Accounting (NCGA) Statement 1. The CAFR combines financial information of fund accounting and Enterprise Authority accounting. The Securities and Exchange Commission (SEC) Rule 15c2-12 requires a legal undertaking on the part of municipal dealers and brokers who in turn contractually require government debt issuers to provide certain annual financial information on an ongoing basis. While the SEC does not establish a standardized format for presenting this information, the Government Finance Officers Association (GFOA) has however formally recognized the CAFR as an appropriate document for meeting the disclosure as defined within SEC Rule 15c2-12.

**Council**

Means the legislative body that governs the City of Fresno; the Fresno City Council.

**Dedicated Reserves**

Dedicated Reserves are set aside for specific purposes by the Council during the budget process for non-capital projects or activities that take multiple years to fund. These dedicated reserves are restricted funds that shall only be used for the identified purpose(s). These type of funds can also be used for special one time purchases or major activities that have been approved by the Council.

**Deficit Financing**

Deficit financing refers to government spending in excess of revenues so that a budget deficit is incurred which is generally financed by internal borrowing undertaken to make up for temporary revenue shortfalls. Deficit financing allows local government to smooth tax and rate burdens and offers local government an important fiscal policy tool.

### **Designated Fund Balance**

A designated fund balance account represents assets that the City has set aside, or designated for specific purposes. These purposes have been designated by the City Manager or City Council for purposes described in the financial statements.

### **Emergency Reserves**

Designated funds will maintain an Emergency Reserve that would only be used in qualifying emergencies as declared by the Mayor and approved by a super majority Council vote. The amount of the reserve for the General Fund would be calculated as a percentage of projected General Fund revenues for the subsequent fiscal year. Any incremental dollars needed to be set aside would be built into that budget. For Enterprise and Special Revenue Funds, the reserve amount would be based on a number of days of operation. For Internal Service Funds, the reserve fund would be based upon the needs and nature of the fund.

Emergency Reserves are only to be used in the case of a natural disaster or unforeseen catastrophic events. Emergency Reserves would not be accessed to meet shortfalls or to fund new programs or personnel.

### **Encumbrance**

A liability, contract purchase order, payroll commitment, legal judgment or other payable that is chargeable to an appropriation account and thereby places a hold (reservation) on available cash or cash equivalents. It ceases to be an encumbrance when paid-out or when the actual liability amount is determined and recorded as an expense.

### **Expenditure**

The actual payment of cash or cash equivalent for goods delivered or services rendered, or a charge against available funds in settlement of an obligation as evidenced by an invoice, voucher or other such document during the fiscal year. For governmental reporting purposes, expenditures include expenses or a provision for debt retirement not reported as a liability of the fund from which retired. A revenue expenditure is cash used in payment of goods and services consumed in a short period. A capital expenditure is cash used to purchase fixed assets that last for a year or more.

### **Fiscal Emergency per Executive Order 3-01 and Council Resolution 2004-27**

A fiscal emergency shall be declared by the Mayor and approved by a super majority, five votes of the City Council. Prior to GASB 54 this was classified as "Reserved". Under GASB 54 this would be classified as Committed.

### **Fiscal Year**

A 12 month period to which the annual operating budget applies and the end of which a governmental unit determines its financial position and the results of its operations. The City has specified July 1 through June 30 as its fiscal year.

## Fund

A fund is a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and “residual” equity or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

## Fund Balances

The overall objective of fund balance reporting is to isolate that portion of a fund balance that is unavailable to support the following period’s budget. (see GASB 54 definition below). In general, an unassigned fund balance shall be defined as those amounts that are not restricted, committed, or assigned, and unencumbered of a particular fund at the end of the fiscal year.

## GASB 54 - Fund Balance Reporting and Governmental Fund Type Definitions

The City of Fresno’s CAFR Financial Statements are required to comply with GASB54 beginning with its Fiscal Year End 2011 CAFR going forward. GASB 54 changes and makes clearer, fund balance classifications that can be more consistently applied by clarifying existing governmental fund type definitions.

- The OLD fund balance segregations were **Reserved** and **Unreserved** (delineated further as designated and undesignated).
- Under NEW GASB 54, categories 1 through 3 would be the same as *Reserved* under the old segregation categories, and 4 and 5 would be classified as *Unreserved*. Levels 1 through 5 also represent a hierarchy in most restrictive (1) to least restrictive (5). The new GASB 54 fund balance delineations are as follows:
  1. **Nonspendable Fund Balance** Amounts that are not in a spendable form or are required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form (e.g. Inventories and prepaid amounts). This also includes long-term loan and notes receivable and property held for resale. Applies as well to amounts that must be retained intact legally or contractually.
  2. **Restricted Fund Balance** – Amounts that can be spent only for the specific purposes stipulated. Constraints are placed on the use of resources by external parties (e.g. by creditors, grant providers, contributors) or by laws or regulations (e.g. constitution or legally enforceable language). Restrictions may be changed or lifted only with the consent of the resource provider.
  3. **Committed Fund Balance** – Amounts can only be used for the specific purposes determined by a formal action of the governing body. Constraints on fund balance use are imposed by internal formal action of the government’s highest level of decision-making authority (e.g. City Council and/or City Manager) and can only be removed or changed by taking the same type of action it employed to commit those amounts through legislation, resolution, or ordinance (e.g. funds committed to satisfy contractual obligations). Action to constrain resources must occur prior to year-end; however the amount can be determined in the subsequent period.

4. **Assigned Fund Balance** – Comprises amounts intended to be used for a specific purpose. Intent can be expressed by the governing body or an official delegated the authority by the governing body to make an assignment. For the General Fund, amounts constrained by the government’s intent to use funds for a specific purpose are narrower than the general purposes of the government itself. Amounts reported as assigned should not result in a deficit in unassigned fund balance. Also relates to all governmental funds other than the General Fund, with any remaining positive amounts not classified as nonspendable, restricted or committed.
5. **Unassigned Fund Balance** – Comprises the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. This represents the residual amount of the fund balance that has not been restricted, committed, assigned or encumbered.

**Within this policy document, unless otherwise specifically stated, the meaning of Fund Balance Reserve shall refer to Unassigned Fund Balance, which is a category within Unrestricted Fund Balance which also includes the categories of Committed and Assigned Fund Balances.**

#### **Fiscal Year**

#### **General Fund**

In public sector accounting, the General Fund is the primary or “catch” fund for all revenues of the City that are not otherwise restricted as to their use, including monies from local property and sales tax, and other revenue sources that are not assigned for a specific purpose. The General Fund provides the resources necessary to pay/sustain the day-to-day activities for City services such as police; fire; public works; elected officials; City Manager; City Clerk; parks and recreation, and community services. When governments or administrators talk about “balancing the budget” they typically mean balancing the budget for their general fund.

#### **General Fund Balance Types**

Under GASB 54, General Fund balance types can include: Restricted, Committed, Assigned and Unassigned. (See definitions above).

#### **Government Accounting Standards Board (GASB)**

GASB is the private, nonpartisan, nonprofit organization that works to create and improve the rules U.S. state and local governments follow when accounting for their finances and reporting them to the public. While the GASB does not have the power to enforce compliance with the standards it promulgates, the authority for its standards is recognized under the Rules of Conduct of the AICPA. Also, legislation in many states requires compliance with GASB standards, and governments usually are expected to prepare financial statements in accordance with those standards when they issue bonds or notes or otherwise borrow from public credit markets. The GASB was established in 1984 and is funded by publication sales, contributions from state and local governments, and voluntary assessment fees from municipal bond issues.

