



**CITY OF PACIFIC GROVE**  
300 Forest Avenue, Pacific Grove, California 93950

**AGENDA REPORT**

**TO:** Honorable Mayor and Members of City Council

**FROM:** Patty Maitland, Finance Director; and Mark Brodeur, Community and Economic Development Director

**MEETING DATE:** November 19, 2014

**SUBJECT:** Restricting the use of reserves and investing reserves in economic development

**CEQA:** Does not Constitute a "Project" per California Environmental Quality Act (CEQA) Guidelines

**RECOMMENDATION**

1. Direct staff to prepare an analysis of restricting a portion of General Fund reserves, to be presented to Council as an integral component of the budget process.
2. Direct staff to develop a series of economic development strategies for presentation to, and comment from, community groups such as the Chamber of Commerce, Business Improvement District, and the Hospitality Improvement District, and subsequent review by the Economic Development Commission, with recommendations to be presented to Council.

**DISCUSSION**

Over the past five years, the City has minimized its expenditures in order to rebuild the City's reserves, which were depleted during the great recession and its aftermath. Healthy reserves provide for cash flow needs and provide contingencies to address unanticipated events and economic downturns. Over the past five years, the Council has consistently decided that rebuilding the reserves has been of higher priority than restoring all deleted services or reducing revenues.

As of June 30, 2014, the General Fund balance was \$6.9 million. There is no universally recognized target for reserves, as each municipality differs in its vulnerabilities and tolerance of risk. For example, the City of Palos Verde maintains General Fund reserves equal to 50% of annual operating expenditures, a \$3 million capital improvement reserve, an equipment replacement reserve equal to the estimated replacement cost for all equipment assets, sufficient cash to pay cash for needed building improvements, and other monies set aside for specific future needs (Attachment 1). In contrast, the City of Davis maintains a reserve of 15% of discretionary General Fund revenues (i.e., those General Fund revenues not restricted as to use) (Attachment 2).

Staff is not recommending that the Council consider any actions that would significantly reduce reserve levels at this time, for three primary reasons: (1) the risk of a major recession in the next few years, (2) the fiscal forecast's projection that the City's revenue and expenditure curves will cross in FY 2018-19, and (3) the City's substantial and increasing unfunded CalPERS liabilities. Not reducing reserve levels at this time comes at a cost, however, because the City's roads (and selected other City infrastructure) continue to degrade such that maintenance and repair becomes disproportionately more expensive with each passing year. Staff continues to monitor this and will

be providing the Council with additional analysis of this issue during this year's budget deliberations. This analysis will include alternative options for the size of City reserves to be maintained. (The current policy is to retain General Fund reserves of at least 10% of expenditures. This is the minimum standard the City should consider, as it is a requirement of the lease/leaseback arrangement for the Golf Links Clubhouse refinancing recently negotiated with Umpqua Bank.)

There are two additional issues concerning the City's reserves that also merit Council attention:

- ❖ Whether or not to restrict the use of a portion of the reserves; and
- ❖ If so, how to invest those restricted portions of the reserves not needed for cash flow purposes.

The following addresses each issue:

**Restricting some portion of the reserves.** As the reserves continue to grow, there will be increasing pressures to increase expenditures or reduce revenues. Community interests, for example, may request that the Council increase programs and services (e.g., Library hours, homeless services, youth recreation). Similarly, employee groups may seek increased compensation in the bargaining process, as Pacific Grove salaries are below the median of comparable cities. These are legitimate concerns and are legitimate uses of City revenues. However, each use has long-term implications that could put increased pressure on the reserves, reducing the City's range of options in the future, when uncontrollable or unanticipated financial pressures occur. The Council must continue to balance these competing needs in the annual budget process; placing restrictions on the use of some of the reserves can alleviate some of these pressures.

