



Lori Droste  
Councilmember, District 8

ACTION CALENDAR  
October 3, 2017

TO: Honorable Mayor and Members of the City Council

FROM: Councilmembers Lori Droste, Susan Wengraf, and Linda Maio

SUBJECT: Amendments to General Fund Usage Criteria

### **RECOMMENDATION**

~~Per Council direction on January 24, 2017, define and adopt~~ Discuss the following General Fund Stability Reserve Usage criteria ~~Policies and adopt policies such as those recommended and proposed by the City Auditor and City Manager., requiring a two-thirds majority vote of the City Council to amend them.~~ The Government Finance Officers Association (GFOA) states that there are three essential reserve policy elements:

- state reserve targets or target ranges
- *define the conditions under which a reserve can be used and*
- *specify who has authority to use reserves.*

Proposed Criteria:

The General Fund Stability Reserve shall only be drawn upon ~~by a two-thirds vote of the City Council~~ if all of the following criteria are met:

1. City revenues are insufficient to meet normal operating expenses (*City Manager recommendation, November 29, 2016 report*).
2. A hiring freeze has been implemented, with exceptions only for designated positions as appropriate to maintain essential services to the public (*City Manager recommendation #2, November 29, 2016 report*).
3. User fees and services charges are being fully utilized for those services for which they were collected (*City Manager recommendation #4, November 29, 2016 report*).
4. *A declaration of financial emergency or "financial emergency by ordinance" before drawing on the reserves (City Auditor's February 26, 2016).*

The General Fund Stability Reserve shall only be used in the following manner:

1. Stability Reserve funds shall be prioritized to preserve essential services and necessary staffing levels (City Manager recommendation #1, November 29, 2016 report).
2. All other reasonable and available expenditure reduction measures shall have been taken by the City Manager and the City Council before using one-time funding to support operational positions (City Manager recommendation #3, November 29, 2016 report).
3. Operational positions shall not receive Stability Reserve funds for longer than two years except in extreme conditions (City Manager recommendation #1, November 29, 2016).
4. Following recommendation from the City Manager, the City Council shall, from time to time, recognize and define “essential services”, “appropriate levels” of such services, and “extreme conditions” (City Manager recommendation #1, November 29, 2016).

Any draw-down of Stability Reserve funds shall coincide with the adoption of a plan to repay the dollar amount of the drawdown (City Manager recommendation #5, November 29, 2016 report). ~~If adopting a repayment plan immediately is infeasible due to emergency circumstances, it shall be adopted no more than 3 months from the date of the withdrawal appropriation. The level of the Stability Reserve shall be restored as economic recovery occurs, consistent with the maintenance of essential services, with repayment to begin no more than 5 years from the date of withdrawal and be completed within 10 years from the date of withdrawal.~~

## **BACKGROUND**

On January 24, 2017, Berkeley City Council voted to establish a minimal general fund reserve level and designate specific portions of the reserve for stabilization and catastrophic purposes. **Berkeley City Council deserves recognition for taking the first steps towards long-term fiscal stability as initially recommended by the City Auditor and City Manager in 2016.** In doing so, City Council “~~plan[ned] to revisit the criteria at a future date.~~” ~~promised to revisit the criteria that would be followed if the City needed to use its reserve funds.~~

~~Our~~ City Auditor Ann-Marie Hogan, along with the GFOA (Government Finance Officers Association), recommends “a robust policy that addresses the specific circumstances under which the reserve can be tapped and for what purpose...”