**Internal Service Funds**

Funds that are established to account for any activity that provides goods or services to other funds, departments or agencies of the primary government on a cost reimbursement basis.

**Operating Reserves**

An operating reserve is a fund balance set aside to stabilize a government's finances by providing a "rainy day savings account" for unexpected cash flow shortages, expenses or losses. These might be caused by delayed payments, unexpected building repairs, or economic conditions. Reserves should not be used to make up for income shortfalls, unless the organization has a plan to replace the income or reduce expenses in the near-term future. In short, reserves should be used to solve timing problems, not deficit problems. Operating Reserves are used in Enterprise Funds such as water and wastewater and are used in the event of an unanticipated operational calamity that prevents the utility from operating in its normal course of business. Access to this fund is restricted to emergency situations and must be replenished no later than the next fiscal year.

**Rate Stabilization Reserves**

The Rate Stabilization Reserves are designed as a source of funds to mitigate future rate increases in Enterprise Funds such as water and wastewater funds. These reserve funds are to be used exclusively for the operation and maintenance of the water and wastewater systems. Depending upon the authority that set aside these funds, statute, ordinance, constitution or contract, the funds generally will be classified as Restricted or Committed.

**Revenue**

The income of a government from all sources appropriated for the payment of the public expenses. It includes such items as tax payments, fees from specific services, receipts from other governments, fines, forfeitures, grants, shared revenues and interest income.

**Structural Budget Deficit**

A budget deficit that results from a fundamental imbalance whereby current year governmental expenditures exceed current year revenues without any consideration of carryover or prior year unspent revenue balances if they exist. A structural deficit remains across the operating fiscal cycle because the general level of government spending is too high for the prevailing revenue structure (e.g., taxes, fees and other sources). A fiscal gap, is a structural budget deficit over an extended period of time and not only includes the structural deficit at a given point in time but also the difference between promised future government commitments, such as health and retirement spending, and future planned or anticipated tax and other revenues. Another description is that the current revenue structure is insufficient to maintain services as the current level.

**Surplus**

A surplus is defined as the difference between the actual beginning fund balance and the budgeted beginning fund balance. It consists of under-expenditures and excess revenues over and above the amounts included in the approved budget. (See Unassigned Fund Balance)

**Working Capital (Enterprise Funds)**

Working Capital, for Enterprise Fund purposes, is defined as current assets (cash or equity in pooled cash and liquid investments and receivables less than 60 days) minus current liabilities (payables) and encumbrances and other restrictions. Working Capital does not include long-term assets such as some longer term investments, loans, receivable, fixed assets, inventory, and equipment.

## **ARTICLE III CRITERIA FOR ESTABLISHING APPROPRIATE FUND BALANCE RESERVE LEVELS**

There are key elements that must be reviewed and analyzed to determine the appropriate size of a given fund balance reserve. Failure to follow the guidelines established in this policy can result in developing unattainable fund reserve goals or unsustainable fund balance reserve levels. The following criteria shall be used in determining the appropriate fund balance reserve levels:

### **Section 1. Purpose and Priority of Fund Balance Reserves**

Several fund balance reserves will be established by this Act. One major consideration will be the purpose and priority of the fund balance type. Establishing a Reserve Fund for the general fund will have a much greater impact on City operations than a Reserve Fund established for worker's compensation claims or risk management claims.

### **Section 2. Operating Fund Size**

The overall size of the fund's budgetary events should be taken into consideration in setting the required fund balance reserve level and type for a particular fund. As a rule of thumb, the smaller the fund size, the greater the appropriate fund balance reserve level as a percentage of the budgeted expenditures.

### **Section 3. Negative Budgetary Event Risk**

The relative risk of a negative budgetary event should be taken into consideration in setting the required fund balance reserve level for a fund. The greater the likelihood that external events can negatively impact a significant percentage of the fund's budget, the greater the need for fund balance reserve levels that can absorb such a financial shock.

### **Section 4. Revenue Streams/Cash Flow Issues**

The stability of a revenue stream and the timing of cash flows related to major revenues can have a significant impact on maintaining recommended minimum fund balance levels. The analysis that must be performed includes 1) a review and complete understanding of the timing of the receipt of the funds (e.g. monthly, quarterly or semi annually); and 2) whether the revenue collection is evenly spread throughout the fiscal year or is subject to cyclical variations. A fund balance that has seasonal revenue impacts or fewer payment periods during a fiscal year may require a greater fund balance reserve level.

### **Section 5. Elasticity of Revenues**

Changes, increases or decreases in economic growth result in elasticity for certain revenue sources. Revenues that fluctuate with the growth or retraction of the economy are elastic revenues. Elastic revenues would include sales tax, franchise fees, property taxes and utility rates. Inelastic revenues are revenues that remain flat or are not as materially impacted by changes in the economy and would include fines and other

similar type fees outlined in the Master Fee Schedule. The greater the percentage of elastic revenues included in a fund, the greater the need for a fund balance reserve.

### **Section 6. Discretionary Authority**

Discretionary authority refers to the power or ability to make a decision where the choice of whether or not to make a decision is that of the decision maker. For purposes of this policy it is the ability of the governing body to quickly adjust particular revenue. Revenues that can be changed or modified by the action of the Council and can be implemented within a short period are highly discretionary. Revenues that are not discretionary include sales taxes (rate is set by state) and state shared revenue. Between those two extremes are revenues that have a moderate degree of discretion that allows for changes but only at certain times or under certain restrictions (notice requirements).

## **ARTICLE IV [UNASSIGNED] FUND BALANCE RESERVE; USE AND REPLENISHMENT**

In addition to establishing and reviewing criteria for creating unassigned fund balance reserve levels, policies must be developed to determine the appropriate minimum and maximum reserve range levels; the criteria for the appropriate use of fund balance reserves particularly when addressing structural imbalances and the process necessary to replenish the fund balance reserves when used.

In developing an appropriate level of fund balance reserve, it is critical that adequate levels be maintained to mitigate current and future risks (revenue shortfalls and unanticipated expenditures) and to ensure continuation of core City services. Fund balance reserve levels are a crucial consideration in developing long-term financial plans.

### **Section 1. Unassigned Fund Balance Reserve Range Structure**

For the General Fund, unassigned fund balance reserve ranges are established during the budgetary process based upon a percentage of the upcoming fiscal year's budgeted revenues or several months of expenditures to allow for stability over time. This set amount may require modification to allow for additional fund balance reserve levels as budgeted revenues decrease or expenditures increase or other economic risks become known. The Government Finance Officers Association (GFOA) best practices recommend at a minimum that governments maintain in their General Fund reserve no less than two months of regular general fund operating revenues or two months of regular general fund operating expenditures.

