



CITY OF SANTA BARBARA

CITY COUNCIL AGENDA REPORT

AGENDA DATE: October 2, 2012

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Adoption Of City Reserve Policies

RECOMMENDATION:

That Council adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Establishing Policies for Reserves for the City's General Fund, Enterprise Funds and Internal Service Funds, and Rescinding Resolution Nos. 95-157 and 99-066.

DISCUSSION:

In connection with its review of the Fiscal Year 2012 Recommended Budget, the Finance Committee expressed interest in reevaluating and potentially modifying the current reserve policies to address certain specific limitations and shortcomings identified by Committee members as well as any other concerns of the Council as a whole. As a result, in July 2011, after receiving feedback from the City Council, the Finance Committee was directed to work with City staff to develop recommended changes to existing policies.

Accordingly, the Finance Committee met on April 10, May 22 and June 12, 2012 and, working with staff, crafted new proposed reserve policies for the General Fund and Internal Service Funds, which were presented to Council for consideration and final direction on July 17, 2012. Based on direction received by Council, staff has prepared the accompanying resolution establishing reserve policies for the General Fund and Internal Service Funds, which will supersede the existing policies established by Resolution No. 95-157.

While no changes are being made to reserve requirements for Enterprise Funds, the proposed resolution will rescind and incorporate the requirements previously contained in Resolution No. 95-157. The proposed resolution will also rescind and incorporate the reserve requirement contained in Resolution No. 99-066 which established reserves requirements for the Waterfront Fund.

Summary of General Fund Reserve Policies

Disaster Reserve

The policy establishes the following requirements for the Disaster Reserve:

- It will be calculated as 15% of the operating budget.
- It will be restricted to use in cases of natural disasters, such as floods, fires, tsunamis, earthquakes, and any other events that cause significant damage to City facilities and infrastructure.
- It will be primarily intended for state or federal declared disasters; however, can be used for other local disasters
- It can only be used after other available funds, including Contingency Reserves, are fully exhausted.

Contingency Reserve

The policy establishes the following requirements for the Contingency Reserve:

- It will be calculated as 10% of the operating budget.
- Its purpose is to allow for the orderly implementation of a plan to address the fiscal impacts of unexpected events to minimize disruption to City operations.
- It should be used only for unexpected and unplanned events that have significant negative fiscal impact (including natural disasters) on the City's finances.

Additional policies associated with the use of Contingency Reserves are as follows:

- **Assessment of Fiscal Condition** – The use of Contingency Reserves should be accompanied by an objective assessment of the General Fund's fiscal condition. The purpose of the assessment is to measure and define the scope and estimated duration of the fiscal impacts. The assessment should be based on available and relevant financial and non-financial data, such as:
 - The City's Comprehensive Annual Financial Report
 - Revenue and expenditure trends
 - Economic indexes and trends (population growth, CPI, etc.)
 - Local forecasts prepared by financial and academic institutions and paid consultants
- **Development of a Balancing Strategy** – The use of Contingency Reserves should be accompanied by a comprehensive plan for addressing the scope and duration of the impacts, and should consider other measures to minimize use of Contingency Reserves, including:

- Expenditure reductions achieved through efficiency measures, cuts to programs, services and staffing
 - Revenue enhancement measures that generate new or increased revenues
 - Use of available one-time funds and reserves in other funds, as allowable and appropriate
- Plan for Replenishment – The use of Contingency Reserves should be accompanied with a plan for replenishment. A one-time (1 year) use of reserves should include a specific plan for how and when reserves will be restored. If the use of Contingency Reserves is proposed for more than one year, the long-term plan can be more general.

Allocation of Year-End Surpluses

The policies also establish the following allocation of year-end surpluses:

In any year where there is surplus (measured at year-end as revenues over expenditures), the surplus will be allocated as follows:

- 50% would be transferred into a capital sinking fund, with the remaining 50% left in the General Fund to help rebuild and/or maintain reserves.
- If and when reserves are fully funded pursuant to City policy, transfer 100% of any year-end surplus to the capital sinking fund.

Note that this does not mean that the annual capital program would be supplanted by any transfer of funds to a capital sinking fund. Each year, the General Fund would continue to fund the annual capital program from current revenues.

Appropriated Reserves

The resolution establishes an appropriated reserve to provide for unanticipated expenditures or to meet unexpected small increases in service delivery costs within the fiscal year. This reserve will be budgeted in the amount of \$150,000 and any unused portion will be returned to fund balance at the end of the fiscal year.

Reserve Policies Applicable to Enterprise Funds

Enterprise Funds will be subject to the same Disaster and Contingency Reserve requirements as described above for the General Fund.

Capital Reserve

Each Enterprise Operating Fund will establish a Capital Reserve funded to at least 5% of the value of its capital assets. In the alternative, the amount may be established at an

amount equal to the average of the adopted capital program budgets for the previous three years.

For the Waterfront Enterprise Fund, the Capital Reserve requirement will be met through reserves accumulated in the Harbor Preservation Fund (HFP). Pursuant to Chapter 17.40 of the Santa Barbara Municipal Code, the HFP is required to maintain reserves of no less than \$2 million for preservation, enhancement and management of Waterfront and State Tidelands Trust properties.

Appropriated Reserves

This reserve will be at least one-half of one percent (0.5%) of the operating budget. Note that the use of appropriated reserves in Enterprise Funds does not require Council approval since their budgetary level of control in Enterprise Funds has been established at the fund level.

Reserve Policies Applicable to Internal Service Funds

The resolution establishes the maintenance of a 10% operating reserve Internal Service Funds. The internal service funds that these reserve policies apply to include the following:

1. The Information Systems Fund
2. The Vehicle Maintenance Fund
3. Facilities Management Fund

The 10% reserve requirement would not apply to the Vehicle Replacement Fund since this fund's sole purpose is to accumulate funds for the replacement of all rolling stock and does not have an operating component to it. The policy would also not apply to the Self-Insurance Fund since its primary purpose is to accumulate reserves for payment of claims and insurance funded from charges to other funds and departments; and its operating component (staffing and supplies) is relatively small.

Internal Service Funds will be required to have an appropriated reserve balance similar to the requirements of the Enterprise Funds.

Approval Requirements

With the exception of appropriated reserves in Enterprise and Internal Service Funds, any use of the aforementioned reserves requires a simple majority approval of City Council.

PREPARED BY: Robert Samario, Finance Director

APPROVED BY: City Administrator's Office