



CITY OF SAN RAMON

STATEMENT OF GENERAL FUND RESERVE POLICY

Purpose

To provide guidelines to the City Council and staff for establishing, maintaining, and the annual review of a minimum target General Fund reserve for the City of San Ramon. This policy is developed to consider the minimum level necessary to maintain the City's creditworthiness and to adequately provide for:

- Economic uncertainties and other financial hardships or downturns in the local or national economy
- Extreme events
- Future debt or capital obligations
- Cash flow requirements
- Legal requirements

The General Reserve Policy is an integral part of the City's multi-year financial business plan. The City General Fund Reserve Policy was approved by City Council Resolution No. 2021-037.

Introduction

One of the key components of a financially stable organization is the adherence to a policy of maintaining an appropriate level of reserves. Establishing a target minimum General Fund reserve is a mechanism that governments can implement to help ensure adequate levels of fund balance are available to help mitigate current and future risks. A minimum General Fund reserve is generally considered a prudent and conservative fiscal policy to deal with unforeseen situations. Some examples of unforeseen situations include, but are not limited to:

- Extreme Events
- Economic Downturns
- Reduced Revenues
- Federal/State/County Budget Cuts
- Unfunded Legislative or Judicial Mandates
- Cash Flow Requirements
- Capital Obligations
- One-Time City Council Approved Expenditures
- Innovative Opportunities for the Betterment of the Community

The Government Finance Officers Association (GFOA), an international organization that promotes the professional management of governments for the public interest, recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of operating revenues or operating expenditures, or a minimum of approximately 16.67% of General Fund operating expenditures. The GFOA further recommends that reserve levels be directly related to the degree of uncertainty the local government faces, specifically, the greater the uncertainty, the greater the financial resources necessary.

Most cities choose General Fund Operating Expenditures as the basis for reserve. Typically, there is less fluctuation and risk in forecasting future expenditures. The General Fund Operating Expenditures methodology is also typically considered the more conservative basis for establishing a General Fund reserve.

There are additional benefits to establishing a minimum General Fund reserve. Credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government's General Fund to evaluate a government's continued creditworthiness. Finally, fund balance levels are a crucial consideration in long-term financial planning.

Policy

For purposes of this policy, the term "reserve" includes undesignated, unreserved fund balance. It is the policy of the City of San Ramon to maintain a minimum target reserve for unforeseen situations that impact the City, and whenever fiscally possible and financially prudent to maintain a greater target reserve. The City will continue to maintain reserve funds to:

- a) Stabilize the fiscal base by anticipating fluctuations in revenues and expenditures; and
- b) Provide for non-recurring, unanticipated expenditures; and
- c) Provide for innovative opportunities for the betterment of the community.

The minimum target reserve of the General Fund reserves will be maintained at thirty-six percent (36%) of General Fund Operating Expenditures, plus the annual transfer amount from the General Fund to the Dougherty Valley Fund.

The minimum reserve level will be calculated annually using the prior fiscal year's estimated General Fund Operating Expenditures and estimated annual transfer amount from the General Fund to the Dougherty Valley Fund. General Fund reserves levels will be evaluated at three different time periods during the fiscal year as described below. Staff recommendations will be made to City Council on the available funds and the appropriate reserve levels. In the event the General Fund reserve balance drops below the minimum reserve level, a response plan will be developed to return the General Fund reserves back to the minimum reserve level.

The minimum General Fund Reserve Policy is intended to be a prudent and conservative fiscal

policy, which should help contribute to the fiscal security of the City. Nothing in this policy shall prohibit the City Council from maintaining a higher level of reserves than the established minimum General Fund reserve target of thirty-six percent (36%).

Designation of General Fund Reserves

- 1) Committed - \$10.7 million of General Fund reserves are identified and allocated as “committed” to address future revenue stabilization concerns
- 2) Assigned - \$4 million of General Fund reserves are identified and allocated as “assigned” to address expenditure volatility issues in the future

Monitoring and Maintenance of Reserves

- 1) General Fund Reserve Levels are to be monitored at three (3) different time periods during the fiscal year as follows:
 - a) Actual Reserve Levels as of the end of each fiscal year are to be reported to the City Council at the time that audited financial statements are published.
 - b) Estimated Reserve Levels are to be projected as part of the annual mid-year financial review presented to the City Council and projected ending reserve levels shall be measured against the Reserve Policy.
 - c) Budgeted Reserve Levels are to be projected as part of the annual budget adoption process and projected ending reserve levels shall be measured against the Reserve Policy thresholds.
- 2) If, at any of the three (3) monitoring time periods, total ending reserves fall below, or are estimated to fall below thirty-six percent (36%), the City Manager shall report the amount of reserves remaining below the thirty-six percent (36%) level to the City Council. This report shall be presented to the City Council within thirty (30) days of determining the total combined reserve level is estimated to be below thirty-six percent (36%).
- 3) If, at any of the three (3) monitoring time periods, total ending reserves actually fall below, or are estimated to fall below thirty-six percent (36%), the City Manager shall prepare an action plan to restore reserves to the thirty-six percent (36%). This action plan shall be presented to the City Council within thirty (30) days of determining that the thirty-six percent (36%) threshold is projected to be breached. The City Council will consider the City Manager's recommended corrective actions.