~~The City Manager originally proposed the following criteria for use of the Stability Reserve: In times of economic downturn, if revenues are insufficient to meet the normal operating requirements of essential services, funds contained in the Reserve may be used if authorized by a two-thirds vote of the City Council, based on the following principles: 1. Staffing levels in essential services shall be temporarily maintained, in order to avoid or reduce the necessity for immediate lay offs; only in extreme conditions will reserves be used to support operational positions for longer than two years; 2. A hiring freeze must be implemented for designated positions as appropriate to maintain essential services to the public; 3. All other reasonable and available expenditure reduction measures have been taken by the City Manager and the City Council before using one-time funding to support operational positions; 4. User fees and services charges will be fully utilized for those services for which they were collected; 5. The level of the Reserve shall be restored in a timely manner as economic recovery occurs,~~

consistent with the maintenance of essential services: 6. “Essential services”, “appropriate levels” of such services, and “extreme conditions” shall be recognized from time to time by the City Council upon the recommendation of the City Manager.

The recommended policies are adapted from the City Manager’s proposal.

**Exhibit 8: GFOA-Recommended Reserve Policy Elements**

Policy Element	Definition	Essential	Important	Discretionary
Reserve target levels	State reserve targets or target ranges	X		
Conditions for use of reserves	Define the conditions under which a reserve can be used	X		
Authority over reserves	Specify who has authority to use reserves	X		
Definition and purpose of reserves	Define reserves and present reason for maintaining them		X	
Funding the target amount	Establish plan for funding the reserve if it is below the target		X	
Replenishment of reserves	Provide guidance on how reserves will be replenished once used		X	
Excess reserves	Provide guidance on how reserves in excess of their targets can be used			X
Periodic review of targets	Direct staff to periodically review the reserve target level			X

Source: *Financial Policies*, Shayne C. Kavanagh, GFOA

**FISCAL IMPLICATIONS**

Adopting Stability Reserve fund usage policies can help improve the City’s bond rating, resulting in lower borrowing costs; while failing to follow best practices for reserve funds could negatively impact the ability of our City to function properly in times of economic downturn.

**ENVIRONMENTAL SUSTAINABILITY**

None

**CONTACT**

Lori Droste, Councilmember District 8 981-7180  
 Linda Maio, Councilmember District 1, 981-7110  
 Susan Wengraf, Councilmember District 6, 981-7160

**ATTACHMENTS**

General Fund Reserve Policies and Criteria of Other Cities  
 City Manager’s November 29, 2016 report  
 City Auditor’s February 23, 2016 report



Lori Droste  
Councilmember, District 8

ACTION CALENDAR  
October 3, 2017

TO: Honorable Mayor and Members of the City Council

FROM: Councilmembers Lori Droste, Susan Wengraf, and Linda Maio

SUBJECT: Amendments to General Fund Usage Criteria (clean version)

**RECOMMENDATION**

Per Council direction on January 24, 2017, define and adopt General Fund Stability Reserve Usage criteria such as those recommended and proposed by the City Auditor and City Manager.-The Government Finance Officers Association (GFOA) states that there are three essential reserve policy elements:

- state reserve targets or target ranges
- *define the conditions under which a reserve can be used* and
- specify who has authority to use reserves.

Proposed Criteria:

The General Fund Stability Reserve shall only be drawn upon if all of the following criteria are met:

1. City revenues are insufficient to meet normal operating expenses (City Manager recommendation, November 29, 2016 report).
2. A hiring freeze has been implemented, with exceptions only for designated positions as appropriate to maintain essential services to the public (City Manager recommendation #2, November 29, 2016 report).
3. User fees and services charges are being fully utilized for those services for which they were collected (City Manager recommendation #4, November 29, 2016 report).
4. A declaration of financial emergency or “financial emergency by ordinance” before drawing on the reserves (City Auditor’s February 26, 2016).

The General Fund Stability Reserve shall only be used in the following manner:

1. Stability Reserve funds shall be prioritized to preserve essential services and necessary staffing levels (City Manager recommendation #1, November 29, 2016 report).
2. All other reasonable and available expenditure reduction measures shall have been taken by the City Manager and the City Council before using one-time funding to support operational positions (City Manager recommendation #3, November 29, 2016 report).
3. Operational positions shall not receive Stability Reserve funds for longer than two years except in extreme conditions (City Manager recommendation #1, November 29, 2016).
4. Following recommendation from the City Manager, the City Council shall, from time to time, recognize and define “essential services”, “appropriate levels” of such services, and “extreme conditions” (City Manager recommendation #1, November 29, 2016).

