



General Fund Unassigned Fund Balance (Reserve) Policy and Direction to Staff

Presentation to the Folsom City Council – December 12, 2023



The City Council directed staff to prepare an item to:

- (1) Review the General Fund Unassigned Fund Balance (Reserves) policy – the current policy requires a minimum of 15% of expenditures be held in reserve, and;
- (2) Confirm the policy of transferring any “excess” funds, if any, to the Capital Projects Fund at year-end to be used for “one-time” capital expenditures.

The General Fund Unassigned Fund Balance (Reserve) policy is established to ensure that the City's finances are managed in a manner which will:

- (1) Continue to provide for the delivery of quality services,
- (2) Minimize or eliminate the need to cut services because of temporary revenue shortfalls, and
- (3) Establish the reserves necessary to meet known and unknown future obligations and provide for the ability to respond to unexpected events.

Why Maintain Reserves?

Vision, Mission and Values:

Financial stability: Planning for the long term and making decisions in the short term to ensure the necessary resources are available to deliver City services and achieve goals established by the Council.

- Public entities intentionally accumulate and then maintain adequate reserves to help ensure both financial stability and the continued ability to provide essential services in difficult times.
- Establishing certain financial reserves protects the City against unexpected interruptions in revenues, vulnerability to Federal or State actions, adverse economic conditions, unpredictable one-time costs, and exposure to natural disasters and emergencies.

A. General Fund Reserve

The City shall maintain an Undesignated Fund Balance (reserve) for the General Fund of no less than 15% of the annual operating expenditures. The Undesignated Fund Balance will be used to provide for temporary financing for unanticipated extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity, economic recession, or an unexpected liability created by Federal or State legislative action. Funds shall be appropriated from the Undesignated Fund Balance only after the Finance Director and the City Manager have prepared an analysis and presented to City Council. The analysis shall provide sufficient evidence to establish that the remaining Undesignated Fund Balance is adequate to offset potential downturns in revenue sources and provide a sufficient cash balance for daily financial needs. The analysis shall address the nature of the proposed expenditure and the revenue requirement in subsequent budget years. **Prior to allocating funds from the Undesignated Fund Balance, the City Council shall find that an emergency or extraordinary need exists to justify the use of these funds.**

Funds shall be allocated each year in the budget process to replace any use of the Undesignated Fund Balance during the preceding fiscal year to maintain the balance of the Undesignated Fund Balance at the percentage set forth herein.

Current Policy – Cont.