Possible elements of General Fund reserve restriction policies include one or more of the following:

- Restricting the percentage of General Fund revenues that can be budgeted for operational uses.
- Specifying a particular amount of the General Fund reserves to be used to offset CalPERS unfunded liabilities.
- Specifying a particular amount of General Fund reserves to be utilized as a contingency fund in the event of emergencies (e.g., legal judgments, disaster recovery, other one-time occurrences, or an economic downturn).
- Authorizing a set percentage of the General Fund balance for investment purposes (either traditional investment instruments or those geared to community development/investment).

**Rethinking investment options for a portion of the reserves.** The City's current cash is invested in a laddered portfolio, including bank deposits, CDs, and investments in the Local Agency Investment Fund (LAIF). This is a sound investment strategy that is appropriate when reserves are low. However, as reserves increase, there are two effects that result from this approach: low returns; and a relatively low level of investment in our own community.

Low returns. The City's average interest earnings on its entire portfolio in FY 2013-4 was 0.9% (\$82,620 interest earned on \$9.2 million invested). The projected return for the current fiscal year is approximately 0.77% (\$89,000 interest earned on \$13.2 million invested). Both of these are below the anticipated rate of inflation in the costs of City services, as projected by the fiscal forecast. If this holds true, the reserves will have lower purchasing power in the future than they do now. To the extent the reserves are needed to address unfunded pension liabilities, this return is below the rate of return CalPERS is projecting to achieve on its portfolio. (Unfortunately, in another one of

the ways that the CalPERS system serves us poorly, we cannot invest these funds with CalPERS, as CalPERS rules require any investment we make over and above the mandated contribution rate be apportioned among all of the member agencies in our pool.)

Low level of investment in our own community. City funds invested in large banks, in CDs, and in LAIF are re-invested by the receiving agencies, but those investments are not directed at Pacific Grove. Therefore the dollars we place in our reserves are dollars the City is receiving from residents and businesses, but not investing those funds back in the community. The City is, in effect, removing current wealth from the community.

Because of the multiplier effect, investment by the City of \$1 in our community, through well-designed economic development strategies, could have a greater impact than the value of that single dollar. If structured to minimize risk, maintain liquidity, and achieve a greater return than could be achieved by traditional investments, the investment in the Community would benefit both the community and the City's financial health.

The potential return on investment for alternative economic development activities that the City could pursue varies with the type of investments made. For example, a direct financial incentive to attract certain types of businesses performs differently from how downtown streetscape beautification impacts retail sales and job creation. In general, large single-purpose economic development activities tend to be less successful than a series of smaller surgical economic development activities aimed at accomplishing a singular vision for a specific area. Therefore, the economic development activities that will show the highest return on investment for the City would be a series of smaller, targeted activities. Pacific Grove should consider investing in small, strategically planned economic development activities that focus on five metrics including but not limited to:

- Increased retail sales
- Vacancy rates
- New business starts
- Increased commercial rents
- New jobs created

The City could also consider homeowner assistance programs, in addition to the existing sewer loan program. Given the latest predictions on the drought extending for additional years, as well the continued delays in the likely start-up dates for the competing desalination projects, the City could, for example, provide loans to property owners installing cisterns, fog catchers, or other water-savings and water-reuse strategies.

The preceding discussion just introduces these topics for initial Council consideration. If the recommendations are adopted by the Council, staff will take the Council's initial direction and return with more in-depth analyses.

The recommended actions do not constitute a "Project" as that term is defined under the California Environmental Quality Act (CEQA) Guideline Section 15378, as it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment.

## **OPTIONS**

1. Do nothing.

2. Provide alternative direction to staff.

**FISCAL IMPACT**

The recommended actions have no significant direct or indirect impacts.