Any draw-down of Stability Reserve funds shall coincide with the adoption of a plan to repay the dollar amount of the drawdown (City Manager recommendation #5, November 29, 2016 report).

**BACKGROUND**

On January 24, 2017, Berkeley City Council voted to establish a minimal general fund reserve level and designate specific portions of the reserve for stabilization and catastrophic purposes. Berkeley City Council deserves recognition for taking the first steps towards long-term fiscal stability as initially recommended by the City Auditor and City Manager in 2016. In doing so, City Council “plan[ned] to revisit the criteria at a future date” that would be followed if the City needed to use its reserve funds.

City Auditor Ann-Marie Hogan, along with the GFOA (Government Finance Officers Association), recommends “a robust policy that addresses the specific circumstances under which the reserve can be tapped and for what purpose...”

**Exhibit 8: GFOA-Recommended Reserve Policy Elements**

Policy Element	Definition	Essential	Important	Discretionary
Reserve target levels	State reserve targets or target ranges	X		
Conditions for use of reserves	Define the conditions under which a reserve can be used	X		
Authority over reserves	Specify who has authority to use reserves	X		
Definition and purpose of reserves	Define reserves and present reason for maintaining them		X	
Funding the target amount	Establish plan for funding the reserve if it is below the target		X	
Replenishment of reserves	Provide guidance on how reserves will be replenished once used		X	
Excess reserves	Provide guidance on how reserves in excess of their targets can be used			X
Periodic review of targets	Direct staff to periodically review the reserve target level			X

Source: *Financial Policies*, Shayne C. Kavanagh, GFOA

**FISCAL IMPLICATIONS**

Adopting Stability Reserve fund usage policies can help improve the City's bond rating, resulting in lower borrowing costs; while failing to follow best practices for reserve funds could negatively impact the ability of our City to function properly in times of economic downturn.