For Enterprise Funds, unassigned operating fund balance reserves are essential to maintain adequate levels of working capital to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to ensure stable services and fees. Working capital is a crucial consideration, too, in long-term financial planning. Credit rating agencies consider the availability of working capital in their evaluations of continued creditworthiness. Likewise, laws and regulations may speak to appropriate

levels of working capital for some enterprise funds. GFOA recommends that under no circumstances should the target for working capital be less than 45 days worth of annual operating expenses and other working capital needs of the enterprise fund. A target of 45 days would only be appropriate for those enterprise funds with the least amount of need for a cushion or buffer. Governments should start with a baseline of 90 days worth of working capital and then adjust the target based on the particular characteristics of the enterprise fund in question (using 45 days as the minimum acceptable level).

In most cases, discussions regarding Fund Balance Reserves properly focus on the General Fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance reserves. Several of these are addressed later in this policy document. The next several sections below, establish generic guidelines to be followed when evaluating the appropriate level for a fund balance reserve.

### **Section 2. Minimum and Maximum Fund Balance Reserve Levels**

The unassigned fund balance reserve range should be set such that the unassigned fund balance reserve at the maximum end of the spectrum can withstand at least three negative budgetary events without falling below the set minimum. The goal of this policy is to maintain reserves at or near the maximum end of the range. If the unassigned fund balance reserve falls below 75% of the maximum, action will be required to increase the unassigned fund balance reserve to at least 75% over an agreed upon specified number of years. If the unassigned fund balance reserve falls below 50% of the range, a more aggressive plan will need to be implemented to return the unassigned fund balance reserve to a range between 75% and 100% of the maximum within a specified period of time.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance, primarily in a government's general fund to evaluate the government's creditworthiness. These agencies are likely to favor increased levels of fund balance and will need to be taken into consideration when setting fund balance reserve levels.

### **Section 3. Use of Unassigned Fund Balance Reserves(s) to Address Structural Imbalance**

When an imbalance exists between budgeted revenues and budgeted expenditures it is important that the unassigned fund balances are carefully accessed and utilized cautiously and judiciously, since the unassigned fund balances are a one-time non-recurring funding source. Reserves are built up over a period of years and any withdrawals from the unassigned fund balances should be done so in carefully measured amounts. In order to maintain prudent fiscal management, any budgetary structural imbalance must be addressed promptly. If an imbalance occurs, a multi-year plan shall be developed to address the imbalance concurrently with the planned reserve drawdown. At the same time, the implementation of a replenishment plan will be developed in accordance with the guidelines set forth below. A planned draw down of the unassigned fund balance should not exceed 3% of the budgeted revenues and

should not reduce the reserve below the midpoint of the established range with the exception of a fiscal emergencies as determined by the Mayor and approved by a super majority vote of the Council.

#### **Section 4. Replenishment of Unassigned Fund Balance**

The following criteria will be employed to restore unassigned fund balance reserves and will be based upon the comparison of the remaining unassigned fund balance reserve to the respective maximum unassigned fund balance reserve guideline:

1. If the unassigned fund balance reserve is drawn down below the minimum of the established range for the fund, then the plan to replenish the fund to at least the minimum shall be structured over a period not to exceed one to three year period.
2. If the unassigned fund balance reserve is drawn down below the 50% of the range, the budgetary plan to restore the reserve shall be structured over a period not to exceed three to five year period; and
3. If the unassigned fund balance reserve is drawn down below 75% of the maximum of the range, then the budgetary plan to restore the reserve to a level between 75% to 100% of the maximum over a five to seven year period;

### **ARTICLE V PRIORITIZATION HIERARCHY OF FUND BALANCE RESERVE FUNDS**

It shall be the policy of the City to maintain a prioritization hierarchy of fund balance reserve types. Each fund balance reserve type shall be ranked on a scale of 1 through 10 with 1 being the highest funding priority and 10 being the lowest funding priority. The purpose of the prioritization “hierarchy” is to establish the level of importance related to which fund balance type is assigned more importance as it relates to the City in delivering its core services. In difficult financial times, it may be impossible to fund or maintain all fund balance types to the level described in this Act. Prioritization of fund balance reserve funding and replenishment shall be based upon the fund balance type’s strategic importance and its overall impact on core City operations. Decisions to reduce funding for specific fund balance reserve types shall be based upon this list.

The adoption of this Act shall set forth the initial prioritization hierarchy list included as Exhibit ‘A’ in this document. It shall require a simple majority vote to revise and change the fund balance reserve type priority ranking.

## ARTICLE VI DEFICIT FINANCING/FUND BALANCE RESERVE POLICY

### **Background**

It is a common practice for cities to utilize investment pool funds to borrow internally in order to cover short-term needs in lieu of issuing debt to resolve short-term cash flow imbalances. Sometimes an individual fund will overdraw its share of the pooled cash due to timing differences in the receipt of revenues that may occur (i.e. grant funds). The City Investment Policy, approved every year by the Council, provides detailed investment guidelines for the investment pool funds. Article IV, Section N) of the Taxpayer Protection Act, approved by the Council in 2009, addresses short term borrowing which exceeds two years. It requires that any borrowing between two City funds that have a repayment period extending longer than one year will require a written and signed loan agreement between the funds. The maximum repayment term under the Investment Policy is five years.

Over the past ten years, it has become the practice of the City to become over reliant upon internal borrowing from the investment pool to resolve long-term structural cash flow problems. The practice of using investment pool funds as a solution for long-term budgetary issues endangers the General Fund and is a bad fiscal policy. As of 6-30-10, the City deficit fund balance including several departments (i.e. Parking Enterprise, Parcs, DARM, etc.) balance was approximately \$35 million. **It shall be the policy of the City to place its highest priority in bringing all individual investment pool funds positive before the end of each fiscal year.**

It shall be the policy of the City to enact the following policies regarding transfers between funds (internal borrowings) and negative balances:

### **Section 1. Transfers Between Funds**

1. To alleviate funding deficits, only the General Fund will be allowed to transfer funds to any other fund in the City. No other fund (excluding the General Fund) shall transfer funds to any other fund of the City. The only exception to this policy shall be when formal loan agreements, prepared by the City Manager, which document the loaning of funds between operating funds are brought to Council and (including UGM Funds) may be approved by a majority vote of the Council. This section is not intended to prevent the various transfers that are planned, budgeted and approved by the Council during the normal budget process and/or course of operations.
2. Throughout the year, it is anticipated and expected that certain funds will become negative as a result of timing differences in the receipt of other governmental and/or grant related reimbursements or as a result of their

budgeted expenditures exceeding their revenues. In these instances, the following will apply:

- a) For non-grant funds: If expenditures exceed revenues by 10% the Controller is authorized to immediately suspend expenditures from that fund until such time as revenue/appropriation adjustments are made. The resolution may include transfers from the General Fund or other legally available and determined funds.
- b) For grant funds: If negative funds occur as a result of the timing of reimbursements that are more than short term in nature (one to two months), the Controller is authorized to suspend expenditures from that fund until revenue/appropriation adjustments are made as necessary. This may include transfers from the General Fund or other legally available and determined funds.

### **Section 2. Negative Balances**

Departments that have grant funding that requires expenditures prior to reimbursement shall be required to, as part of their budgetary process, give appropriate consideration to the need to allocate a portion of their operating revenues toward the required payment of “negative interest” while their cash balance is in an overdraft/negative position.