**ATTACHMENTS**

1. City of Palos Verde Reserve Policy
2. City of Davis Reserve Policy
3. Pacific Grove Budgetary and Financial Policy

**RESPECTFULLY SUBMITTED BY,**

*P.A. Maitland*

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Patty Maitland  
Finance Director

**REVIEWED BY,**

*THOMAS FRUTCHY*

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Thomas Frutchey  
City Manager

*Mark Brodeur*

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Mark Brodeur  
Community and Economic Development Director

## CITY COUNCIL POLICY

**NUMBER:** 41 (Amended)

**DATE ADOPTED/AMENDED:** April 30, 2013

**SUBJECT:** Reserve Policies

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### **POLICY:**

The City utilizes a variety of accounting funds for accounting and budgeting for revenues and expenditures of the City. Appropriations lapse at each fiscal year-end. The City Council authorizes continued appropriations for certain incomplete capital projects, other one-time projects and services which have not been billed. Remaining dollars left in each fund that are undesignated and unencumbered constitute available reserves of the City. It is appropriate that reserve policies for the City be established for each of the various funds, that the purpose of these reserves be designated, and that dollars available in excess of the reserve amounts be appropriately and effectively utilized. This policy governs the City's reserves as follows:

#### **A. General Fund**

The City will maintain a minimum fund balance of at least 50 percent of annual operating expenditures in the General Fund. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:

1. Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
2. Contingencies for unseen operating or capital needs.
3. Cash flow requirements.

#### **B. Capital Improvement Fund**

The City will maintain a minimum of \$3 million in the Capital Improvement Projects (CIP) fund as a reserve for major improvement projects related to roadways, storm drains, parks, buildings, rights-of-way, and the sewer system. Subject to the annual budgeting process, the CIP reserve will be funded, to the extent possible, by allocating the following to the CIP fund:

1. Amounts equal to the annual transient occupancy tax (TOT); and
2. Amounts equal to the prior year General Fund favorable expenditure variance, when applicable.

All interest earnings in this fund will be used for capital improvement projects.

- C. Equipment Replacement Fund**  
The City will maintain retained earnings equal to the estimated replacement cost for equipment assets held by this fund.
- D. Water Quality Flood Protection Fund**  
Project spending in the Water Quality Flood Protection (WQFP) fund fluctuates year to year. The Storm Drain User Fee is a source of funding for these projects. To avoid a fluctuating Fee, the City will maintain retained earnings over the life of the WQFP fee to establish rate stabilization, thereby enabling fund availability for scheduled projects and maintenance.
- E. Building Replacement Fund**  
The City will maintain retained earnings in this fund to accumulate monies and interest earnings to finance major improvements (e.g. roofing), and partially provide for future replacement of City owned buildings.
- F. Utility Undergrounding Fund**  
The City will maintain retained earnings in this fund to accumulate monies for relocating utility poles and lines on City arterial roadways underground, as well as provide residents assistance with the process leading to utility undergrounding in residential areas of the City.
- G. Street Maintenance Fund**  
The City will maintain a minimum of one year's appropriations for road maintenance on Palos Verdes Drive South in the landslide area.
- H. Habitat Restoration Fund**  
The City will maintain a minimum of \$50,000 in this fund as required by the National Communities Conservation Plan (NCCP) for emergency use for habitat restoration purposes in addition to maintaining any interest earnings.
- I. Subregion One Maintenance Fund**  
As part of the development agreement for Subregion One, the developer provided \$750,000 as an endowment to generate interest earnings for future maintenance of the open space area in Subregion One.
- J. Improvement Authority Abalone Cove Fund**  
In connection with the Horan lawsuit, the Redevelopment Agency's Reimbursement and Settlement Agreement with property owners and the County stipulated that \$1,000,000 of County loan proceeds was to be deposited in the Abalone Cove Maintenance Nonexpendable Trust Fund of the Joint Powers Improvement Authority. Interest earnings from this deposit are used to maintain landslide abatement facilities in the Abalone

Cove area of the active landslide, except sewers in accordance with the reimbursement and settlement agreement

Reserve levels will be reviewed annually during the budget process. Any recommended adjustments to reserve levels will be presented to City Council for its consideration during the annual budget process.

**COMMITMENTS AND ASSIGNMENTS OF FUND BALANCE:**

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides the City with a method to self-classify fund balance for financial statement reporting purposes.