**ENVIRONMENTAL SUSTAINABILITY**

None

**CONTACT**

Lori Droste, Councilmember District 8 981-7180

Linda Maio, Councilmember District 1, 981-7110

Susan Wengraf, Councilmember District 6, 981-7160

**ATTACHMENTS**

General Fund Reserve Policies and Criteria of Other Cities

City Manager's November 29, 2016 report

City Auditor's February 23, 2016 report

## Attachment 1: General Fund Reserve Policies and Criteria of Other Cities

City	Year	Amt.	Criteria
Atherton	2010	15-20%	<p>General Fund Reserves</p> <ul style="list-style-type: none"> <li>● Replenishment plan must be included.</li> <li>● Fund cannot drop below 15% of operating expenditures for the General Fund.</li> <li>● Use of reserves limited to unanticipated, non-recurring needs, or anticipated future obligations. Not to be used for normal or recurring annual operating expenditures.</li> </ul> <p><a href="http://www.gfoa.org/sites/default/files/u63/GFOAFinancialPoliciesDoc4GAthertonPolicy.pdf">http://www.gfoa.org/sites/default/files/u63/GFOAFinancialPoliciesDoc4GAthertonPolicy.pdf</a></p>
Fremont	2009/10	12.5% operating expenditure	<p>General Fund Budget Uncertainty Reserve</p> <ul style="list-style-type: none"> <li>● Reserves must be paid back within three years</li> <li>● Long-term funding level determined by measuring level of risk associated with 3 areas of uncertainty:               <ol style="list-style-type: none"> <li>1. Revenue risks (falling below budget projections)</li> <li>2. State budget risks (legislation that reallocates revenues from local jurisdictions, such as taxes, fees, grants, reimbursements)</li> <li>3. Uncontrolled costs, such as CalPERS retirement rates, fuel and utility charges.</li> </ol> </li> </ul> <p><a href="https://www.gfoa.org/sites/default/files/u63/GFOAFinancialPoliciesDoc4FFremontPolicy.pdf">https://www.gfoa.org/sites/default/files/u63/GFOAFinancialPoliciesDoc4FFremontPolicy.pdf</a></p>
Irvine	2010/11	15% of General Fund	<p>Contingency Reserve</p> <ul style="list-style-type: none"> <li>● Used to make up for temporarily decreased revenues, such as State subventions.</li> <li>● Provide temporary resources in event of economic downturn while expenditure reductions are implemented</li> <li>● Provide resources to meet emergency expenditures in the case of flood, fire, earthquake, landslides, or other disasters</li> <li>● Reserve shall be replenished as soon as possible. Up to 50% of available carryover funds allocated to reserve annually until the reserve is restored</li> </ul> <p><a href="https://www.gfoa.org/sites/default/files/u63/GFOAFinancialPoliciesDoc4IIrvine-2.pdf">https://www.gfoa.org/sites/default/files/u63/GFOAFinancialPoliciesDoc4IIrvine-2.pdf</a></p>
Stockton	2013	19% projected property, sales, utility, other taxes	<p>Revenue Liability Set-Aside</p> <ul style="list-style-type: none"> <li>● Use requires approval by a super majority ( 6 out of 7)</li> <li>● Created to mitigate the impact of large swings in revenue resulting from declines in Property tax, Sales Tax, and Utility User Taxes.</li> <li>● Calculation of amount needed will be based on revenue volatility in past recessions and be determined annually during the budget process.</li> </ul>
Benicia	2007	20% of operating budget	<p>Budget Stabilization Reserves</p> <ul style="list-style-type: none"> <li>● Requires approval of 4 out of 5 votes</li> <li>● A statement of findings supporting the appropriation of reserves or modification to the policy</li> <li>● A plan for replenishing the reserve within a reasonable time period</li> </ul>
Hayward	2013	15% of annual GF operating appropriation	<p>Reserve can be used in times of economic downturn if revenues are insufficient to meet normal operating requirements of essential services, based on following principles:</p> <ol style="list-style-type: none"> <li>1. Staffing levels in essential services temporarily maintained to avoid/reduce immediate lay-offs; only in extreme conditions will reserves be used to support operational positions more than 2 years.</li> <li>2. Hiring freeze implemented for designated positions to maintain essential services</li> <li>3. All other reasonable and available expenditure reduction measures have been taken by the City Manager and Council before using to support operational positions</li> <li>4. User fees and service charges fully utilized for services which they were collected</li> <li>5. Reserve restored in a timely manner as economic recovery occurs</li> <li>6. "Essential services", "appropriate levels" of such services, and "extreme conditions" shall be determined from time to time by the City Council upon the recommendation of City Manager.</li> </ol>