Annually, as part of the budgetary process, analysis will be made to determine if the “temporary negative balances” are truly temporary or if actual interest bearing notes need to be established, whereby one fund actually “loans” money to another fund. These proposed loans will be presented as part of the budget presentation and will require a majority Council vote for approval. In addition, these loans will be recorded on PeopleSoft, the City’s official books and will reflect the actual movement of monies from one fund to another with the corresponding loan/note payable/receivable reflected as the offset.

### **Section 3. Negative Interest**

Negative interest shall be charged on any and all funds that are negative within any operating fiscal year. Negative interest shall be paid and settled during the current fiscal year or as part of the budget build process for the upcoming year. Negative interest will be settled and paid off prior to any posting of carryover. If negative interest remains going forward into the next operating fiscal year and carryover is insufficient to cover, appropriations shall be adjusted accordingly.

### **Section 4. Prior Year Spending in Current Fiscal Year**

Prior fiscal year expenditures that occur in a current fiscal year will be monitored and discouraged. If the Controller believes that Departments are holding vouchers until

sufficient appropriation authority is restored in a subsequent fiscal year, a downward adjustment to the current fiscal year appropriation may occur.

### **Section 5. Reporting**

The Controller shall provide monthly fund balance reports to the Council for all funds of the City. The reports will also include those funds/programs that have been required to suspend making further expenditures (and are targeted for appropriation reduction) due to the apparent projected trend of revenue to expenditure imbalance that may lead to either an unassigned fund balance below 5% or a negative unassigned fund balance by the end of the fiscal year.

### **Transition Policy**

Due to the current fiscal crisis it will be difficult to achieve policy goals by the end of the current fiscal year. This policy shall be fully implemented effective at the end of the next fiscal year (6-30-12). Negative balances accrued prior to 7-1-11 shall be paid pursuant to a re-payment plan presented by the City Manager and approved by a majority vote of the Council.

### **Priority Ranking: 1**

### **Current Status**

Out of compliance

## **ARTICLE VII COMMITTED GENERAL FUND BALANCE RESERVE POLICIES**

This Act shall amend Executive Order 3-01 and Council Resolution 2004-27 by further expanding and defining funding for Committed General Fund Balance Reserves. The City's current general fund reserve policy is established through Charter Section 1212 (Unappropriated Reserve Fund, *to be renamed Committed General Fund Balance Reserve*). Section 1212 establishes a Restricted (*Committed*) General Fund Balance for the purpose of meeting unforeseen contingencies and emergencies of the City in such amount as established by the Council. It further requires a super majority vote of at least five Council members with a statement declaring the reason for use. Charter Section 1212 does not specify a percentage or amount of the budget to be set aside as a reserve fund. Executive Order 3-01 and Council Resolution 2004-27 further defined the City Reserve Fund Policy (*i.e. Committed General Fund Balance*). This order required the City to establish and maintain a Restricted (Committed) General Fund Balance Reserve in an amount equal to 5% of the Adopted General Fund appropriations at the beginning of each fiscal year.

This Act shall amend Executive Order 3-01 and Council Resolution 2004-27 by creating two different Committed General Fund Reserve Balances – 1) the Committed General Fund Balance Reserve for **Economic Uncertainties and Emergencies**; and 2) the Committed General Fund Balance Reserve for **Contingency Stabilization**.

### **Section 1. Establishment of Non-Operating General Fund Reserve Accounts**

Two separate bank accounts shall be setup by the City: 1) Committed General Fund Balance Reserve Account for Economic Uncertainties and Emergencies and 2) Committed General Fund Balance Reserve Account for Contingency Stabilization. These fund balance reserve accounts shall be segregated completely away from the City Investment Pool funds. Funds from either of these two fund balance reserve accounts: 1) cannot be used as collateral on any real property or other City investments; 2) cannot be loaned or pledged to any other categorical General Fund or Enterprise Fund; and 3) cannot be comingled with any other City fund. A detailed accounting of both funds will be maintained by the Controller to show deposits, withdrawals (when authorized pursuant to policies contained herein) and interest earned (see Exhibit 'B'). All accounting for these funds shall be on a cash basis for PeopleSoft recording purposes. A detailed report, prepared by the Controller, shall be presented annually to the Council per Article XIX (Annual Fund Balance Reserves Status Report).

### **Section 2. Limitations of Fund Use**

Any use of the Committed General Fund Balances shall be used only in cases to support budget imbalances due to revenue declines and shall not be used to augment ongoing budgetary/operating spending increases. These Committed General Fund Balances may be used for one-time non-reoccurring expenditures and/or capital projects (operations and maintenance shall not be included), all as submitted by the City Manager and approved by the Council.

### **Section 3. Committed General Fund Balance Reserve Policy for Economic Uncertainties and Emergencies**

Within this section, the term fund balance or committed fund balance shall only refer to the Committed General Fund Balance Reserve for Economic Uncertainties and Emergencies.

The invocation of this policy is identical to the existing policy: the Mayor has the power to declare a fiscal emergency based upon one of the following: 1) a natural catastrophe; 2) an immediate threat to health and public safety; or 3) a significant decline in General Fund revenues. The fiscal emergency declared by the Mayor must be approved by a super majority of five votes of the City Council.

Council Resolution 2004-27 establishes a restricted fund balance level to be equal to five per cent (5%) of the adopted budget appropriations for the general fund. **This Act amends the committed reserve fund balance level funding from five per cent (5%) to ten per cent (10%) of adopted General Fund appropriations.**

### **Amount of Funds To Be Withdrawn From the Committed Economic Uncertainties and Emergencies Fund Balance Reserve Account**

The amount of funds to be withdrawn from this committed fund balance reserve shall be determined by the City Manager. In his/her presentation to the Council, the City Manager shall include a detailed list of how the funds will be applied in the General

Fund. A super majority vote of the Council shall be required to approve the amount and use of funds.

### **Transition Policy**

Due to the current economic conditions, the implementation of this policy shall be based on the following criteria:

1. The General Fund contraction must have ended as demonstrated by an increase of at least 3% in General Fund revenues;
2. There must be four consecutive quarters of stabilized and/or increasing General Fund primary revenues (i.e. sales tax, property tax, etc.) and
3. Proper funding has been restored to City core services as measured by such factors as fire department response times and emergency 911 response times; crime statistics; adequate funding of public works and City parks; and our overall delivery of core services. No single item shall determine restoration but rather a culmination of many factors.
4. The final determination to initiate funding of this Committed General Fund Reserve Fund Balance shall be based upon consideration of the above factors and the recommendation of the City Manager and a majority vote of the Council.

### **Committed Fund Balance Reserve Replenishment**

The Committed General Fund Balance Reserve for Economic Uncertainties and Emergencies shall be restored pursuant to the guidelines delineated in Article IV of this Act.

### **Committed Fund Balance Reserve Phased Sizing**

Upon meeting the above defined criteria, the Committed General Fund Balance Reserve for Economic Uncertainties and Emergencies shall be implemented as follows:

The committed fund balance reserve shall be built up at a rate of one half per-cent (1/2 %) to one per-cent (1%) of the adopted General Fund budgeted revenues, per year, as determined by the City Manager. In the event, the adopted General Fund budgeted revenues decline by more than five percent (5%) from the previous year, the committed fund balance reserve shall remain static with no adjustments.