**A. Committed Fund Balance**

Fund balance may be committed to specific purposes using its highest level of decision-making authority, the City Council. It is the City Council's policy that commitments of fund balance for a fiscal year must be adopted by resolution prior to fiscal year end. Amounts that have been committed by the City Council cannot be used for any other purpose unless the City Council adopts another resolution to remove or change the constraint.

**B. Assigned Fund Balance**

The General Fund balance may be assigned for amounts the City Council intends to use for a specific purpose. It is the City Council's policy that assignments of fund balance for a fiscal year must be approved by minute-order of the City Council prior to the fiscal year end. Any changes to assignments must also be made by minute-order of the City Council.

It is the City Council's policy to spend classified fund balance in the following order when amounts in more than one classification are available for a particular purpose:

1. Restricted Fund Balance – amounts constrained to specific purpose by their providers through constitutional provisions or enabling legislation. Examples include grants, bond proceeds and pass-through revenue from other levels of government.
2. Committed Fund Balance – amounts constrained to specific purpose by resolution of the City Council.
3. Assigned Fund Balance – amounts in the General Fund which are intended to be used for a specific purpose, expressed by minute-order of the City Council.
4. Unassigned Fund Balance – amounts available for any purpose in the General Fund.

**BACKGROUND:**

Reserves, rainy-day funds, or contingency funds are a prudent fiscal policy and an important credit factor in the analysis of financial analysis and management. Local governments have experienced much volatility in their financial stability due to the economy, natural disasters, terrorist attacks, and actions taken by state government which includes taking revenues from local governments to resolve state budget problems. California cities are at an even greater disadvantage than the rest of the country due to the unique regulations imposed by Proposition 13, and the inability to raise property taxes if the need would arise. Sound financial management includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. Such contingencies include, but are not limited to: cash flow requirements, economic uncertainties including downturns in the local, state or national economy, local emergencies and natural disasters, loss of major revenue sources, unanticipated operating or capital expenditures, uninsured losses, tax refunds, future capital projects, vehicle and equipment replacement, and capital asset and infrastructure repair and replacement. The establishment of prudent financial reserve policies is important to ensure the long-term financial health of the City.

# Appendix B



## GENERAL FUND RESERVE POLICY

**General Fund Reserve Policy**  
*(Resolution No.06-112, June 20, 2006)*

**Purpose**

The City of Davis establishes its General Fund Reserve policy as additional insurance against disasters, emergencies and unforeseen expenditures.

**Reserve Level**

The City Council hereby establishes the following minimum General Fund reserve targets:

- The City shall strive to maintain a General Fund reserve equal to 15% of discretionary General Fund revenues. These funds are set-aside to address potential needs in the following areas:
  - A Reserve for Economic Uncertainty - funds designated to mitigate periodic revenue shortfalls due to downturn in economic cycles, thereby avoiding the need for service-level reductions within the fiscal year.
  - An Emergency Reserve - funds designated to mitigate costs of unforeseeable emergencies and natural disasters.
- The appropriate level of General Fund reserves shall be reviewed every two years.

*For the purpose of this section, discretionary General Fund revenues include all taxes, assessments, fee and miscellaneous revenues that are not restricted as to use.*

**Use of Reserve Funds**

Reserve for Economic Uncertainty – Funds reserved under this category shall be used to mitigate annual revenue shortfalls (actual revenues less than projected revenues) due to slowdown in general economic conditions as well as reductions in revenues caused by actions by State/Federal governments. Should any unanticipated reductions in revenues be deemed to be recurring, adjustments will be made in the following budget so as to reflect revised revenue expectations.

Any reserve funds expended within this category that result in year-end reserves below the established policy level shall be restored in the subsequent budget year. However, if the reserve level falls to below 10%, the Council may restore funds over a multi-year period.

Emergency Reserve - Funds reserved under this category shall be used to mitigate costs associated with unforeseen emergencies, including natural disasters. Should unforeseen and

unavoidable events occur that require expenditure of City resources beyond those provided for in the annual budget, the City Manager shall have the authority to approve appropriation of Emergency Reserve Funds. The City Manager shall then present to the City Council – no later than its first regularly scheduled meeting - a resolution confirming the nature of the emergency and formally authorizing the appropriation of reserve funds.

