



Office of the City Manager

Date: December 10, 2020
To: Budget & Finance Policy Committee
From: Dee Williams-Ridley, City Manager
Submitted by: Teresa Berkeley-Simmons, Budget Manager
Subject: General Fund Reserves Replenishment

RECOMMENDATION

Request that the Budget & Finance Policy Committee:

1. Discuss and determine funding allocations for FY 2021 based on the FY 2020 General Fund Excess Equity and Excess Property Transfer Tax to:
 - a. Fund the General Fund Reserves to meet long-term target funding goals; and
 - b. Replenish the \$11.4 million (Catastrophic - \$4.5 million and Stability - \$6.9 million) in General Fund Reserves used to balance the FY 2021 budget.
2. Authorize staff to present the approved General Fund Reserves allocations to the full City Council on December 15, 2020, for consideration and adoption.

BACKGROUND

On November 19, 2020, staff met with the Budget & Finance Policy Committee to discuss the FY 2020 General Fund Year-End Excess Equity and replenishment of General Fund Reserves. At that meeting staff proposed the following:

1. Allocate an additional amount of the Excess Equity balance to begin replenishment of the \$11.4 million General Fund Reserves used to balance the FY 2021 budget.
2. Allocate up to 25% of the FY 2020 Excess Property Transfer Tax above the baseline toward replenishing General Fund Reserves. This would result in an additional allocation of almost \$2.3 million. If this allocation is available and made annually, the General Fund Reserves could be replenished in 5-years, which is well within the 10-year requirement. As the City moves towards financial recovery, allocations to replenish the General Fund Reserves should be reassessed annually.

The General Fund Reserves Policy requires that to the extent possible a timeframe in which the General Fund Reserves will be repaid be developed. The replenishment schedule shall be adopted simultaneous with the appropriation to withdraw Reserve funds or, if infeasible due to emergency circumstances, no more than 3 months from the date of the withdrawal appropriation. Repayment shall begin no more than 5 years from the date of withdrawal and be completed within 10 years from the date of withdrawal.

At the November 19, 2020, Budget & Finance Policy Committee meeting, staff provided an initial FY 2020 Excess Equity calculation. Included in the FY 2020 Excess Equity calculation is the methodology used to determine the amount of Excess Equity dedicated to General Fund Reserves to meet target funding goals. Effective fiscal year 2017, the target level for General Fund Reserves was a minimum of 13.8% of 2017 Adopted General Fund Revenues with an Intermediate Goal of a minimum of 16.7% by the end of Fiscal Year 2020, if financially feasible. The Council adopted a long-term goal of having General Fund Reserves at a minimum of 30% of General Fund Revenues, to be achieved within no more than 10 years. The chart below incorporates the \$1.64 million General Fund Reserves allocation based on the FY 2020 Excess Equity calculation.

General Fund Reserves	Stability Reserve	Catastrophic Reserve	Reserve %
Beginning Cash Balance -	\$ 20.89	\$ 16.91	
Use of Reserves to balance FY 2021 Budget	\$ (6.90)	\$ (4.50)	
FY 2020 Allocation to Reserves	\$ 0.90	\$ 0.74	
% Allocation	55%	45%	
Reserve Balance	\$ 14.89	\$ 13.15	
Reserved for Camps Fund - Tuolumne Camp		\$ (3.30)	
Ending Cash Balance - Reserves	\$ 14.89	\$ 9.85	12.64%

Starting in FY 2018 to achieve the City’s intermediate and long-term General Fund Reserves, 50% of excess equity above the first \$1 million is allocated to General Fund Reserves. The chart below illustrates the amount of funds allocated to the General Fund Reserves in FY 2020 -- \$1.64 million -- as well as the \$2.64 million calculation for the unassigned excess equity.