### **Priority Funding Ranking: 1**

The Committed General Fund Balance Reserve for Economic Uncertainties and Emergencies shall be 50% funded (5% of General Fund appropriations) per the policies contained herein prior to implementation of funding the Committed General Fund Balance Reserve for Contingency Stabilization.

**Priority Spending Ranking: 2**

The Committed General Fund Balance Reserve for Economic Uncertainties and Emergencies shall not be used or drawn upon until the Committed General Fund Balance Reserve for Contingency Stabilization has been fully expended.

**Current Status**

Out of compliance

**Section 4. Committed General Fund Balance Reserve Policy for Contingency Stabilization**

Within this section, the term fund balance or committed fund balance shall only refer to the Committed General Fund Balance Reserve for Contingency Stabilization.

This committed fund balance reserve is setup to provide for unanticipated operating expenses or revenue shortfalls adversely affecting City services and programs which were provided for and approved in the current fiscal year's budget. This restricted fund balance shall serve as the source of funding for impacted City services/programs or to transition expenditure growth to match slower revenue growth during the course of a recessionary cycle. This committed fund balance reserve is limited for use under currently budgeted operations and cannot be used to fund new programs or new positions added outside of the current fiscal year budget. It is designed as "bridge financing" necessary to offset slower revenue growth during a recession.

This committed fund balance reserve shall be established at five per-cent (5%) of the adopted General Fund appropriations. A simple majority vote of the City Council shall approve the use of these funds.

The activation or trigger for usage of this reserve fund shall be based upon City revenue indexes that include the following:

1. Sales tax growth rate
2. Property tax growth rate
3. Property tax delinquent rate
4. Motor Vehicle In Lieu growth rate
5. Business tax growth rate
6. Room tax (TOT) growth rate
7. City of Fresno unemployment rate

Basic revenues are defined as the sum of General Fund sales tax, property tax, motor vehicle in lieu fees, business tax, and room tax. There are two conditions that could activate usage of this committed fund balance reserve: 1) When basic revenue growth falls below 5% of the previous quarter (s) for at least two consecutive quarters or the financial forecast for the next fiscal year estimates basic revenue growth to fall at least

5% annually; and 2) one or more of the following conditions occur in conjunction with the declining basic revenue growth:

1. The property tax delinquency rate exceeds 10%
2. The City of Fresno unemployment rate exceeds 10% for at least two consecutive quarters.

Please see Exhibit 'D' for historical data on basic revenues for the City of Fresno General Fund as well as data related to property tax delinquencies and the unemployment rates.

### **Amount of Funds To Be Withdrawn From the Committed Contingency Stabilization Fund Balance Reserve Account**

The amount of funds to be withdrawn from this committed fund balance shall be determined by the City Manager. In his/her presentation to the Council, the City Manager shall include a detailed list of how and where the funds will be applied in the General Fund. A simple majority vote of the Council shall be required to approve the amount and use of the funds.

### **Transition Policy**

Due to the current economic conditions, the implementation of this policy shall be based upon the following criteria:

1. The General fund contraction must have ended as demonstrated by an increase of at least 3% in General Fund revenues;
2. There must be four consecutive quarter of stabilized and/or increases in General Fund primary revenues (i. e. Sales taxes, Property Taxes, etc.); and
3. Proper funding has been restored to City core services as measured by such factors as fire department response time; emergency 911 response time; crime statistics; adequate funding for public works and parks; and our overall delivery of core services. No single item shall determine restoration but rather a culmination of many factors; and
4. The final determination to initiate funding of this Committed General Fund Reserve Fund Balance shall be based upon consideration of the above factors and the recommendation of the City Manager and a majority vote of the Council.

### **Committed Fund Balance Reserve Replenishment**

The Committed General Fund Balance Reserve for Contingency Stabilization shall be restored pursuant to the guidelines delineated in Article IV of this Act.

### **Committed Fund Balance Reserve Phased Sizing**

Upon meeting the above defined criteria, the Committed General Fund Balance Reserve for Economic Uncertainties and Emergencies shall be implemented as follows:

This committed fund balance reserve shall be built up at a rate of one half per-cent (1/2%) to one per cent (1%) of the adopted General Fund budgeted revenues, per year, as determined by the City Manager. In the event, the adopted General Fund budgeted revenues decline by more than five percent (5%) from the previous year or the Committed General Fund Balance Reserve for Economic Uncertainties and Emergencies cannot be replenished at the prescribed rate, this committed fund balance reserve shall remain static with no adjustments.

**Priority Funding Ranking: 2**

The Committed General Fund Balance Reserve for Contingency Stabilization shall not be funded until the Committed General Fund Balance for Economic Uncertainties and Emergencies has reached at least 50% of its capacity (5% of General Fund appropriations).

be fully funded per the policies contained herein following the implementation of funding the Committed General Fund Balance Reserve for Economic Uncertainties and Emergencies.

**Priority Spending Ranking: 1**

The Committed General Fund Balance Reserve for Contingency Stabilization shall be fully expended before any spending can be done from the Committed General Fund Balance Reserve for Economic Uncertainties and Emergencies.

**Current Status**

Out of compliance

**ARTICLE VIII  
UTILITY ENTERPRISE FUND BALANCE RESERVE POLICY**

The delivery of water, wastewater, community sanitation and solid waste services are accounted for in Enterprise Funds. These “business-type activities” are operated in a manner similar to businesses in the private sector and are primarily funded through user fees and charges. All costs related to providing these services, including direct and indirect operating costs, capital improvements and depreciation are supported by their own rates (user charges) and shall not be subsidized by the General Fund.

It shall be the policy of the City to establish reserve fund guiding principles for water, wastewater, community sanitation and solid waste services and to maintain rate stabilization accounts as part of the reserve policies.

**Section 1. Operating Reserve Funds – Water and Wastewater**

Each utility operating reserve fund is to be used for unanticipated events that impair the ability of the City to provide specific utility services in its normal course of business. The methodology to establish these reserve funds shall be based upon the annual adopted

operating budget for each fund which represents the amount necessary to provide for a specified number of days of operations in the event of a major disruption to revenues. Because reserves will be funded through user fees which are considered Proposition 218 fees, the amount of the reserve will be within industry standards for similar type operations and be within amounts necessary to resolve normal capital improvement requirements that may arise outside of typical maintenance projections.

The use of these reserve funds shall be restricted to emergency situations resulting from the loss of revenues and must be replenished before the end of each fiscal year. The Director of Public Utilities, with the approval of the City Manager shall establish the specific reserve balance for each fund and the appropriate base days of operations that will be funded in reserve. A separate reserve balance and base days of days of operations will be established for both water and wastewater (See Exhibit 'F' for sample illustration)

### **Section 2. Capital Reserve Fund**

A Capital Reserve Fund is a fund used to accumulate a set amount of excess revenues for the purpose of financing certain capital improvements on a pay-as-you-go basis when the improvement has a fairly short life expectancy or the use of bond financing is not cost effect. Major long-term capital infrastructure projects may be financed through enterprise bonds. Small, unanticipated capital projects may also be financed through the capital reserve fund. The Director of Public Utilities, with the approval of the City Manager, shall determine an appropriate "contribution" to the capital reserve fund each year and identify it as part of the Capital Improvement Budget (CIP). This reserve would also be subject to the guidelines of Proposition 218.

