

RESOLUTION NO. 2020-C37

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF AZUSA
ADOPTING A REVISED GENERAL FUND RESERVE POLICY**

WHEREAS, the City of Azusa (“City”) desires to maintain current and comprehensive financial policies; and

WHEREAS, the City adopted a formal General Fund Reserve Policy on April 20, 2015; and

WHEREAS, the City updated the General Fund Reserve Policy on June 18, 2018 to include additional reserve categories; and

WHEREAS, the level of reserves and recommended uses are reviewed each year at budget adoption; and

WHEREAS, the City desires to revise the amount of some of the reserve categories in the General Fund Reserve Policy (Attachment A) with the adoption of the Fiscal Year 2020/21 Budget;


**THE CITY COUNCIL OF THE CITY OF AZUSA DOES RESOLVE AS
FOLLOWS:**

SECTION 1. Approve and adopt the General Fund Reserve Policy attached hereto as Attachment A;

SECTION 2. Authorize City staff to take all actions necessary to carry out the Policy.

SECTION 3. The City Clerk shall certify as to the adoption of this resolution.

PASSED, APPROVED and ADOPTED this 15th day of June, 2020.



Robert Gonzales
Mayor

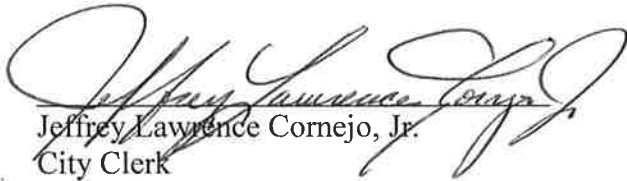
ATTEST:


Jeffrey Lawrence Cornejo Jr.
City Clerk


STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.
CITY OF AZUSA)

I HEREBY CERTIFY that the foregoing Resolution No. 2020-C37 was duly adopted by the City Council of the City of Azusa at a regular meeting held on the 15th day of June 2020, by the following vote of the Council:

AYES: COUNCILMEMBERS: GONZALES, MACIAS, ALVAREZ, AVILA, MENDEZ
NOES: COUNCILMEMBERS: NONE
ABSENT: COUNCILMEMBERS: NONE


Jeffrey Lawrence Cornejo, Jr.
City Clerk

APPROVED AS TO FORM:



Best Best & Krieger, LLP
City Attorney



CITY OF AZUSA

GENERAL FUND RESERVE POLICY

POLICY STATEMENT AND PURPOSE:

It is the policy of the City of Azusa (City) to establish sound financial policies that are guidelines for prudent decision-making related to financial matters. The purpose of this policy is to establish a target minimum level of designated reserves in the General Fund to:

- Reduce the risk of financial impacts resulting from a natural disasters or other catastrophic events;
- Respond to the challenges of a changing economic environment, including prolonged downturns in the local, state, or national economy;
- Demonstrate continued prudent fiscal management and creditworthiness; and
- Provide funding stability for core services and infrastructure funded through the General Fund.

BACKGROUND:

General Fund reserves are classified into two categories: Restricted and Designated. Restricted reserves are those that are not considered available due to financial, accounting, or legal restrictions. Designated reserves are established by Council policy for an intended purpose and are available for use per Council direction.

In addition, the Governmental Accounting Standards Board (“GASB”) Statement No. 54 defines five specific classifications of fund balance. The five classifications are intended to identify whether the specific components of fund balance are available for appropriation and are therefore “Spendable.” The classifications also are intended to identify the extent to which fund balance is constrained by special restrictions, if any.

The five classifications are:

<u>CLASSIFICATIONS</u>	<u>NATURE OF RESTRICTION</u>
Non-spendable	Cannot be readily converted to cash
Restricted	Externally imposed restrictions

Committed	City Council imposed commitment
Assigned	City Manager assigned purpose/intent
Unassigned	Residual balance not otherwise restricted

Restricted Fund Balance Components:

- *Non-spendable* – resources which cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.
- *Restricted* – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted Fund Balance Components:

- *Committed* – resources which are subject to limitations the government imposes upon itself at its highest level of design making (City Council) and that remain binding unless removed in the same manner.
- *Assigned* – resources neither restricted nor committed for which a government has a stated intended use as established by the City Council or a body or official (management) to which the City Council has delegated the authority to assign amounts for specific purposes.
- *Unassigned* – resources which cannot be properly classified in one of the other four categories. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

GUIDING PRINCIPLES:

Following sound financial practices and adhering to the Government Finance Officers’ of American (GFOA) recommendations, the City’s designated reserves include reserves for known and unknown contingencies, which take into consideration the:

- Diversity of revenue base
- Cyclical nature of revenue
- Changes in community priorities
- Frequency of budget surpluses/deficits
- Cash flow management practices

POLICY:

General Fund Internally Restricted Reserves and Funding Levels

The City will set aside funds into four (4) designated reserves to address unforeseen emergencies or disasters, significant changes in the economic environment, and key infrastructure and capital projects. These include the Budget Stabilization and Catastrophic Event Reserve, Capital Assets and Infrastructure Replacement Reserve, Insurance Reserve, and Retiree Benefits Reserve.