Portland	2014	10% of General Fund	<p>Emergency Reserve</p> <ul style="list-style-type: none"> <li>• Can use if: Council declares state of emergency by ordinance. General Fund's budgeted contingency must be exhausted before using. Emergency expenditures or unexpected revenue reduction would result in negative General Fund ending fund balance.</li> </ul> <p>Countercyclical Reserve</p> <ul style="list-style-type: none"> <li>• This reserve is for "bridge funding" necessary to offset slower revenue growth in a recession</li> <li>• Can use if: Year-over-year basic revenue growth falls to below 3% for two consecutive quarters or the financial forecast estimates that basic revenue growth will be below 3% for the next fiscal year. And, one or more of the following: <ol style="list-style-type: none"> <li>1. Local housing prices fallen more than 10% at any time in the prior 24 months.</li> <li>2. Unemployment risen by more than two percentage points in last 12 months.</li> <li>3. Metro area employment has fallen by at least 2% in the last 12 months.</li> </ol> </li> </ul> <p>Restoration of Reserves begins within 24 months after first use. A timeline for full reimbursement must be included in the ordinance.  <a href="https://www.portlandoregon.gov/citycode/article/200842">https://www.portlandoregon.gov/citycode/article/200842</a></p>
Santa Cruz	2013	2-months of current adopted Total General Fund Operating Expenditure Budget	<p>City Wide Stabilization Arrangement situations where Reserve can be used:</p> <ol style="list-style-type: none"> <li>1. Within a 12-month period, funding can be used for cashflow purposes when timing requires a one-time reduction in cash that will be 100% restored within 12-months.</li> <li>2. If unanticipated General Fund revenues in total are expected to decline more than 1% of the total projected revenues and revenues for one of the following major revenue sources are projected in the current year to fall below the actual amount from the prior year: <ol style="list-style-type: none"> <li>a.) Sales Taxes</li> <li>b.) Property Taxes</li> </ol> </li> <li>3. If any one of the unforeseen and non-recurring events listed below occur that create significant financial difficulty for the City and are in excess of the current year's appropriated contingency: <ol style="list-style-type: none"> <li>a.) Sudden and unexpected significant facility failures that threaten the immediate safety of the City patrons, staff or the community;</li> <li>b.) Declaration of a State of Emergency by the Governor;</li> <li>c.) Unanticipated expenditures as a result of legislative changes from State/Federal governments in the current fiscal year;</li> <li>d.) Acts of Terrorism declared by the Governor or the President of USA</li> <li>e.) Acts of Nature, which are infrequent in occurrence.</li> </ol> </li> </ol> <p><a href="http://www.cityofsantacruz.com/home/showdocument?id=32774">http://www.cityofsantacruz.com/home/showdocument?id=32774</a></p>
San Diego		Emergency Reserve 8% Stability Reserve 6%	<p>The purpose of this reserve is to provide budgetary stabilization and not serve as an alternative funding source for new programs. Recommendations to appropriate from the Stability Reserve will be brought forward by the Mayor and will require approval by a majority of the City Council. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as promptly as conditions warrant to replenish the Stability Reserve balance to the policy level</p> <p><a href="https://www.sandiego.gov/sites/default/files/legacy/fm/pdf/GF_ReservePolicy.pdf">https://www.sandiego.gov/sites/default/files/legacy/fm/pdf/GF_ReservePolicy.pdf</a></p>