### **Section 3. Rate Stabilization Reserve Fund**

The purpose of the Rate Stabilization Reserve is to maintain a prescribed stable balance in reserve as a means to mitigate future rate increases and wastewater rates to customers and to be consistent with bond covenants. The Director of Public Utilities, with the approval of the City Manager shall establish the Rate Stabilization Reserve amounts for Water and Wastewater. The following restrictions shall apply to this reserve account: 1) only current system excess revenues may be deposited into these accounts; and 2) use of these funds is limited to only operations and maintenance related expenses and not capital improvements.

### **Section 4. Dedicated Reserve Fund resulting from Efficiencies and Savings**

The purpose of this fund is to protect and preserve savings (all excess net income after funding the reserve) found in cost reductions and increased efficiencies of operations and maintenance and savings in Capital Improvement Projects. At the end of each fiscal year, any savings not required for compliance with established reserve policies will be transferred into this reserve. At the end of a period of time established by the Director of Public Utilities, with the approval of the City Manager, funds accumulated in this reserve that are not used for capital improvements may be used to reduce future rates for water and wastewater.

### **Section 5. Replenishment of Reserves**

The Director of Public Utilities, with the approval of the City Manager, shall establish a replenishment schedule pursuant to the guidelines provided in this Act.

**Priority Funding: 3**

#### **Current Status**

In compliance

## **ARTICLE IX DEVELOPMENT AND RESOURCE MANAGEMENT UNASSIGNED FUND BALANCE RESERVE POLICY**

The Development and Resource Management (DARM) department is currently an enterprise department. The department funding is meant to be self-sustaining based upon user fees charged for development services provided. Due to the cyclical nature of the construction industry, DARM must develop an Assigned fund balance reserve in order to accumulate sufficient funds to support operations during periods of slow economic activity.

Most cities operate their development departments as a part of the General Fund. Charging fees to sustain the operations of the DARM department can be considered an inherent conflict of interest. It shall be the policy of the City to change the structure/status of DARM from that of an Enterprise Department to an additional function under the General Fund, and thus become subject to fund balance reserve policies set out in Article IV of this Act.

#### **Transition Policy**

Over the past four years, DARM's unassigned fund balance has dropped nearly \$14 million to that it now has a deficit balance of approximately \$3.5 million. For the past two years, the General Fund has had to subsidize DARM. With the department transitioning to General Fund status the General Fund will have to absorb the deficit. **Effective 7-1-12, DARM shall transition from an Enterprise Department to a General Fund Department.**

**Priority Funding Ranking: N/A**

#### **Current Status**

N/A

**ARTICLE X**  
**RISK MANAGEMENT ASSIGNED FUND BALANCE RESERVE POLICY**

The City shall maintain a dedicated assigned fund balance reserve fund for Liability Claims, Property Claims and Workers Compensation claims within the Risk Management Fund. The Risk Manager, in consultation with the City Manager, shall develop an appropriate estimated reserve balance based upon historical trends and potential pending claims against the City. This proposed balance shall be provided to the City Council for consideration.

The reserve fund should equal the initial self-insured amount of \$3,000,000 and the City will continue to fund a contingency reserve in an amount equal to 100% of the self-insured retention. The City maintains two layers of excess liability insurance, a first layer in the amount of \$10 million per the City's occurrence and aggregate and a second layer in the amount of \$15 million per occurrence and aggregate, for a grand total of \$25 million per occurrence and aggregate. The limits of liability for excess liability insurance shall be reviewed annually.

The Property Claims assigned fund balance will include the deductible amount for claims in an amount equal to 500% of the policy deductible. The policy deductible is currently \$25,000. The City maintains property insurance with values presently insured at \$1.39 billion. The insured values for property insurance shall be reviewed annually.

The Workers Compensation Claims assigned fund balance will include the self-insured amount for claims in an amount equal to 100% of the self-insured retention. The current self-insured retention is \$2,000,000. The City maintains excess Workers Compensation insurance to fund its statutory liability.

**Reserve Fund Replenishment**

Claims paid from the Risk Management self-insured assigned fund balances shall be replenished the following fiscal year in an amount to bring the fund up to a minimum of 75% of the recommended self-insured fund balance.

**Transition Policy**

The initial Risk Management self-insured assigned fund balances shall be \$3 million for the liability assigned fund balance, \$25,000 for the property claims assigned fund balance and \$2 million for the Workers Compensation claims assigned fund balance. These self-insured fund balances shall be adjusted annually pursuant guidelines specified in this article.

**Priority Funding Ranking: 4**

**Current Status**

Out of compliance

**ARTICLE XI**  
**FACILITIES CAPITAL EXPENDITURE ASSIGNED FUND BALANCE RESERVE**  
**POLICY**

It shall be the policy of the City to pre-fund anticipated capital needs for General Fund Departments by establishing dedicated assigned fund balance reserves to be funded through annual appropriations within the budgets of each of the respective departments. The City Controller, with the approval of the City Manager, shall estimate the useful life of City buildings plus an amount for major capital components (i.e. roofs, HVAC) during the useful life of the facility and recommend appropriations in each departments budget necessary to fund, over time, each departments share of constructing a replacement facility or modernizing a current building.

It shall be the policy of the City to establish an amount of one per-cent (1%) of General Fund appropriations to be used exclusively for capital items described within this Article.

This policy is primarily intended for facility capital repairs. Planning for new City facilities (i.e. fire stations), using bond financing should follow the guidelines established in the Taxpayer Protection Act.

**Reserve Fund Replenishment**

Funds shall be replenished per Article IV of this Act.

**Reserve Fund Phased Sizing**

This assigned fund balance shall be built up at a rate of one-quarter percent (1/4%) to one-half percent (1/2%) per year of approved General Fund revenues, per year, as determined by the City Manager.

**Transition Policy**

To be phased in based upon four consecutive quarters of stabilized/increased General Fund primary revenues and City Managers recommendation to Council.

**Priority Funding Ranking: 6**

**Current Status**

Out of compliance

**ARTICLE XII**  
**TECHNOLOGY RELATED ASSIGNED FUND BALANCE RESERVE POLICY**

It shall be the policy of the City to pre-fund major anticipated capital needs for Technology replacement and upgrade needs by establishing a dedicated Assigned fund

balance reserve to be funded through annual budget appropriations by user departments.

### **Section 1. Hardware**

The City Controller, in consultation with the City IT Director, and with the approval of the City Manager, shall undertake a comprehensive review of the remaining useful life of all City departments' technology related hardware including computers, servers, printers, scanners, copiers and telephones and make recommendations for establishing annual appropriations to be set aside to fund upgrading and/or replacing equipment. A schedule shall be established for the total cost of replacing and/or upgrading identified equipment within each category of equipment divided by the average estimated useful life of for each respective hardware category to arrive at a yearly budget figure (i.e. total cost of replacing \$1,000,000 worth of citywide servers divided by an average useful life of 5 years would require a \$250,000 budget set aside per year to be shared by user departments).

### **Section 2. Software**

The City Controller, in consultation with the City IT Director, and with the approval of the City Manager, shall undertake a comprehensive review of the remaining useful life of all City departments' software and make recommendations for establishing annual appropriations to be set aside to fund software upgrades, migration costs, proprietary costs, and replacement costs. A schedule shall be established for the total cost of replacing and/or upgrading identified software, divided by the average estimated useful life of all software to arrive at a yearly budget figure (i.e. total cost of replacement and/or upgrade \$90,000 divided by average useful life of 3 years would require a \$30,000 budget set aside per year to be shared by user departments).

