

City of San Bernardino

General Fund Reserve Policy

Adopted November 21, 2018

I. PURPOSE

To 1) provide a framework for the allocation of available General Fund resources to various categories of budget reserves and 2) provide guidelines under which these reserves may be utilized for operating or capital purposes with approval by the Mayor and City Council.

II. BACKGROUND

Maintenance of sufficient budget reserves is a central component of sound financial management practices. Reserves are designed to set aside funding today for future liabilities, capital projects and capital purchases; assist in maintaining stable service levels in times of declining revenues and/or unanticipated operating expenditures; and facilitate the continuation of services in the event of natural disasters or fiscal emergencies.

The City of San Bernardino annually adopts an operating budget that allocates resources to City departments for the provision of services to the public. To determine the amount of funds available for appropriation, City management develops a revenue projection and notes the available reserve balance from the prior fiscal year. Proposed expenditures are then matched against these available resources. If proposed expenditures exceed projected revenue, utilization of available reserves may be used to meet the proposed level of spending thus decreasing the available reserve. When projected revenue exceeds proposed expenditures, the surplus increases the opening balance of available reserves if the budget is not amended to use these surplus funds. The City also has known capital needs that include facilities, equipment, vehicle, and infrastructure replacement. This policy's goal is to ensure that sufficient resources exist to address these anticipated needs, as well as unanticipated needs that may arise on an infrequent basis.

III. POLICY

1. General Fund Operating Reserve: It shall be the policy of the City of San Bernardino to maintain a General Fund operating reserve equal to 25% of General Fund budget appropriations. This reserve is to be further broken down as follows:
 - A. An Emergency Reserve of 15% - This reserve account is established for the purpose of addressing any extremely unusual and infrequent occurrences, such as a major natural disaster or a major unforeseen legal settlement or judgment. Utilization of the Emergency Reserve may only occur after the declaration of an emergency by a majority of the City Council. Following the resolution of the emergency, staff must present a plan to the Mayor and City Council to return the Emergency Reserve to the 15% minimum level as quickly as is practicable given the unique circumstances and requirements of each emergency.
 - B. An Economic Contingency Reserve of 10% - This reserve account is established for the purpose of providing a mechanism to allow for a measured and thoughtful reduction in expenditures during times of economic downturn. Utilization of the Economic Contingency Reserve requires approval by a majority of the City Council. When it is determined that the economic downturn has ended and the City's financial condition is improving, staff is required to present a plan to the Mayor and City Council to return the economic contingency reserve to the 10% minimum level over a period of no more than five years.

If the General Fund operating reserve exceeds 30% of General Fund budget appropriations, staff is required to present a plan to the Mayor and City Council to utilize excess funds consistent with its adopted Goals and Objectives to a point that the balance is again consistent with the policy. Uses could include accelerating funding into the special reserves noted below in this policy; capital projects, vehicle, or equipment purchases not originally planned for the current fiscal year; early repayment of outstanding debt obligations; or other expenditures of a one-time nature.

If an action of the City Council for a reason other than those described above reduces the General Fund operating reserve balance below the 25% level required by this policy, staff must include an allocation to reserves in the

following budget cycle sufficient to restore the reserve balance to the 25% minimum balance required by this policy.

2. General Fund Special Reserves: It shall be the policy of the City of San Bernardino to establish General Fund special reserves to provide funding for future anticipated liabilities and capital needs. These reserves shall be segregated into the following four accounts:
 - A. Risk Management Reserve – This reserve account is established to fund anticipated liabilities associated with general liability and workers' compensation claims against the City. Its balance will be initially determined, and thereafter adjusted, based on the balance of available reserve funds after meeting the General Fund Operating Reserve requirement and then giving consideration to both the outstanding balance of claims as well as to the anticipated timing of claim payments.
 - B. City Facilities Reserve – This reserve account is established to fund the cost of replacing city buildings and park facilities. Its balance will be initially determined, and thereafter adjusted, based on the balance of available reserve funds after meeting the General Fund Operating Reserve requirement and then giving consideration to the facilities needs analysis maintained by the Public Works department.
 - C. Vehicles and Equipment Reserve – This reserve account is established to fund the cost of replacing General Fund-funded city vehicles and major equipment (including technology equipment). Its balance will be initially determined, and thereafter adjusted, based on the balance of available reserve funds after meeting the General Fund Operating Reserve requirement and then giving consideration to the vehicle and equipment assessment needs analyses maintained by the Fleet division and the Information Technology department.
 - D. Infrastructure Reserve – This reserve account is established to provide additional funding for the cost of replacing city infrastructure such as roads, sidewalks, and storm drains. These funds are to supplement dedicated non-General Fund revenue streams and competitive grants that also fund these types of projects. These funds may also provide for the match requirement on a grant when other resources are not available. No specific balance target is spelled out by this policy, but the reserve is

established for the receipt of funds for this purposes when directed by the Mayor and City Council.

The goal for General Fund special reserves is to fund at a level sufficient to address anticipated requirements over a projected period of 30 years, subject to availability of funds and prioritization of funding between the four categories of special reserves by the Mayor and City Council. As a part of each annual budget presented to the Mayor and City Council, staff will update the balances for the four categories of special reserves and any anticipated utilization or additions to the General Fund special reserves.

IV. PROCEDURES

At the conclusion of each fiscal year and at each fiscal year's mid-year budget update, the General Fund reserve levels shall be reviewed by staff and detailed to the Mayor and City Council. The City Manager shall make recommendations for additions to or disbursements from the reserve funds consistent with this policy.