Fresno	2011	10%	<p>General principle: Operating reserves: “reserves should be used to solve timing problems, not deficit problems”</p> <p>Committed General Fund Balance Reserve Policy for Economic Uncertainties and Emergencies: The Mayor has the power to declare a fiscal emergency based upon one of the following: 1) a natural catastrophe; 2) an immediate threat to health and public safety; or 3) a significant decline in General Fund revenues. The fiscal emergency declared by the Mayor must be approved by a super majority of five votes of the City Council.</p> <p>Committed General Fund Balance Reserve Policy for Contingency Stabilization There are two conditions that could activate usage of this committed fund balance reserve: 1) When basic revenue growth falls below 5% of the previous quarter (s) for at least two consecutive quarters or the financial forecast for the next fiscal year estimates basic revenue growth to fall at least 5% annually; and 2) one or more of the following conditions occur in conjunction with the declining basic revenue growth: 1. The property tax delinquency rate exceeds 10% 2. The City of Fresno unemployment rate exceeds 10% for at least two consecutive quarters.</p> <p><a href="https://www.fresno.gov/citycouncil/wp-content/uploads/sites/8/2016/10/ReserveManagementActFinalVersion33111Leefinaledits.pdf">https://www.fresno.gov/citycouncil/wp-content/uploads/sites/8/2016/10/ReserveManagementActFinalVersion33111Leefinaledits.pdf</a></p>
Oakland	2015/16 - 2019/20		<p><a href="http://www2.oaklandnet.com/oakca1/groups/cityadministrator/documents/report/oak051948.pdf">http://www2.oaklandnet.com/oakca1/groups/cityadministrator/documents/report/oak051948.pdf</a></p> <p>Vital Services Stabilization Fund Reserve Policy 1. Council hereby declares that it shall be the policy of the City of Oakland to maintain a Vital Services Stabilization Fund. 2. In years when the city projects that total General Purpose Fund revenues for the upcoming fiscal year will be less than the current year's revenues, or anytime service reductions (such as layoffs or furloughs) are contemplated due to adverse financial conditions, use of this fund must be considered so as to maintain existing service levels as much as possible, and to minimize associated impacts; and the adopted budget may appropriate funds from the Vital Services Stabilization Fund to preserve city operations; however, the budget may not appropriate more than sixty percent of the reserve balance in any year. The Resolution must include (1) a statement explaining the necessity for the deviation and (2) a plan for replenishing the reserve.</p>
San Jose	2015	Contingency - 10% Stabilization - 10%	<p><a href="https://www.sanjoseca.gov/DocumentCenter/View/41113">https://www.sanjoseca.gov/DocumentCenter/View/41113</a> <a href="https://www.sanjoseca.gov/DocumentCenter/View/44218">https://www.sanjoseca.gov/DocumentCenter/View/44218</a></p> <p>Stabilization reserve uses: The purpose of this reserve is to provide budget stability when there are fluctuations that result in lower than projected revenues and/or higher than projected expenditures that cannot be re-balanced within existing budget resources in any given year. This reserve is intended to provide a buffer, or bridge funding, to protect against reducing service levels when these fluctuations occur.</p>

Santa Barbara	2015-2017	Strategic Reserve: 8%	<p>Strategic Reserve Policy: Target funding level for the committed Strategic Reserve fund is an amount equal to 8% of the General Fund operating revenue (approximately 30 days working capital). Funding for the Strategic Reserve will be appropriated annually by the Board of Supervisors during the budget approval process.</p> <p>Purpose of the Strategic Reserve:</p> <ol style="list-style-type: none"> <li>1. Mitigate economic downturns that reduce general revenue</li> <li>2. Mitigate State or Federal budget actions that may reduce revenue</li> <li>3. Maintain core service levels essential to public health, safety, and welfare</li> <li>4. Front-fund or completely fund, if necessary, disaster costs or costs associated with emergencies. Only those events that have been legally declared to be a disaster at the local, State, or Federal level are eligible for funding from the Strategic Reserve</li> <li>5. Absorb liability settlements in excess of available resources in the County's litigation designation</li> </ol> <p>Funds from the Strategic Reserve can only be used for the purposes stated above. The Strategic Reserve should only be used to support the operating budget when general revenues increase less than 3% from the prior fiscal year.</p> <p><a href="https://www.countyofsb.org/ceo/asset.c/2478">https://www.countyofsb.org/ceo/asset.c/2478</a></p>
San Francisco	2015	62.5% of General Fund Revenue that exceeds prior year revenue, +5% adjusted for policy changes	<p>Rainy Day Reserves</p> <p>Controller's Office has decision making power to propose policy on Reserve Funds and manages the percentage that can be withdrawn. Triggers for withdrawals are made according to calculations of current year revenue and the following year's projected revenue.</p> <p><a href="http://library.amlegal.com/nxt/gateway.dll/California/charter_sf/articleixfinancialprovisions?f=templates\$fn=default.htm\$3.0\$vid=amlegal:sanfrancisco_ca\$anc=JD_9.113.5">http://library.amlegal.com/nxt/gateway.dll/California/charter_sf/articleixfinancialprovisions?f=templates\$fn=default.htm\$3.0\$vid=amlegal:sanfrancisco_ca\$anc=JD_9.113.5</a></p>