

# **City of Coachella**

## **Fiscal Reserve Policy**

### **Introduction**

The purpose of this policy is to ensure that the City has sufficient fiscal reserves (fund balance and net position) to address unforeseen economic or emergency conditions. It is the intent of this policy to commit a fiscally responsible amount of reserves to be used in the event of unforeseen economic downturns or emergency conditions that require the use of City funds to maintain consistent service levels. These reserves are intended to be utilized after other budget measures such as cuts to unnecessary appropriations and freezes in budget increases have been implemented.

The reserve thresholds contained in this policy are derived based on a prudent fiscal policy basis and are intended to balance the City's mission to maximize the public benefit to residents while still having sufficient reserves to address unforeseen economic and emergency conditions.

### **General Fund**

The primary driver of General Fund resource requirements is total general fund expenditures including budgeted transfers out. As a result, funds committed for reserve purposes will be measured in terms of months of the current year operating budget. Lower limit reserve requirements are viewed in relation to best practices promulgated by the Government Finance Officers Association which state that reserves should not be set at less than 2 months of General Fund operating expenditures (16.7%). Upper limit reserve requirements are considered in relation to recommendation of the Civic Federation that reserves not exceed 6 months (50%). These upper and lower limit thresholds provide basis guidelines and are consistent with the historical financial results of the City.

Based on these considerations, a portion of the City's General Fund balance will be committed to fiscal reserves equal to 3 months of the applicable fiscal year total general fund budget (25%). Proposed budgets will not recommend appropriations that require the use of these committed reserve funds. The use of these committed reserves will be approved by specific resolution of the City Council.

### **Water Authority**

The water authority primarily derives its revenues from utility fees charged to rate payers. Given the nature of the authority, reserves are considered prudent for two purposes. First, unforeseen economic or emergency conditions may arise. Second, the Authority experiences significant fluctuations in revenues regardless of approved rates from fluctuations in weather, temperature

and drought conditions. To accommodate these two situations, the Authority will maintain net position reserves composed of emergency funds and rate stabilization funds.

### ***Emergency Reserves***

Since rates are set for full cost recovery as stipulated by proposition 218, long term emergency costs would be recovered through rate increases. Emergency reserves would be required in the short term to cover emergency costs. To facilitate these temporary needs, the emergency reserve level will be retained at \$250,000. Proposed budgets will not recommend appropriations that require the use of these committed reserve funds. The use of these committed reserves will be directly associated with an emergency situation (not requiring an official emergency declaration) approved by specific resolution of the City Council.

### ***Rate Stabilization Reserves***

Given regular significant fluctuations in water revenues, it is fiscally prudent to retain a portion of unrestricted net position balances during years with higher sales to cover budgeted expenses in years with lower sales. These reserves will be available for operating expenses in years with lower water sales.

In a year where current year water sales exceed the average sales for the previous five-years, 50% of the current year increase when compared to the prior year will increase the rate stabilization reserve balance. Rate stabilization reserves are available for operating budget appropriations in a year where sales decrease by more than 10% compared to the immediate preceding fiscal year up to the total amount of the rate stabilization reserve balance or the amount of decreased sales in excess of 10% when compared to the preceding fiscal year. In no year will the stabilization reserves exceed the largest single year decrease in the preceding 5 fiscal years.

### ***Sanitary District***

The Sanitary District primarily derives its revenues from utility fees charged to rate payers. These fees are largely fixed annual assessments. Given the nature of the District, reserves are considered prudent to offset unforeseen economic or emergency conditions that may arise.

Since rates are set for full cost recovery as stipulated by proposition 218, long term emergency costs would be recovered through rate increases. Emergency reserves would be required in the short term to cover emergency costs. To facilitate these temporary needs, the emergency reserve level will be retained at \$200,000. Proposed budgets will not recommend appropriations that require the use of these committed reserve funds. The use of these committed reserves will be directly associated with an emergency situation (not requiring an official emergency declaration) approved by specific resolution of the City Council.

### ***Insufficient Unrestricted Fund/Net Position Balances on Implementation***

On initial implementation and periodically fund/net position balances may not be sufficient to meet these reserve requirements. When fund/net position balances are not sufficient to meet reserve requirements, a plan will be documented to remedy the reserve deficiency using a combination of budget modifications and rate/revenue increases. This plan should not exceed five years.