

**COUNCIL POLICY
CITY OF CHULA VISTA**

SUBJECT: General Fund Reserves – Fiscal Health Plan

**POLICY
NUMBER**

220-03

**EFFECTIVE
DATE**

11/05/09

PAGE

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ADOPTED BY: Resolution 18358

DATED: 07/09/96

AMENDED BY: Resolution No. _____, November 3, 2020

AMENDED BY: Resolution No. 2009-264 , November 5, 2009

The City Council specifically amended this policy on November 3, 2020 with the adoption of Pension & OPEB Reserve Fund Policy No. _____, which provides, in relevant part, that:

- (i) Allocations for the Pension Reserve Fund (“PRF”) will only occur after the full funding of the 15% General Fund Operating Reserves; and
- (ii) Upon meeting the 15% General Fund Operating Reserves, 75% of all future surplus funds will be transferred to the PRF, and the remaining 25% will be allocated to the Economic Contingency Reserves and Catastrophic Event Reserves in accordance with this Policy; and
- (iii) In the event all three General fund reserve accounts are fully funded at the stated policy percentage, 100% of surplus funds will be transferred to the PRF until it reaches 15% of General Fund Expenses (excluding Measure A & P, identical dollar amount to the General Fund Operating Reserves)..

The City Council amended this policy on November 5, 2009 with the acknowledgement that the reserve level established by this policy is a long-term goal.

PURPOSE:

Public entities purposely accumulate and then maintain adequate reserves to help ensure both financial stability and the continued ability to provide core services in difficult times. Sufficient reserves create financial stability resulting in increased credit quality and allows the public entity to better weather downturns in the economy and the impacts of negative events, both major and minor. Properly funded reserves allow for the continued maintenance of property, the replenishment of vehicles and equipment, and payment of expenses beyond the amount of the funds available for a single fiscal year.

BACKGROUND:

The General Fund Reserve policy is established to ensure that the City’s finances are managed in a manner which will (1) continue to provide for the delivery of quality services, (2) maintain and enhance service delivery as the community grows in accordance with the General Plan, (3) minimize or eliminate the need to raise taxes and fees because of temporary revenue shortfalls, and (4) establish the reserves necessary to meet known and unknown future obligations and ability to respond to unexpected opportunities.

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Fiscal stability is an important factor in operating a City. Establishing certain financial reserves would protect the City against unexpected interruptions in revenues, vulnerability to Federal or State actions, adverse economic conditions, unpredictable one-time costs, and exposure to natural disasters and emergencies.

There are additional benefits to establishing a minimum General Fund reserve. Credit rating agencies carefully monitor levels of reserves in a government's General Fund to evaluate a government's continued creditworthiness. A higher credit rating results in savings to the taxpayer when the City issues debt or participates in short-term borrowing. Finally, reserve levels are a crucial consideration in long-term financial planning.

The Government Finance Officers Association (GFOA), an international organization that promotes the professional financial management of governments for the public interest, recommends maintaining a minimum unreserved fund balance (reserves) in the General Fund of no less than 5% to 15% of general fund operating revenues, or no less than one to two months of regular general fund operating expenditures. A government's particular situation may require levels of unreserved fund balance in the general fund significantly in excess of these recommended minimum levels. Cities with higher reserve levels are better positioned to protect public services during economic downturns. GFOA recommends that in establishing a policy governing the level of unreserved fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e. higher levels of unreserved fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile.)
- The availability of resources in other funds as well as the potential drain upon general fund resources from other funds (i.e. the availability of resources in other funds may reduce the amount of reserves needed in the general fund, just as deficits in other funds may require that a higher level of reserves be maintained in the general fund).
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Designations (i.e. governments may wish to maintain higher levels of unreserved fund balance to compensate for any portion of unreserved fund balance already designated for a specific purpose).

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This Policy establishes three (3) distinct General Fund Reserves:

1. General Fund Operating Reserves – minimum 15%
2. Economic Contingency Reserves – minimum 5%
3. Catastrophic Event Reserves – 3%

The total recommended minimum reserve level for the three categories combined is 23%.

General Fund Operating Reserves

The General Fund Operating Reserves represent unrestricted resources available for appropriations by the City Council to address extraordinary needs of an emergency nature.

The City shall maintain General Fund Operating Reserve levels of no less than 15% of the annual operating budget. This level of reserves represents approximately 1.8 months of General Fund operating expenditures. The reserves may be used to provide temporary financing for unanticipated extraordinary needs of an emergency nature, such as major storm drain repairs, litigation or settlement costs or an unexpected liability created by Federal or State legislative action.

If funds are appropriated (spent) from the operating reserves due to unanticipated needs, the funds should be replenished in the budget process during the subsequent fiscal year to maintain the minimum reserve balance. If the magnitude of the event caused the General Fund Operating Reserves to be deeply reduced, the City Manager and Finance Director shall provide the City Council with a plan to incrementally replenish the reserves to the minimum 15% level.

Authorized use (mid-year appropriations) of the General Fund Operating Reserves will require approval by four/fifths (4/5) vote of the City Council.

Economic Contingency Reserve

The Economic Contingency Reserve represents monies set aside to mitigate service impacts during a significant downturn in the economy which impacts City revenues such as sales tax, property tax, business license tax etc.

The City shall maintain General Fund Economic Contingency Reserve levels of no less than 5% of the annual operating budget to provide for unexpected financial impacts related to a significant economic slowdown.

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Funds may be appropriated from the Economic Contingency Reserves only after the City Manager and the Finance Director have prepared an analysis providing sufficient evidence that the remaining reserves are adequate to offset potential downturns in revenue sources and provide sufficient cash balance for the daily financial needs of the City for the remainder of the fiscal year. Once the analysis has been presented to the City Council, action to appropriate from the reserves will require a declaration that a fiscal emergency or extraordinary need exists through an affirmative vote by 4/5ths of the City Council.

If the Economic Contingency Reserves should ever drop below the minimum reserve level, the City Manager and Finance Director will develop a plan to replenish the reserves. The plan will be included in the adoption of the City's annual operating budget and Long-Term Financial Plan.

Catastrophic Event Reserves

The Catastrophic Event Reserves are monies set aside to fund unanticipated expenses related to a major natural disaster in the City.

A reserve level of 3% of the General Fund operating budget should be maintained as Catastrophic Event Reserves. These funds are associated with the City's Disaster Preparedness Program. The City is susceptible to earthquakes, fires, floods and terrorist threats. In the event that the City Council proclaims a local emergency, the Catastrophic Event Reserves can be utilized to fund recovery costs until reimbursements from federal and/or state agencies can be recovered.

Authorized use of the Catastrophic Event Reserves will require a Proclamation of a Local Emergency by the City Council or Director of Emergency Services. In addition, authorized use (mid-year appropriations) of the Catastrophic Event Reserves will require approval by four/fifths (4/5) vote of the City Council.

Calculation of Reserves

The reserves will be calculated using the following year's Adopted General Fund budgeted operating expenditures. Reserves will be evaluated annually in conjunction with the development of the City's 10 Year Financial Forecast and Annual Operating Budget process. There is no maximum reserve level as any additional reserves would provide a greater level of fiscal security.