Budget Stabilization and Catastrophic Event Reserve. Funds reserved under this category shall be used to mitigate, should they occur, annual budget revenue shortfalls (actual revenues less than projected revenues) due to changes in the economic environment and/or one-time expenditures that will result in future efficiencies and/or budgetary savings. Examples of “economic triggers” and one-time uses include, but are not limited to:

- Significant decrease in property or sales tax, or other economically sensitive revenues;
- Loss of businesses considered to be significant sales tax generators;
- Reductions in revenue or increases in expenditures due to actions by the state/federal government;
- Workflow/technical system improvements to reduce ongoing, personnel costs and enhance customer services;
- One-time maintenance of service levels due to significant economic/budget constraints; and
- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

Funds reserved under this category shall also be used to mitigate costs associated with unforeseen emergencies, including natural disasters or catastrophic events. Should a catastrophic disaster or loss of a significant source of the City’s property and sales tax revenue occur, the required reserve level should be adequate to meet the City’s immediate financial needs. For example, in the event of natural disaster, this Reserve would provide necessary coverage for basic operating expenses for approximately 90 days, including salary and benefits for safety and non-safety City employees, while still meeting debt service obligations. This time frame would enable the City to explore other available cash alternatives. Likewise, should the City experience a loss of a primary property tax payer or sales tax contributor, the reserve level in the Budget Stabilization and Catastrophic Event Fund would provide for a two-year transition period, giving the City adequate time to realign its operating costs with available resources, while minimizing service impacts.

Should unforeseen and unavoidable events occur that require the expenditure of City resources beyond those provided for in the annual budget, the City Manager or designee shall have authority to approve appropriations from the Budget Stabilization and Catastrophic Event

Reserve. The City Manager or designee shall then present to the City Council for authorization a budget amendment detailing the nature of the emergency or economic event triggering the appropriation of the reserve funds.

The City's minimum funding target for the Budget Stabilization and Catastrophic Event Reserve is set to 20% of the General Fund annual operating expenditures (minus one-time expenditures).

After allocating a minimum of 20% of the General Fund fund balance to the Budget Stabilization and Catastrophic Event Reserve, the City Manager or designee will recommend to City Council options for funding the remaining three (3) reserve accounts during the annual budget review and adoption process based on funds availability and assessed needs at that time.

Capital Assets and Infrastructure Replacement Reserve. The City will maintain a Reserve for Capital Assets and Infrastructure Replacement. These reserves will be utilized to make major capital asset purchases such as information technology upgrades, fleet vehicles, and various equipment. Additionally, this reserve will be utilized to make improvements to and replacement of City buildings and infrastructure. Recommendations for use of these reserves will be made during the annual budget review and adoption process.

This Reserve will be funded at \$1,500,000 with the adoption of the Fiscal Year 2020/21 budget. It is the long-term goal of the City to build and replenish this reserve in an amount equal to the minimum of \$1,500,000 annually or the estimated replacement cost of all City capital assets at the end of their design life and to use this reserve for such replacements.

Insurance Reserve. The City will maintain a Reserve for Liability and Worker's Compensation insurance claims. The City currently has a \$250,000 Self-Insured Retention (SIR) for both insurance programs. This means, the City is responsible for the first \$250,000 of all insurance claims, per claim, before the City's insurance provider(s) will take on claim costs over the SIR. While the City does place into its annual budget some amounts for claims expenses, there is no way to predict if/when claims will be filed that incur costs beyond the City's adopted budget. This reserve will provide set aside funding in the event claims expenses need to be paid above what the City anticipated during the annual budget review and adoption process.

This Reserve will be funded at \$1,500,000 with the adoption of the Fiscal Year 2020/21 budget. It is the goal of the City to maintain this reserve annually at the \$1,500,000 level. Settlements of claims above the City Manager's approval authority will still be brought before the City Council for approval. At that time, the City Manager or designee will report to Council whether the claims settlement will be covered by the budgeted claims appropriations or this reserve, or a portion thereof.

Retiree Benefits Reserve. The City will maintain a Reserve for the funding of its long-term Retiree Benefits liabilities, such as pension and other-post-employment costs. Rising pension and medical costs places a constraint on the City's annual budget. In order to mitigate the impacts on the City's future budgets due to rising retiree benefits costs, funds are being set aside to pay for increased pay-as-you outlays, establish interest bearing trust accounts to be used in the event the City has trouble meeting its annual outlays for such benefits, or to be utilized to establish programs that will reduce the City's long-term financial exposure for retiree benefits.

This reserve will be funded at \$2,000,000 with the adoption of the Fiscal Year 2020/21 budget. It is the goal of the City to maintain this reserve annually at the \$2,000,000 level. Future funding and uses of this reserve will be reviewed annually and recommendations for additional set aside amounts will be made each year by the City Manager or designee to the City Council during the budget review and adoption process subject to overall funds availability.

The General Fund Reserve Policy, comprising of the four (4) Reserves is reviewed by the City Council as part of the annual budget review and adoption process. Appropriations of any General Fund internally restricted reserves require formal Council authorization.

Replenishment of Budget Sustainability and Catastrophic Event Reserves

In keeping with the principles discussed in this policy, when the Budget Sustainability and Catastrophic Event Reserves is used, City Council will develop a one (1) to five (5) year reserve replenishment plan to meet the minimum threshold of the Budget Sustainability and Catastrophic Event Reserves, amounting to 20% of the General Fund's ongoing, operating expenditures prior to replenishing the other reserve funds.

Excess Fund Balance

At the end of each fiscal year, the Finance Department reports on the audited year-end financial results. Should actual General Fund revenues exceed expenditures and encumbrances, a year-end operating surplus shall be reported. Any year-end surplus that results in the General Fund fund balance exceeding the minimum Budget Sustainability and Catastrophic Event Reserve level required by this reserve policy shall be available for allocation for the following, subject to Council approval:

- Offset projected future deficits
- Anticipated intergovernmental fiscal impacts
- One-time funding, non-recurring needs
- Loan repayment acceleration

Upon funding of the above, the division of remaining surplus balances shall be recommended to the City Council by the City Manager or designee, between the Capital Assets and Infrastructure Replacement, Insurance, and Retiree Benefits Reserves, based on most critical needs at that time.