B. Enterprise Funds

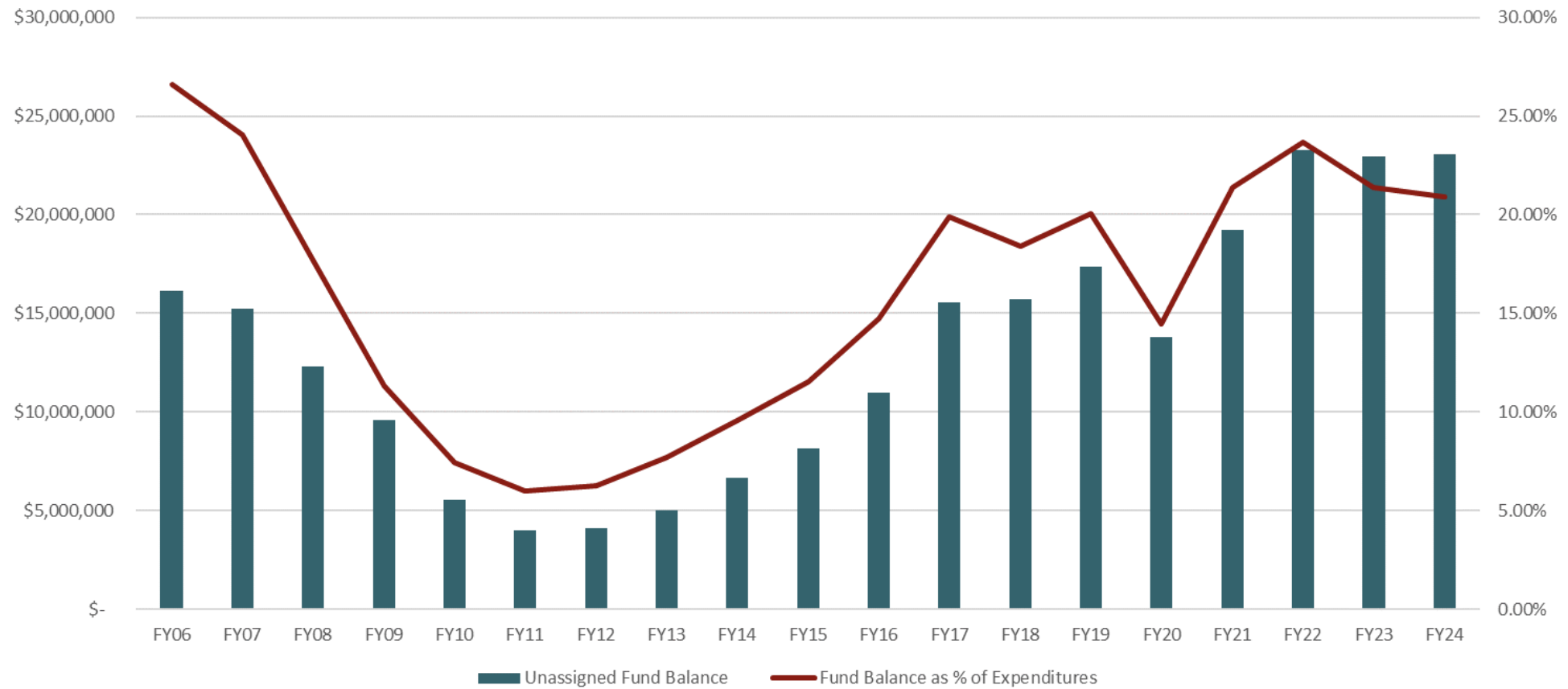
The City shall strive to maintain sufficient reserves in its enterprise funds necessary to maintain cash flow requirements, and contingencies for unforeseen operating or capital needs.

C. Transfer of Amounts in Excess of Specified Reserve

To the extent funds accumulate in excess of the percentage described in paragraph A, above, such funds shall be transferred to the Capital Projects Fund. This transfer shall be made upon completion of the annual financial audit. It is the intent of the City Council to affect such transfers through a Mid-Year Budget Resolution.

Current Reserve Level

City of Folsom General Fund Unassigned Fund Balance



Reserve Recommendations from the Government Finance Officers Association (GFOA)



- Maintain, at a minimum, an unassigned fund balance (reserves) in the General Fund of no less than two months of regular general fund operating expenditures, equivalent to about 17% of annual operating expenditures.
- A government's particular situation may require levels of unassigned fund balance in the general fund to be significantly more than these recommended minimum levels.
- Cities with higher reserve levels are better positioned to protect public services during economic downturns or other unforeseen events.

