

City of Albany

GENERAL FUND RESERVE POLICY



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SECTION 1: PURPOSE

The purpose of this policy is to establish adequate financial reserves in order to prepare for the impact of economic cycles, natural disasters, and other events that may influence essential City services. For purposes of this Policy, the definition of “reserves” is limited to the portion of fund balance that is unreserved. Unreserved is to mean not set aside for existing legal obligations of the City, or other Council directed purposes (capital/equipment reserve accounts, special projects, etc.).

SECTION 2: TARGET RESERVE LEVELS

The target level for total General Fund Reserves shall be at a minimum level of 25% of the adopted expenses.

SECTION 3: FUNDING TARGET BALANCE

As of June 30, 2018, the City has enough reserve to cover the reserve amounts outlined in Section 2. However, if the City’s reserves should fall below that amount, the City will strive to restore these balances within a three-year period. Actions that may be considered to restore the balance include:

- Strategically reducing general fund operating budgets;
- Conduct a revenue study to update General Fund revenue sources which may have fallen behind;
- Conduct an analysis of general fund cost allocation to plan and ensure other City funds are paying the appropriate fees for administration.

SECTION 4: CONDITIONS FOR USE OF RESERVES

The use of reserves shall be limited to unanticipated, non-recurring needs, or anticipated future obligations. Fund balances shall not be used for normal or recurring annual operating expenditures. Uses may include, but are not limited to:

- Interrupted cash flows;
- Emergencies/disaster;
- Capital and infrastructure needs which lack other funding sources.

The City Manager is authorized to make recommendations to the City Council for use of reserves. Any recommendation shall be accompanied by a proposal for the replenishment of the reserves to the City Council.

SECTION 5: USE OF BALANCES EXCEEDING THE MINIMUM BALANCE

Amounts in excess of the reserve amount set in Section 2, including year-end surplus, should not be relied on in future budget periods and should only be used to stabilize existing revenues in times of economic downturn and for nonrecurring expenditures. The City Manager is authorized to make recommendations to the City Council to use any funds exceeding the minimum balance at any time to fund nonrecurring expenditures such as:

- Unfunded pension liabilities;
- Capital improvements;
- Equipment purchases;
- Other, one-time expenditures that are non-recurring in nature and which will not require additional future expense outlay for maintenance, additional staffing or other recurring expenditures.

SECTION 6: REVIEW

This policy shall be reviewed by the Finance Director each year during the preparation of the operating budget, and at least every 5 years by the City Council.

1.1.2 – CAPITAL RESERVE FUND POLICY

BACKGROUND

In 2020, the Albany City Council implemented a Capital Reserve Fund Policy. This policy established, and the Council subsequently funded, several reserve funds for the repair and replacement of City assets such as vehicles and equipment. Since the implementation of the Policy, several asset replacements have been made and staff have begun to utilize these funds for future projects.

DISCUSSION & ANALYSIS

Reserve funds act as a savings account for asset repair and replacement, as well as other long-term plans and program enhancements. Funding the reserves through operating transfers over time, removing the varying high value projects and expenses from the operating budget, allows staff and Council to plan for consistent year over year operating expenditures, leveraging revenues to ensure consistent, quality services over the long term. Including these expenditures in the City's operating budgets would cause significant spikes in expenses some years that, while planned for by staff, may not be clear to the Council and public in general causing potential short falls when large expenses come up.

Working in tandem with the proposed Debt Service Policy, reserve funds allow staff to plan for asset repairs and replacement that will be needed over time, well past the City's two year operating budget. Staff have detailed planned expenses over the next five years for each reserve fund in Section 7.2 of the budget booklet. As reserve funds have not been consistently funded, the anticipated expenses far exceed the amounts in the funds.

The following changes are being proposed to the Reserve Fund Policy:

- Addition of three reserves:
 - Climate Action and Adaptation Reserve Fund
 - Community Development Reserve Funds
 - Pension Reserve Fund
- Clarification of what each reserve fund is used for
- Specification of direct funding mechanisms for several funds
- Miscellaneous changes outlining current reporting practice and clarifying language

FINANCIAL IMPACT

Establishing a comprehensive and detailed Reserve Fund Policy provides staff the ability to make reliable budgets for asset repair and replacement, long-range plans, and one-time program enhancements. This ensures the provision of quality and effective core services long into the future.

NEXT STEPS

Review the long-term needs detailed in Section 7.2 of the biennial budget booklet and make a plan for funding using a combination of reserve funding and debt issuance.