GENERAL FUND EXCESS EQUITY CALCULATION			
FY 2020 Beginning Balance		\$	38,777,804
FY 2020 Revenues		\$	220,364,309
FY 2020 Expenditures			(219,015,176)
Available Balance		\$	40,126,937
Less:			
Excess Property Transfer Tax Revenue*		\$	(9,188,555)
Measure U1 Fund Balance		\$	(10,017,583)
Measure P Fund Balance		\$	(9,859,779)
G. F. Encumbrances (AAO #1)		\$	(7,191,365)
G.F. Carryover & Other Adjustments (AAO #1)		\$	(8,786,146)
Total Restricted & Carryovers		\$	(35,854,873)
FY 2020 Available Excess Equity		\$	4,272,064
Allocation to Reserves		\$	1,636,032
Excess Equity Balance		\$	2,636,032
<i>*Policy can be suspended by Council to address FY 2021 funding priorities. Amount reduced by \$406,952 to repay loan to the Workers Compensation fund for the purchase of Premier Cru included in AAO#1.</i>			

The City of Berkeley is committed to achieving long-term fiscal stability as well as mitigating the negative impacts or extraordinary risk from extraordinary events such as earthquakes, fires, floods, public health emergencies, pandemics, and economic volatility. The General Funds Reserves are comprised of two elements: a Stability Reserve and a Catastrophic Reserve. The Reserves shall not be used for ongoing or new programs or services.

Stability Reserves are maintained to mitigate loss of service delivery and financial risks associated with unexpected revenue shortfalls during a single fiscal year or during a prolonged recessionary period. The purpose of the Stability Reserves is to provide fiscal stability in response to unexpected downturns or revenue shortfalls, and not to serve as a funding source for new programs or projects.

Catastrophic Reserves are maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other catastrophic event. The Catastrophic Reserve will be used to respond to extreme, onetime events, such as earthquakes, fires, floods, civil unrest, terrorist attacks, public health emergencies and pandemics. The Catastrophic Reserves will not be accessed to meet operational shortfalls or to fund new programs or projects.

CONCLUSION

While staff envisions that, in most cases, repayment will start as soon as possible, the repayment guidelines are meant to reflect a commitment to maintain a sufficient reserve, while also recognizing that a use of the General Fund Reserves funds may occur during an economic downturn and it may be necessary to postpone repayment while the economy improves.

ENVIRONMENTAL SUSTAINABILITY

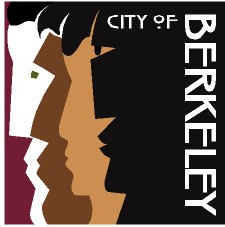
There are no identifiable environmental effects or opportunities associated with the act of adopting the budget/appropriations ordinance/amendments. Actions included in the budget will be developed and implemented in a manner that is consistent with the City's environmental sustainability goals and requirements.

CONTACT PERSON

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Attachment:

General Fund Reserves Policy



Office of the City Manager

SUPPLEMENTAL

Meeting Date: June 9, 2020

Item Number: #1

Item Description: Fiscal Year 2021 Proposed Budget Update Public Hearing #2

Submitted By: Teresa Berkeley-Simmons, Budget Manager

“Good of the City” Analysis:

The analysis below must demonstrate how accepting this supplement/revision is for the “good of the City” and outweighs the lack of time for citizen review or evaluation by the Council.

Attached is the draft amending the City Council’s General Fund Reserves Policy approved by the Budget & Finance Policy Committee (Policy Committee) on June 9, 2020.

The purpose of this supplemental is to provide the information presented and discussed at the Policy Committee meeting to the entire City Council for review.

The following item was discussed at the Policy Committee meeting.

- FY 2021 Budget Update – Amending the City Council’s Policy for the General Fund Reserves (June 9, 2020, Attachment 1)

Consideration of supplemental or revised agenda material is subject to approval by a two-thirds roll call vote of the City Council. (BMC 2.06.070)

A minimum of **42 copies** must be submitted to the City Clerk for distribution at the Council meeting. This completed cover page must accompany every copy.

