

# **City of Rialto**

## **General Fund Economic Reserve Policy**

### **I. PURPOSE**

The City desires to maintain a prudent level of financial resources to guard its stakeholders against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. In addition, this policy is intended to document the appropriate Reserve level to protect the City's credit worthiness. The General Fund Economic Reserves are accumulated and maintained to provide stability and flexibility to respond to unexpected adversity and/or opportunities.

This policy establishes the amounts the City will strive to maintain in its General Fund Economic Reserve, how the Reserve will be funded, and the conditions under which Reserve may be used. This policy satisfies the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54.

### **II. DEFINITIONS AND ACRONYMS**

- A. Cash Balance – The sum of cash and Cash Equivalents of an accounting fund.
- B. Cash Equivalent – In the context of cash flows reporting, short-term, highly liquid investments that are both 1) readily convertible to known amounts of cash and 2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. For this purpose, "original maturity" means maturity as of the date the investment is acquired.
- C. Fund Balance – Fund Balance is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in a governmental fund.
- D. General Fund – One of five governmental fund types. The General Fund typically serves as the chief operating fund of a government. The General Fund is used to account for all financial resources not accounted for in some other fund.
- E. Pooled Cash – The sum of unrestricted cash and investments of several accounting funds that are consolidated for cash management and investment purposes. Investment income or expenditure is allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
- F. Reserve – Reserve refers only to the portion of Fund Balance that is intended to provide stability and respond to unplanned events or opportunities.
- G. Working Capital – The capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.

### **III. POLICY**

- A. General Fund Economic Reserve Level - The City shall target a minimum General Fund Economic Reserve of 30% of the previous fiscal year's actual expenditures. For the purposes of this policy, the amount subject to the 30% calculation will include all normal and customary operating expenses but shall exclude those expenditures tied to independent revenue sources. Examples of these types of expenditures include but are not limited to:
1. Transfer from the General Fund to reimburse the Gas Tax fund for street maintenance costs;
  2. Payments from the General Fund to the Department of Health Care Services for Inter-Governmental Transfers; and
  3. Reimbursements paid from the General Fund for sales tax sharing agreements.

Additionally, because the City has discretion over whether to contribute to the Other Post Employment Benefits (OPEB) trust fund, payments made for this purpose should also be excluded from the calculation of operating expenses.

During the course of the year, the Finance Department will monitor the City's revenues and expenditures to ensure Reserves are not used beyond any planned purpose.

The EUR shall be reported as a commitment of fund balance in the General Fund for external financial reporting. Appropriations from the EUR may only be made by a vote of the City Council to meet a critical, unpredictable financial need.

- B. Conditions for Use of the General Fund Economic Reserves – It is the intent of the City to limit use of General Fund Economic Reserves to address unanticipated needs that are not on-going operational expenditures, such as salary increases, services, supplies, capital improvements, and equipment purchases. However, acceptable uses include, but are not limited to the following:
1. To maintain basic City operations during severe financial hardships or downturns in the local, state, or national economy;
  2. Emergency operations during and after disasters and catastrophic events; and
  3. To meet short-term liquidity and working capital needs caused by cash flow timing.
- C. Cash Balance - In order to provide liquidity adequate to meet the needs and demands of providing government services including unanticipated reductions in revenues or unplanned increases in expenditures, Cash Balances will be maintained and managed through the Pooled Cash method in such a way as to minimize short-term borrowing. This reduces overall costs to taxpayers by minimizing interest expense. The 30% target funding level is intended to support this effort and counterbalance the tax collection cycle.
- D. Funding the Reserve – Funding of the General Fund Economic Reserve will generally come from excess revenues over expenditures or one-time revenues.
- E. Interest Income – The General Fund Economic Reserve will provide interest earning to the General Fund.
- F. Authority over Reserves – The City Council may authorize the use of Reserves. The Finance Department will report quarterly on the current and projected Reserve levels to the City Council.

- G. Replenishment of Reserves – In the event the City’s Reserves drop below the 30% target level, the City will strive to replenish Reserves within three-years.
- H. Excess of Reserves – In the event Reserves exceed the minimum balance requirements, at the end of each fiscal year, any excess Reserves may be used in the following ways:
  - 1. Fund accrued liabilities, including but not limited to debt service, pension, and other post-employment benefits as directed and approved within the long-term financial plan and the annual budget resolution. Priority will be given to those items that relieve budget or financial operating pressure in future periods;
  - 2. Appropriated to lower the amount of bonds or contributions needed to fund capital projects in the County's CIP;
  - 3. One-time expenditures that do not increase recurring operating costs that cannot be funded through current revenues. Emphasis will be placed on one-time uses that reduce future operating costs; or
- I. Periodic Review of the Funding Level Target – At a minimum, during the budget process staff shall review the current and five-year projected Reserves to ensure that they are appropriate given the economic and financial risk factors the City is subject to.

**IV. QUALITY CONTROL AND QUALITY ASSURANCE**

It is the responsibility of the Finance Director to ensure the presence of procedures that provide sufficient guidance to affected City personnel to fulfill the intent of this policy. This policy will be reviewed annually and updated on an as-needed basis.

**V. REPORTING**

The City Treasurer will report on the balance of the General Fund Economic Reserve in the Treasurer’s monthly and quarterly reports. The Finance Director will report on the balance of the General Fund Economic Reserve as part of the Mid-Year Budget Review, Annual Budget adoption, and Comprehensive Annual Financial Report/fiscal-year end audit.