### **Excess Fund Balance**

At the end of each fiscal year, the Finance Department will report on the audited year-end budgetary fiscal results. Should actual General Fund revenues exceed expenditures and encumbrances, a year-end operating surplus shall be reported. Any year-end operating surplus which results in the General Fund fund balance exceeding the level required by the reserve policy shall be deemed available for allocation for the following, subject to Council approval:

- Transfer to other funds, as appropriate, to offset year-end deficits within those funds,
- Transfer to the Capital Program Fund (Fund TBD) for appropriation within the Capital Improvement Program Budget and/or Deferred Maintenance for non-recurring needs,
- Re-appropriation within the subsequent year's operating budget to provide for one-time, non-recurring needs.

It is the intent of the City Council to limit use of fund balances in the General Fund to address unanticipated one-time needs. Fund Balances shall not be applied to recurring annual operating expenditures.

### **Other Funds**

In conjunction with approving the General Fund Reserve Policy, the City Council expresses its intent to evaluate other Special Revenue, Enterprise and Internal Service funds to establish appropriateness of developing formal fund-specific reserve policies.



**City of Pacific Grove  
Council Policy**

<b>Subject</b>	<b>Policy Number</b>	<b>Effective Date</b>	<b>Page</b>
<b>Budget and Financial Management</b>	<b>400-6</b>	<b>October 1, 2014</b>	<b>Page 1 of 6</b>

**Purpose**

This Budget and Financial Management policy is established to help ensure that the City’s financial resources are managed in a manner that fosters administrative transparency and confidence among the City Council, citizenry, and staff that the City’s resources shall be available to fund ongoing City services, consistent with local economic conditions and the City Council’s service priorities.

**Budget Process**

Budget management occurs year-round, with ongoing City Council direction and public input. In addition to formal updates on the budget and fiscal forecast, staff provides monthly updates on revenues and expenditures.

The City uses a five-year fiscal planning horizon, in which the annual budget is the first year of the forecast. The forecast is a tool that helps decision-makers identify important trends and understand long-term consequences of budget decisions. Importantly, the forecast is not a budget and does not represent a plan. It is a model based on cost and revenue assumptions that is updated continuously. Since the degree of revenue uncertainty increases with each successive year of the forecast (i.e., we can place much more confidence in projections for the first year of the forecast period than for the last, the forecast is a more viable framework for decision-making in the near-term, and only suggests relative financial health based on stated economic assumptions in the later years.

The annual budget process begins in January or February with City Council discussion of goals for the following year. At this meeting, staff presents an update of the current year budget and five-year fiscal forecast, as well as estimates of revenues for the following year and baseline expenditure assumptions. Baseline expenditures include existing staffing levels and other costs required to continue current service levels. At this meeting, the City Council provides direction to staff on the goals for the following budget year and five-year forecast, which include both goals for services and capital projects as well as the amount of additional funding or expenditure reduction required to achieve the goals.

Based on this direction, the City Manager distributes budget instructions and baseline staffing cost information to department managers for developing the budget. Subsequently, the City Manager and Finance Director work with department managers to develop the budget consistent with Council goals.

In March and April, the City Council reviews evolving revenue information and expenditure assumptions and determines the process for City Council consideration of the budget.

The City Manager finalizes the recommended budget and presents it to the City Council in May. After public input and discussion at this meeting, the City Council either directs modifications to the budget or introduces an ordinance adopting the budget. Following the second reading of the ordinance at a subsequent regular City Council meeting, the budget is adopted and effective July 1<sup>st</sup> of the fiscal year.