Copies of the supplemental/revised agenda material may be delivered to the City Clerk Department by 12:00 p.m. the day of the meeting. Copies that are ready after 12:00 p.m. must be delivered directly to the City Clerk at Council Chambers prior to the start of the meeting.

Supplements or Revisions submitted pursuant to BMC § 2.06.070 may only be revisions of the original report included in the Agenda Packet.

RESOLUTION NO. ##,###-N.S.

AMENDING THE CITY COUNCIL'S POLICY FOR THE GENERAL FUND RESERVES

WHEREAS, the General Fund Reserves ensures the City's ability to maintain vital services to the community during times of economic uncertainty; and

WHEREAS, the City is committed to achieving long-term fiscal stability as well as mitigating the negative impacts of extraordinary risk such as earthquakes, fires, floods, public health emergencies and pandemics; and

WHEREAS, the current General Fund Reserve level of 17.43% is consistent with GFOA's best practice recommended minimum General Fund level of 16.7%; and

WHEREAS, specific portions of the reserves should be designated for catastrophic and stabilization purposes and should be reported separately from the General Fund Balance; and

WHEREAS, when using the General Fund Reserves the City should specify the purpose for the use of reserve funds, the time frame in which the reserve funds can be used, and how much will be used during that time frame. In addition the use and replenishment of the General Fund Reserves policy should allow flexibility in the timeframe in which the reserve funds can be used and the definition of catastrophic reserve should be amended to include public health emergencies and pandemics.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the attached exhibit titled General Fund Reserves Policy is hereby adopted.

City of Berkeley General Fund Reserves Policy

Policy

The General Fund is the City's primary operating fund. It is not connected to any one revenue source and may be used at the City's discretion. The General Fund is the operation fund that pays for general services provided by the City as well as public safety and capital improvements. The General Fund accounts for all general revenues and expenditures of the City related to the delivery of the City's general services not specifically collected or levied for other City funds.

The City of Berkeley is committed to achieving long-term fiscal stability as well as mitigating the negative impacts of extraordinary risk such as earthquakes, fires, floods, public health emergencies, pandemics, and economic volatility. A key attribute of a financially stable organization is appropriate reserves. Strong reserves position an organization to weather significant economic downturns more effectively, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies such as natural disasters and other catastrophic events. Establishing an adequate General Fund Reserves policy allows the City to mitigate current and future financial risks resulting from economic instability or catastrophic loss.

Functions of Reserves: Stability and Catastrophic

The City of Berkeley will establish and maintain adequate General Fund Reserves ("Reserves") to prepare for the impact of economic cycles and catastrophic events and assure fluctuations in revenue do not impede the City's ability to meet expenditure obligations. When revenues fail to meet the City's normal operating requirements, or the need for disbursements temporarily exceeds receipts, General Fund Reserves, upon a two-thirds vote of the City Council, may be used in accordance with the standards set forth herein.

The Reserves shall be comprised of two elements: a Stability Reserve and a Catastrophic Reserve. The Reserves shall not be used for ongoing or new programs or services.

A **Stability Reserve** will be maintained to mitigate loss of service delivery and financial risks associated with unexpected revenue shortfalls during a single fiscal year or during a prolonged recessionary period. The purpose of the Stability Reserve is to provide fiscal stability in response to unexpected downturns or revenue shortfalls, and not to serve as a funding source for new programs or projects.

A **Catastrophic Reserve** will be maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other catastrophic event. The Catastrophic Reserve will be used to respond to extreme, onetime events, such as earthquakes, fires, floods, civil unrest, terrorist attacks, public health emergencies and pandemics. The Catastrophic Reserve will not be accessed to meet operational shortfalls or to fund new programs or projects.

Funding and Functions that are NOT Part of the General Fund Reserves

Not included in the General Fund Reserves are funds that are set aside for a specific purpose. This would include restricted, committed, and assigned funds.

- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action by the City Council.
- Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

Target Reserves Levels

The General Fund Reserves consists of the total of the Stability Reserve and the Catastrophic Reserve. 55% of the Reserves shall be allocated to the Stability Reserve and 45% to the Catastrophic Reserve.

Effective immediately, the target level for the Reserves shall be a minimum of 13.8% of 2017 Adopted General Fund Revenues with an Intermediate Goal of a minimum of 16.7% by the end of Fiscal Year 2020, if financially feasible. The Council hereby adopts a long-term goal of Reserves of a minimum of 30% of General Fund Revenues, to be achieved within no more than 10 years. Based on a risk assessment (according to best practices), to be updated at least every five years, the Council may consider increasing or lowering the General Fund Reserves level.

Starting in Fiscal Year 2018, to achieve the City's intermediate and long-term Reserves Goals, 50% of Excess Equity above the first \$1 M shall be allocated to Reserves. Additional Excess Equity may be allocated to Reserves by a majority vote of the City Council.

Methodology to Meet Reserve Levels

The General Fund Reserves are separate from the General Fund Balance. The sum of the Stability Reserve and the Catastrophic Reserve and the amount determined to be Excess Equity is deemed to be General Fund Unassigned Fund Balance. Unassigned Fund Balance is the residual classification for the City's General Fund and includes all spendable amounts not contained in the other classifications.

Excess Equity is most commonly a non-recurring source of revenue and shall only be used for one-time, non-recurring expenditure needs of the City. Excess Equity should be reported separately from the General Fund Reserves.

Attaining the long-term goal of General Fund Reserves of a minimum of 30% of General Fund Revenues is important to the long-term financial health and stability of the City.

Draw-down of the General Fund Reserves

For any draw-down from General Fund Reserves, Council shall adopt a plan that includes the following:

- The specific purpose for the use of General Fund Reserves,
- The amount of General Fund Reserves that are needed based upon long-term revenue volatility and long-term economic need; and
- To the extent practicable, a timeframe in which General Fund Reserves will be repaid.

Recognizing that the length of the pandemic and that the length of the economic emergency is unknown, expenditures from the Catastrophic and Stability Reserves shall not exceed one-third (1/3) of each reserve level per incident.

Replenishment of the General Fund Reserves

The City Manager shall recommend a replenishment schedule for all monies proposed for appropriation from the General Fund Reserves. The replenishment schedule shall be adopted simultaneous with the appropriation to withdraw Reserve funds or, if infeasible due to emergency circumstances, no more than 3 months from the date of the withdrawal appropriation. Repayment shall begin no more than 5 years from the date of withdrawal and be completed within 10 years from the date of withdrawal. While staff envisions that, in most cases, repayment will start as soon as possible, the repayment guidelines are meant to reflect a commitment to maintain a sufficient Reserve, while also recognizing that a use of Reserve funds may occur during an economic downturn and it may be necessary to postpone repayment while the economy improves.

Usage of the General Fund Stability Reserve

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.
2. A hiring freeze has been implemented, with exceptions only for designated positions as appropriate to maintain essential and core services to the public that support public health, safety, and welfare. Essential services will be determined at the time of fiscal emergency with a recommendation from the City Manager to be approved by City Council.
3. User fees and services charges are being fully utilized for those services for which they were collected.
4. A declaration of fiscal emergency is made by ordinance before drawing on

the reserves. Fiscal emergency is defined as the following:

- a. When General Fund revenues increase less than 3% from the prior fiscal year.
- b. When the City needs to mitigate State or Federal budget actions that may reduce revenue or increase expenditures.
- c. When the City must absorb liability settlements in excess of available resources in the City's litigation designation.

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 determined at the time of the fiscal emergency with a recommendation from the City Manager to be approved by the City Council.
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.
3. Operational positions shall not receive Stability Reserve funds for longer than two years except in extreme conditions.