



City of Riverside General Fund Reserve Policy

Approved by the City Council on September 6, 2016

PURPOSE:

To 1) provide funds to address any significant and unanticipated financial needs of the General Fund on an emergency basis; and 2) provide additional resources to assist in maintaining stable service levels in times of fluctuating revenues and/or unanticipated expenditures.

POLICY:

Maintaining healthy reserves in the General Fund is a critical component of the City's sound financial management practices. This policy therefore establishes minimum required reserve balances for the General Fund in two categories with a goal to bring reserves to a total 20% level by FY 2019-20:

- A. An Emergency Reserve equal to 10% of the General Fund expenditure budget; and
- B. A Contingency Reserve equal to 5% of the General Fund expenditure budget

For purposes of this policy, these reserve levels are to be established annually as part of the budget process utilizing the preliminary General Fund budget for the year(s).

Emergency Reserve

The Emergency Reserve is established for the purpose of addressing any extremely unusual and infrequent occurrences, such as a major natural disaster or a major unforeseen settlement. Utilization of the emergency reserve requires declaration of an emergency by a two-thirds majority of the City Council, and specification of the maximum dollar amount to be used. In the event that the Emergency Reserve is accessed, staff must present a plan to the City Council following the termination of the emergency to return the Emergency Reserve to the 10% minimum level with an aspirational goal of 15% by FY 2019-20. The proposed timeline for restoring the reserve level must not exceed three years.

Contingency Reserve

The Contingency Reserve is established for the purpose of providing a "bridge" to facilitate a measured and thoughtful reduction in expenditures during times of economic downturn, rather than making immediate and drastic budget cuts without the time for proper evaluation. Utilization of the economic contingency reserve, including specification of the maximum dollar amount to be used, requires approval by a two-thirds majority of the City Council. Once utilization of the Economic Contingency Reserve has been terminated, staff must present a plan to the City Council to return the Economic Contingency Reserve to the 5% minimum level over no more than a three year period.

Surplus Reserves

While it is anticipated that ongoing needs of the City will prevent the General Fund Reserve balance from greatly exceeding the total 15% (or 20%) requirement of the Emergency Reserve and Contingency Reserve, it is likely that excess funds will be on hand from time to time. These funds are termed Surplus Reserves in this policy. If at any time the Surplus Reserves exceed 10% of the general fund expenditure budget during a fiscal year (for a total of a 25% General Fund Reserve balance), staff must present a plan to the City Council with options for appropriate uses for the excess funds to bring the General Fund Reserve balance to the 25% level or below. These uses could include deferred capital projects, vehicle or equipment purchases, or other expenditures of a one-time nature.

Utilization of Reserves for other Purposes

It is recognized that from time to time there may be reasons to utilize General Fund reserves for special projects, programs, and purchases of a one-time nature. In these instances, the following requirements apply to a request for a supplemental appropriation from reserves based on the then current balance in the overall reserve levels (Emergency Reserve + Economic Contingency Reserve + Surplus Reserves).

- A. When Surplus Reserves are to be utilized for the requested appropriation, and any such appropriation is one-time in nature, the City Council may appropriate the funds in the context of the City's overall financial needs as presented by staff.
- B. When no Surplus Reserves exist, the City Council may appropriate funds from the Contingency Reserve for purposes other than those outlined in the Contingency Reserve section of this policy:
 - 1. with a two-thirds approval;
 - 2. for projects that are one-time in nature;
 - 3. in the context of the City's overall financial needs as presented by staff; and
 - 4. with a requirement that staff incorporate an appropriation to reserves in the subsequent fiscal year's budget in order to restore the Economic Contingency Reserve to the 5% level.
- C. Any report requesting a supplemental appropriation from reserves must include an analysis of the impact of the appropriation on the General Fund Reserve balance.

PROCEDURE:

Responsibility

Action

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| Finance Department | <ul style="list-style-type: none">1. The Budget and Revenue Division calculates the required minimum Reserves established by this policy, and evaluates the degree to which the balance is above or below the required level.2. The Budget and Revenue Division, when appropriate, incorporates any required appropriations to reserves into the proposed budget when the reserve balance is below the target established in this policy, in consultation with the Chief Financial Officer.3. The Budget and Revenue Division, when appropriate, makes recommendations through the Chief Financial Officer to the City Manager and the City Council as to appropriate one-time expenditures that would reduce the total reserve balances when their balances exceed 25% of general fund expenditures.4. The Budget and Revenue Division analyzes requests for General Fund Reserve appropriations based on this policy, and provides recommendations through the Chief Financial Officer to the City Manager and the City Council on the appropriateness of the request and the requested amount. |
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