Determining an Appropriate Reserve Range

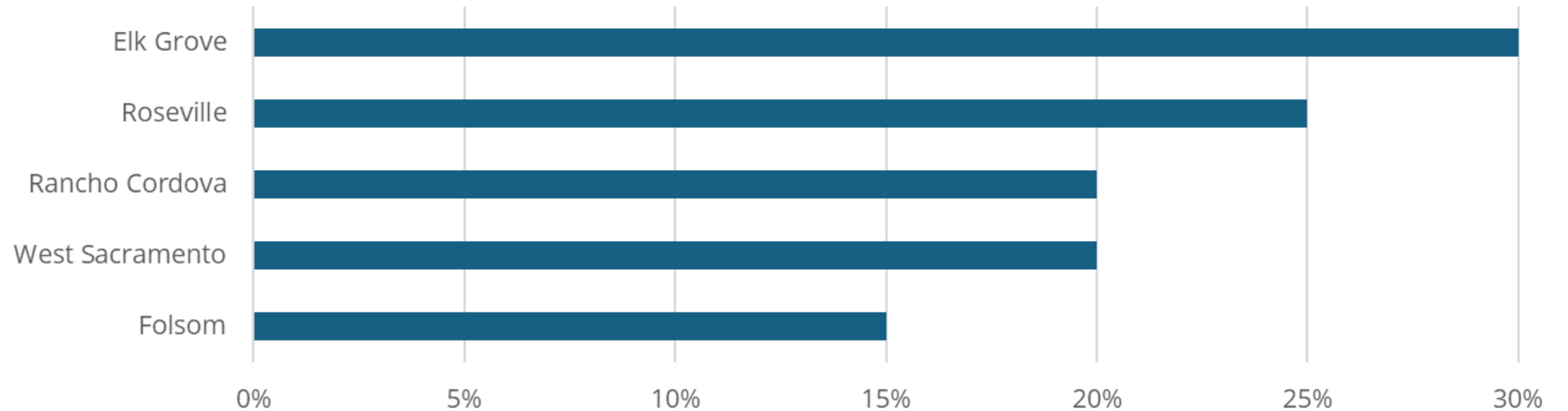


In preparing this item for the City Council, staff reviewed over 20 different reserve policies from city organizations and studied the GFOA's recent publication titled "Rethinking Reserves." In that publication, the GFOA noted a few important points regarding a reserve range versus a single target:

- It has found that a policy that identifies a floor and ceiling for reserves may be more useful to a city, rather than just a single target number.
- GFOA additionally states that a reserve range better supports the ongoing management of reserves.
- A range includes a floor that communicates that there is a minimum amount necessary to be a good steward of the community but also a ceiling that communicates that there is an upper limit on the usefulness of reserves and a point at which excess resources should be devoted to some other purpose.

Determining an Appropriate Reserve Range

Minimum General Fund Reserve Policy



Reserve Policy – Minimum Reserve



	Rancho Cordova	West Sacramento	Elk Grove	Roseville	Folsom
Annual General Fund Expenditures	\$ 75,601,695	\$ 67,461,013	\$ 85,996,000	\$ 211,776,207	\$ 110,102,175
General Fund Reserve	14,466,824	24,451,228	24,774,000	64,817,040	23,039,326
As % of Expenditures	19%	36%	29%	31%	21%
Other Reserve Funds	51,988,238	29,572,241	47,106,100	49,929,100	8,378,103 *
Total Reserves	\$ 66,455,062	\$ 54,023,469	\$ 71,880,100	\$ 114,746,140	\$ 31,417,429
Total as % of Gen. Fund Expenditures	88%	80%	84%	54%	29%

* Folsom's "other reserve funds" are Risk Management, Compensated Leaves and Capital Replacement used for capital purchases

Determining an Appropriate Reserve Range - Risk Assessment



In addition to comparing to neighboring cities, we can use a risk assessment template developed by the GFOA to help cities determine an appropriate reserve range based on their unique risk profile.

GFOA's risk assessment evaluates the City's vulnerability to:

- extreme events
- level of revenue stability
- volatility of expenditures
- dependency of other funds on the General Fund to cover shortfalls
- the rate of growth in the City and the City's ability to pay for services related to that growth
- the extent of unfunded infrastructure and capital needs within the City

The risk assessment template also takes into consideration the size of the government, budget practices, and borrowing capacity to ultimately develop a "risk score" and provide analytical guidance for selecting an appropriate reserve range.

Determining an Appropriate Reserve Range - Risk Assessment



With all risk factors taken into consideration, the result of the risk assessment for the City was a score of 20 out of 40, putting the City in the **low to moderate risk category** (scores totaling between 17-24 points).

GFOA recommends cities within this category consider adopting a reserve range somewhat higher than the GFOA minimum of 17%. **Their recommendation is a range of 17%-25% of expenditures.**

GFOA also recommend cities in this risk category consider an informal benchmarking study with peer agencies to provide further guidance, which the city completed.

Recommend Reserve Range

Staff recommends the City Council consider **replacing the current 15% reserve target with a reserve range.**

Based on the risk assessment and benchmarking with neighboring cities, the range **floor should be no less than the GFOA's recommended minimum of 17%** of expenditures.

An appropriate ceiling may be 20% of expenditures, consistent with the average reserve the City has held over the past eight years, and within the suggested range that resulted from the risk assessment.

Any reserves accumulated above the ceiling would be transferred to the Capital Projects Fund upon completion of the annual financial audit, per the current policy.

QUESTIONS / DIRECTION TO STAFF