It shall be the policy of the City to establish an amount of one per-cent (1%) of General Fund appropriations to be used exclusively for hardware and software items described within this Article.

### **Reserve Fund Replenishment**

Funds shall be replenished per Article IV of this Act.

### **Reserve Fund Phased Sizing**

This assigned fund balance shall be built up at a rate of one-quarter percent (1/4%) to one-half percent (1/2%) per year of approved General Fund revenues, per year, as determined by the City Manager.

### **Transition Policy**

To be phased in based upon four consecutive quarters of stabilized/increased General Fund revenues and City Managers recommendation to Council.

### **Priority Funding Ranking: 8**

**Current Status**  
Out of compliance

**ARTICLE XIII**  
**ADA IMPROVEMENT ASSIGNED FUND BALANCE RESERVE POLICY**

The City Controller, in consultation with the City ADA Coordinator, and with the approval of the City Manager, shall establish an Assigned fund balance reserve policy and shall comprehensively examine the funding necessary for the City to be in compliance with the American Disabilities Act for all City owned or operated facilities. The comprehensive examination shall include a physical inspection of all City properties with experts trained in ADA laws. Upon completion of the physical inspection and examination of costs, the City Controller shall recommend appropriations to bring the City into compliance, over an extended time frame (i.e. 3-5 years), to be included in annual budgets. Once the assigned fund balance reserve is fully funded and all ADA upgrades are complete this assigned fund balance can be retired. As a matter of good policy, maintenance costs for ADA improvements should be budgeted for in future budgets.

**Reserve Fund Replenishment**

Not applicable for this fund. When fully funded, the funds will be used as intended and the fund will be retired.

**Reserve Fund Phased Sizing**

This Assigned fund balance shall be built up at a minimum rate of one fifth (20%), per year, of the estimated total cost to bring all City facilities into compliance, as determined by the City Manager.

**Transition Policy**

To be phased in based upon four consecutive quarters of stabilized/increased General Fund revenues and City Managers recommendation to Council.

**Priority Funding Ranking: 8**

**Current Status**  
Out of compliance

**ARTICLE XIV**  
**COMMITTED PENSION STABILIZATION FUND BALANCE RESERVE POLICY**

The investment return of the City's Pension Trust Fund and the financial and actuarial consequences of labor negotiation agreements (Memorandums of Understanding or MOUs) can have a significant impact on the City's cost to fund the pension system. A change of even one per-cent from the City's pension fund investment return can have a material impact, measured in the millions of dollars, on the City's cost to fund the pension systems. Additionally, when the City has a reduced normal pension contribution rate created from surplus earnings in the pension system, it becomes difficult for the City's Funds, particularly the General Fund to step back into the full pension contribution rate when the surplus earnings no longer exist.

A Committed Pension Stabilization Fund Balance Reserve for periodic transfer to the General Fund and/or Enterprise Fund can help mitigate the risk to the City of being required to step back into a full City normal contribution rate or be used to pre-fund the "turn on" of an unfunded accrued actuarial liability contribution rate. In order to offset the anticipated future cost of funding the City's Pension Trust Fund it shall be the policy of the City to establish a Committed Pension Stabilization Fund Balance Reserve.

**Transition Policy**

There is currently no Committed Pension Stabilization Fund Balance Reserve. If the City's normal pension contribution rate is reduced due to surplus earnings in the City's pension systems, the City will fund the pension stabilization reserve fund in an amount equal to 20 per cent (20%) of the reduction to the City's required normal pension contribution amount to assist the City stepping back into the full contribution rate requirement at a later date. Additionally, if the fund percentage of either City pension system is anticipated to drop below 100 percent on an actuarial basis, the Committed Pension Stabilization Fund Balance Reserve will be funded in the amount of five percent (5%) of the General Fund and/or Enterprise Fund annual normal pension contribution requirement to assist the City in pre-funding for an unfunded pension contribution rate. The replenishment of this committed fund balance shall be pursuant to the guidelines specified in Article IV of this Act.

**Priority Funding Ranking: 5**

**Current Status**

There is currently no reserve

**ARTICLE XV**  
**27<sup>TH</sup> PAYROLL PERIOD ASSIGNED FUND BALANCE RESERVE**

It shall be the policy of the City to pre-fund anticipated 27<sup>th</sup> payroll period needs by the establishment of a dedicated assigned fund balance reserve to be funded through annual budget appropriations.

The City pays its employees on a bi-weekly payroll, equating to 26 payroll periods per year. There are 14 days between each payroll period and in one year a total of 364 days. A normal year has 365 days resulting in the employee payroll one day short. Every four years there is a leap year with 366 days, with the additional day on February 29<sup>th</sup>. Leap years will accrue two additional payroll days. In 11 years, the accrued payroll will be 14 days and add a 27<sup>th</sup> payroll period to the City's employee payroll costs. For Fiscal Year 2012, the 27<sup>th</sup> payroll will cost the City's General Fund approximately \$4,000,000.

### **Transition Policy**

Effective July 1, 2011, the City shall transition from a bi-weekly payroll to a semi-monthly payroll to spread the costs of a 27<sup>th</sup> payroll evenly over 11 years.

**Priority Funding Ranking:** N/A

### **Current Status**

Out of compliance

## **ARTICLE XVI ANNUAL FUND BALANCE TYPES - STATUS REPORT**

Once a year, in August, the City Controller shall present to the Council a comprehensive report on the City's fund balance reserve types as of June 30<sup>th</sup>. The reports shall include an updated fund balance reserve level for each fund balance type. This report shall include the following funds:

1. Committed General Fund Reserve Balance for Economic Uncertainties and Emergencies;
2. Committed General Fund Reserve Balance for Contingency Stabilization;
3. Enterprise Reserve Funds including both self supporting and non self supporting;
4. Assigned Capital Project Fund Reserve Balances; and
5. Assigned and Unassigned Internal Service Funds Reserve Balances.

See exhibit 'B' for sample report.

## **ARTICLE XVII FIVE-YEAR RESERVE RATE REVIEW**

Every five years, during the annual budget hearings, the City Manager, based upon a comprehensive financial and economic review of all City fund balance types and in consultation with the City Controller, City Budget Director and financial consultants as necessary, shall make recommendations to the City Council for either maintaining existing fund balance reserve polices or revising fund balance reserve policies including

percentage ranges established by category herein and replenishment requirements by categories established herein.

**ARTICLE XVIII  
DEVIATIONS FROM POLICY**

No deviations from the fund balance reserve polices set forth in this Act will be allowed except as recommended by the Council and approved by a **super majority** of five votes by the Council. This includes any increase or decrease in the base fund balance reserve levels established by this policy and expenditures from fund balance reserve accounts for anything other than the intended budgeted use of said fund balance.

**ARTICLE XIX  
AUTHORITY TO USE FUND BALANCES**

The City Manager may authorize the use of unassigned fund balance reserves consistent with the intended purposes described herein and an appropriation by Council.

**ARTICLE XX  
ONE-YEAR REVIEW**

One year from the adoption of this Act, the Council shall, at a regularly scheduled meeting review the implementation and observance of this Act and, if necessary, amend the Act to reflect changes as may be necessary or required.

