



CITY OF CARPINTERIA
COUNCIL POLICY

GENERAL FUND RESERVE POLICY

PURPOSE

This General Fund Reserve Policy establishes the procedures for reporting unrestricted fund balance in the fund financial statements. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures or other similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations. In addition, the policy authorizes the City Manager and Administrative Services Director to prepare financial reports which accurately categorize fund balance per GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

POLICY

Classification of Fund Balances

Fund Balance shall mean the gross difference between governmental fund assets and liabilities reflected on the balance sheet. Governmental fund assets are those of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds. Negative fund balance amounts shall not be reported for restricted, committed, or assigned funds. The fund balance of the general fund, one of the governmental fund types, is of primary significance because the general fund is the primary fund, that finances most operations in the City. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance will be presented using the following classifications depicting the relative strength of the spending constraints placed on the purposes for which the resources can be used:

Non-spendable Fund Balance – portion of fund balance that cannot be spent because it is either (a) not in a spendable form, such as prepaid items, inventories or supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment. Included are inventories, prepaid amounts, deferred expenditures, long-term receivables, notes receivable, and outstanding encumbrances. Specifically, in the City's annual financial reports, this component of fund balance includes:

- Prepayments
- Inventory

Restricted Fund Balance – portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors (such as through debt covenants) or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Specifically, in the City’s financial reports, this component of fund balance includes:

- Revolving Fund Balance
- Equipment Replacement Fund Balance
- Road and Maintenance Rehab Fund Balance
- Park Maintenance Fund Balance
- Gas Tax Fund Balance
- Local Transportation Fund Balance
- Measure A Fund Balance
- Tidelands Trust Fund Balance
- Street Lighting Fund Balance
- Development Impact Fee Fund Balance
- R-O-W Assessment District Fund Balance
- PBIA Fund Balance
- AB 930 Fund Balance
- Measure D Fund Balance
- Capital Improvement Fund Balance
- Recreation Services Fund Balance

Committed Fund Balance – portion of fund balance that is subject to self-imposed constraints on spending due to formal action of the highest level of decision-making authority (the City Council); funds remain committed unless removed in the same manner.

Assigned Fund Balance – portion of fund balance that is constrained by the City’s intent to utilize fund balance for a specific purpose, but that is neither restricted nor committed. Assigned funds describe the portion of the General Fund reserves that reflect the use of resources by the City Council intended to provide a means and sources of funding for various near-term and long-term needs. For example, funds can be assigned to address long-term liabilities such as CalPERS Unfunded Actuarial Liability (UAL). Specifically, in the City’s financial reports, this component of fund balance includes:

- CalPERS Unfunded Actuarial Liability
- Encumbrances

CalPERS Unfunded Actuarial Liability Assignment

An assignment will be made that is equal to two percent (2%) of the budget payroll beginning in Fiscal Year 2018-19 as of June 30 each year.

For the first year of operation of this reserve policy (Fiscal Year 2018-19), the two percent (2%) equals \$58,000 (2% x \$2,900,000 estimated total wages). For all

subsequent years, unless amended by City Council action, the assignment will be two percent (2%) of the total wages.

Unassigned Fund Balance – portion of fund balance that is the difference between the total fund balance and the total of the non-spendable fund balance, restricted fund balance, committed fund balance, and assigned fund balance.

Due to the already present and/or legal limitations on the use of non-spendable and restricted fund balances, they are not subject to this General Fund Reserve Policy. The following fund balance policies are only relevant to the unrestricted fund balances, which include committed, assigned, and unassigned.

Authorization and Action to Commit Fund Balance

The City Council is the government's highest level of decision-making authority and the formal action that is required to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at a City Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined subsequent to fiscal year end.

To ensure sound fiscal management and preserve City Council discretion in its resource allocation decisions, the City establishes the following fund balance designations, fund targets, and fund uses in the General Fund:

1. Financial and Economic Uncertainty Reserve. This reserve is maintained at a level equal to 40% of General Fund expenses.
2. General Reserve. This reserve is maintained at a level of \$1,000,000 with interest earned on that balance segregated for use at the Council's direction.
3. Major Asset Replacement and Repair Reserve. Similar to the General Reserve Fund this reserve is maintained at a level of \$1,000,000 with interest earned segregated for use at the Council's direction.

Authorization and Action to Assign Fund Balance

The City Council retains authority, at all times, to assign fund balance to a specific purpose in relation to this General Fund Reserve Policy by providing direction to staff. The Council has authorized the City Manager and Administrative Services Director to assign fund balance. Therefore, assignments of fund balance by the City Manager and Administrative Services Director do not require formal action by the City Council. All appropriations laps at the end of the fiscal year to the extent that they have not been expended, except for capital projects and approved grants, which are carried forward until such time as the project is either completed or terminated. At year end, encumbrances related to capital projects or approved grants will be reported under the assigned fund balance classification.