### **Operating Budget Policies**

- The City Council shall adopt an annual operating budget, pursuant to Article 29 of the City Charter, prior to the start of the fiscal year.
- Staff shall maintain a five-year General Fund fiscal forecast to include revenues, expenditures, as well as the net results of operations and the beginning and ending fund balances for each year of the forecast.
- Revenue projections for a given year shall include a contingency reserve of 1%, either positive or negative, depending on the general direction of the economy. The need for such a contingency can be re-evaluated after January 1 of the budget year.
- Subject to exception for specific circumstances, the City Manager's recommended budget shall include an expenditure contingency in the General Fund equal to 1%, which may only be spent on projects required to advance City Council goals, expressed either explicitly or through the City Council's work plan.
- The operating budget shall include ongoing operating revenues sufficient to fund ongoing operating expenditures. Fund balance may be used as a resource to fund operations, with City Council acknowledgement of such use and a plan for re-establishing operations within annual anticipated revenues.
- The budget shall also include capital expenditures; where possible, such capital expenditure will be funded with non-recurring revenues or grants.
- The budget shall provide for adequate maintenance and the orderly replacement of fixed assets and equipment.
- Each October, staff shall present a report to the City Council estimating the year-end results for the preceding fiscal year. This report shall compare unaudited actual figures with budgeted and the most recently estimated actual figures.
- Appropriations are approved at the fund level, and in the case of the General Fund, at the department or program level. All amendments to the budget at these levels may be approved only by the City Council.
- For budget purposes, programs and departments are defined as follows:
  - City Council
  - Legal Services
  - City Manager/Human Resources/City Clerk
  - Finance and Information Systems
  - Community and Economic Development
  - Police and Disaster Preparedness
  - Fire and Emergency Medical Services
  - Library
  - Museum
  - Recreation
  - Golf
  - Public Works

The City Manager shall have authority to transfer funds within a given fund and department to ensure that programmatic budgets may adapt throughout the year to

evolving circumstances. These changes shall have no negative effect on the given fund or the General Fund.

### **Capital Projects**

The City shall adopt a five-year capital improvement and maintenance plan, with the first year of the plan to be appropriated as part of the operating budget. The purpose of the plan is to identify and prioritize capital project and maintenance needs.

At least the first two years of the plan shall be fully funded, with funding shortfalls and challenges clearly identified in remaining years.

A Capital Improvement is defined as property, plant, or improvements having a useful life of two or more years and a total amortized acquisition and maintenance cost of \$2,500 or more. All estimated construction, maintenance, and operating costs and potential funding sources for each proposed capital improvement shall be identified.

The City shall finance only those capital improvements consistent with the adopted capital improvement plan and City priorities. All capital improvement operating and maintenance costs shall be included in the fiscal forecasts.

### **Basis of Accounting**

Financial statements are prepared in accordance with General Accepted Accounting Principles and all relevant Pronouncements promulgated by the Governmental Accounting Standards Board (GASB). All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt, which is recognized when due. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts are not current liabilities of the debt service fund, as their settlement shall not require expenditure of existing fund assets.

All proprietary fund types and nonexpendable trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

### **Basis of Budgeting**

The basis of budgeting is the same as the basis of accounting.

### **Treasury and Cash Management**

The City shall manage the treasury in compliance with California Government Code Section 53600 and City Council Policy 400-5, which requires quarterly Treasurer's Reports to the City Council, reconsideration of Policy 400-5 by the Council at least once every two years, and selection of investments based on considerations of safety, liquidity, and yield, in order of decreasing priority.

In circumstances where short-term borrowing (i.e., fewer than 12 months) is required to mitigate the effects of uneven revenue disbursements from the state and ensure expenditure cash-flow demands may be met, the following options shall be considered, with the ultimate course of action dependent on the least cost, greatest security for the City, and administrative efficiency:

- Tax and Revenue Anticipation Notes (TRAN)
- Treasury Loan from Monterey County
- Inter-fund loans
- Commercial line of credit.

Should inter-fund loans be selected as a cash-flow strategy, the following conditions shall apply:

- City Council approval required for all loans;
- Duration of less than 12 months with the loan and repayment occurring within the same fiscal year;
- Fixed loan term (i.e., specific number of months with repayment date);
- Borrowing fund must pay interest at level to result in no loss of interest revenue to the lending fund;
- Specific revenue pledged to repay the loan based on realistic expectations for receipt;
- Funds in the lending fund must not be needed for operations during the period of the loan; and
- Loans must not be made from grant funds or other funds enabled by State or Federal legislation.