**ARTICLE XXI  
EFFECTIVE DATE**

This resolution shall take effect upon its final adoption by the City Council.

**EXHIBIT 'A'**  
**PRIORITIZATION HIERARCHY OF FUND BALANCE TYPES**

**Priority measured on scale of 1 to 10 with 1 being the highest priority and 10  
being the lowest priority**

<b>Fund Description</b>	<b>Priority Ranking</b>
Deficit Financing/Fund Balances	1
Committed General Fund Balance for Economic Uncertainties & Emergencies	1
Committed General Fund Balance Contingency Stabilization	2
Utility Enterprise Reserve	3
27 <sup>th</sup> Payroll Period Unassigned Fund Balance	4
Risk Management Assigned Fund Balance	4
Committed Pension Stabilization Fund Balance	5
Facilities Capital Expenditure Assigned Fund Balance	6
Technology Related Assigned Fund Balance	8
ADA Improvement Unassigned Fund Balance	8

**EXHIBIT 'B'**  
**ANNUAL FUND BALANCE TYPE STATUS REPORT**  
**(SAMPLE REPORT)**

COMMITTED GENERAL FUND RESERVE FUND BALANCE FOR ECONOMIC  
UNCERTAINTIES & EMERGENCIES

	Adopted Budget <u>FY2015-16</u>	Actual <u>FY2015-16</u>	Audit <u>FY2014-15</u>
Beginning Balance	\$16,500,000	\$15,230,311	\$14,890,201
Transfers - In	\$ 2,000,000	\$ 2,540,000	\$ 2,100,000
Transfers – Out	\$ 0	\$ 0	\$ 0
Interest Income	<u>\$ 120,000</u>	<u>\$ 109,213</u>	<u>\$ 100,477</u>
<b>Ending Fund Balance</b>	<b><u>\$18,620,000</u></b>	<b><u>\$17,879,524</u></b>	<b><u>\$17,090,678</u></b>
Ending Balance as a Percentage of Gen Fund Revenues	7.39%	7.14%	6.60%
Net Gen Fund Revenues	\$252,000,000	\$250,510,445	\$258,900,787
10% Reserve Level	\$ 25,200,000	\$ 25,051,045	\$ 25,890,079
<b>Over (Under)</b>	<b>(\$ 6,580,000)</b>	<b>(\$ 7,171,521)</b>	<b>(\$ 8,799,401)</b>

**EXHIBIT 'C'**  
**CALIFORNIA CITIES GENERAL FUND RESERVE POLICY COMPARISON**

<b>City</b>	<b>Current Reserve Policy</b>	<b>Notes</b>
<b>Fresno</b>	<b>15%</b>	<b>Current policy is 5%, New is 10% &amp; 5%</b>
Clovis	5%	
Visalia	25%	
Modesto	8%	
Bakersfield	7.5%	Not a formal policy
Riverside	15%	
Anaheim	7-10%	
Long Beach	10%	
Los Angeles	5%	Includes two funds
Oakland	7.5%	
San Jose	3%	
San Francisco	12%	Includes three separate funds
Stockton	10%	Includes 5% contingency & 5% emergency
Sacramento	10%	Not a formal policy
San Diego	16%	Includes two funds
Los Angeles	5%	
Gilroy	15%	

**EXHIBIT 'D'**  
**COMMITTED GENERAL FUND BALANCE FOR CONTINGENCY STABILIZATION**  
**INDEX HISTORY**  
**FOR CIY OF FRESNO**  
**(SAMPLE DATA ONLY)**

<u>Basic Revenues</u>		<u>City of Fresno Unemployment Rate</u>	<u>Property Tax Delinquency Rate</u>
Fiscal Year	Growth (%)		
2001	4.5%	9.8%	3.1%
2002	5,5%	9.4%	3.3%
2003	6.6%	8.0%	4.2%
2004	6.9%	7.2%	2.8%
2005	5.5%	7.4%	2.5%
2006	4.3%	8.2%	3.7%
2007	2.4%	8.7%	5.0%
2008	(6.4%)	10.9%	7.6%
2009	(7.0%)	12.8%	10.2%
2010	(3.6%)	12.0%	10.1%

**EXHIBIT 'E'**  
**MATRIX SUMMARY ALL FUND TYPES**  
**(SAMPLE DATA)**

<u>Fund Type</u>	Projected Year End <u>Balance</u>	Reserve Policy <u>Amount</u>	<u>Variance</u>
Committed GF Emergency	\$15,000,000	\$17,500,000	(\$2,500,000)
Committed GF Contingency	\$ 2,000,000	\$10,000,000	(\$8,000,000)
Enterprise	\$25,000,000	\$25,000,000	\$ 0
Deficit Financing	(\$1,500,000)	\$ 0	\$1,500,000
DARM	\$ 1,500,000	\$ 7,500,000	(\$6,000,000)
Risk management	\$ 3,000,000	\$ 3,000,000	\$ 0
Workers comp	\$ 2,000,000	\$ 2,000,000	\$ 0
Long Term Disability	\$ 5,400,000	\$10,400,000	(\$6,000,000)
Facilities Capital Expenditures	\$11,200,000	\$15,000,000	(\$3,800,000)
Technology Reserve	\$ 1,100,000	\$ 1,500,000	(\$ 400,000)
ADA Improvement Reserve	\$ 1,200,000	\$ 1,000,000	(\$ 200,000)

**EXHIBIT 'F'**  
**SUMMARY OF FUND TYPES AND REQUIREMENTS**

<b>Reserve Fund Type</b>	<b>Funding Requirements</b>
Committed GF Reserves	
GF for Economic Uncertainties	10% of GF operating revenues
GF Contingency Stabilization	5% of GF appropriations
Utility Enterprise	
Operating	Bond covenants & Proposition 218
Capital	Bond covenants & Proposition 218
Rate Stabilization	Bond covenants & Proposition 218
Reserve for Efficiency & Savings	Proposition 218 guidelines
DARM Unassigned Fund	To move from Enterprise to GF status
Risk Management Assigned Fund	Based upon self-funded limits
Facilities Capital Assigned Fund	1% of GF appropriations
Technology Assigned Fund	1% of GF appropriations
ADA Unassigned Fund	Based upon ADA facility cost estimates
Committed Pension Stabilization Fund	20% of the reduction to City's required normal pension contribution

**EXHIBIT 'G'**  
**UTILITY ENTERPRISE OPERATING RESERVE FUND**  
**(SAMPLE ONLY)**

**Water Enterprise Operating Reserve Balances**

<u>Fiscal Year</u>	<u>Budgeted Funds</u>	<u>Days of Operations</u>
FY2011	\$ 9.2 million	51
FY2012	\$ 9.8 million	56
FY2013	\$11.2 million	60
FY2014	\$12.0 million	65
FY2015	\$13.5 million	69

**Wastewater Enterprise Operating Reserve Balances**

<u>Fiscal Year</u>	<u>Budgeted Funds</u>	<u>Days of Operations</u>
FY2011	\$ 10.2 million	44
FY2012	\$ 11.8 million	49
FY2013	\$ 13.2 million	56
FY2014	\$ 15.6 million	60
FY2015	\$ 17.0 million	64