Order of Expenditure of Funds

The spending prioritization, or flow assumption, is to use the most restricted category of funds that is available before unrestricted amounts. Within unrestricted resources, committed resources are used first, followed by assigned resources, and finally unassigned resources.

FUNDING

At the end of each fiscal year, the Administrative Services Department will report on the audited year-end fiscal results. Should actual Total Operating Funds revenues exceed expenditures and encumbrances, a year-end net increase in fund balance shall be deemed available for reallocation in the operating budget to provide for one-time, non-recurring needs, and used to reestablish fund balances in the following order: (1) Financial and Economic Uncertainty Reserve; (2) General Reserve; and (3) Major Asset Reserve, subject to City Council approval.

ANNUAL REVIEW AND DETERMINATION OF RESERVE AMOUNTS

The Administrative Service Department will perform the annual review and provide Council with recommendations/report as follows:

1. In years when revenues exceed expenses the Council will direct the allocation of any excess as part of the annual transmittal of the audited Comprehensive Annual Financial Report (CAFR).
2. As part of the annual budget process staff will make recommendations for appropriations from the various reserve categories for items, if any, which meet the intended use of the reserves.
3. At least annually, as part of the budget process and/or CAFR transmittal, staff will report on the level of reserve balances as compared to the targeted 40% level.

Approved: 
Dave Durlinger, City Manager

Effective Date 4/9/18

RESOLUTION NO. 5786

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARPINTERIA,
AMENDING A GENERAL FUND RESERVE POLICY**

WHEREAS, on June 13, 2011 the City Council approved a Fund Balance Policy for the General Fund in compliance with Government Accounting Standards Board Statement 54; and

WHEREAS, the City Council directed the City Manager to prepare a Resolution to adopt a General Fund Reserve Policy as discussed; and

WHEREAS, the purpose this General Fund Reserve Policy is to support an understanding of what types and amounts of reserves should be maintained by the City and how to manage those reserves in terms of funding and appropriation; and

WHEREAS, research indicates that cities commonly set aside reserves ranging from 15% to 55% of General Fund expenses for items such as economic uncertainties, disasters/emergencies and occasional major expenses; and

WHEREAS, factors influencing General Fund balances and reserves include changes in the economy, the stock market, unexpected declines in revenues, subsidies to other funds, fleet replacement and litigation.

NOW, THEREFORE, BE IT RESOLVED as follows:

SECTION 1. The following three reserve categories and amounts are established and comprise the Committed Fund Balance portion of total fund balance as per Government Accounting Standards Board Statement 54:

1. Financial and Economic Uncertainty Reserve equal to a minimum of 40% of annual General Fund expenses;
2. General Reserve set as a minimum of \$1,000,000 with interest only accruing therein to be appropriated by Council Resolution;
3. Major Asset Replacement and Repair Reserve equal to a minimum of \$1,000,000 with interest only accruing therein to be appropriated by Council Resolution.

SECTION 2. If at any time the City Council appropriates reserve funds below the target level, whenever possible, the reserve shall be restored to the minimum target level as determined by the City Council.

BE IT FURTHER RESOLVED that:

In years when revenues exceed expenses the Council will direct the allocation of any excess as part of the annual transmittal of the audited Comprehensive Annual Financial Report; and

As part of the annual budget process staff will make recommendations for appropriations from the various reserve categories for items, if any, which meet the intended use of the reserves; and

At least annually, as part of the budget process and/or Comprehensive Annual Financial Report transmittal, staff will report on the level of reserve balances as compared to target levels.

PASSED, APPROVED AND ADOPTED on April 9, 2018 by the following vote:

AYES: COUNCILMEMBER(S): CARTY, CLARK, NOMURA, STEIN, SHAW

NOES: COUNCILMEMBER(S): NONE

ABSENT: COUNCILMEMBER(S): NONE

ABSTAIN: COUNCILMEMBER(S): NONE



Mayor, City of Carpinteria

ATTEST:




City Clerk, City of Carpinteria

I hereby certify that the foregoing resolution was adopted at a regular meeting of the City Council of the City of Carpinteria held on April 9, 2018.



City Clerk, City of Carpinteria

APPROVED AS TO FORM:



Peter Brown, on behalf of Brownstein
Hyatt Farber Schreck, LLP acting as
City Attorney of the City of Carpinteria