The City Council shall receive real-time reports (i.e., before the checks are cut, when possible) of warrants drawn on the City Treasury.

### **Reserves**

Reserves are established to ensure that sufficient resources shall be maintained in specified funds in amounts sufficient to manage reasonable risks, meet unanticipated needs, capitalize on opportunities, and provide for reasonable contingencies. Further, fund balance shall be categorized and prioritized in accordance with GASB Statement #54 (GASB 54).

- In the City of Pacific Grove, “operating reserve” is equivalent to portions of the fund balance that are classified as either committed, assigned, or unassigned, per GASB 54.
- The order in which spendable fund balance may be used is prioritized as follows: restricted, committed, assigned, and then unassigned, per GASB 54. Council action is required to increase, decrease, eliminate or reclassify amounts reported in each category.
- Use of reserves must be authorized in advance by the City Council.

- If reserves are expended for their intended use, the City Council shall prioritize restoration of reserves to levels established by policy before allocating resources to fund new or improved services.
- *General Fund.* The City establishes a target reserve level of 10% of the General Fund annual operating budget, and shall maintain reserves of at least 10%, unless otherwise approved by the City Council for specific purposes. The 10% reflects the following components:
  - Emergency financial need (e.g., capital repair, natural disaster)
  - Economic contingency (to mitigate sudden service and staffing cuts in response to economic shocks and downturns)
  - Economic opportunity (to leverage public resources for public investment opportunities, e.g., downtown property)
  - One-time opportunities to invest in assets (e.g., an expanded Library), as an alternative to debt financing
- *Golf Fund.* The purpose of the Golf Fund is to enable management of the golf course as an enterprise without operating subsidies from the General Fund, unless deliberately authorized. The City establishes a target reserve level of 25% of revenues of the Golf Fund, as of June 30<sup>th</sup> of two fiscal years prior, to be used for capital improvements, cash management, and emergency protection. Given the vulnerability of the golf business to recession, 20% of the 25% would be retained for use in mitigating the effects of unexpected revenue downturns, and 5% would be available retained for emergency repairs or other emergencies.
- *Sewer Fund.* The Sewer Fund shall maintain a reserve of at least \$500,000.
- *Workers Compensation Fund:* The Workers Compensation Fund shall maintain a balance of current assets equal to 67% of total liabilities, or higher, should actuarial analysis conclude an imminent risk to the City for unanticipated losses.
- *Liability Insurance Reserve:* The Liability Insurance Reserve shall maintain a balance of at least \$300,000 in current assets, which is equivalent to the maximum amount the City would be required to pay in the event of two catastrophic losses in a single year (City's Self-Insured Retention Limit is currently \$150,000 per claim).

### **Debt Management**

- Long-term borrowing shall be restricted to the purpose of funding capital improvement projects and equipment. The use of long-term borrowing for ongoing operations shall be avoided.
- The term of the debt shall not exceed the expected useful life of the object of the financing.
- Debt obligations shall be prioritized in the budget process and payments shall be made in a timely and efficient manner.

- Refunding techniques shall be employed where appropriate, and with all due City Council approval, to allow for restructuring of outstanding debt to remove or change restrictive covenants, and/or to reduce annual debt service in an amount sufficient to justify the costs related to restructuring the debt.

**Property Acquisition and Disposition**

- Acquisition of real property shall be tied to a specific objective, with the source of adequate funds identified and considerations given for the long-term fiscal and policy impacts.
- Disposition of real property shall be considered for those properties without specific deed restrictions and that are unused, under-utilized, economically not viable, or that were acquired for an outdated plan or purpose.

Adopted: Resolution 11-086 (Adopted November 2, 2011)

Amended: Resolution 14-063 (Amended October 1, 2014)