



STAFF REPORT
1/26/2022

TO: Honorable Mayor and City Council Members
FROM: Nathan Statham, Finance Director
SUBJECT: Implementation of a Fiscal Reserve Policy

STAFF RECOMMENDATION:

Approve Resolution No. 2022-02 adopting a fiscal reserve policy.

BACKGROUND:

The City has historically maintained an informal fiscal reserve policy of 20% of the current year budgeted expenditures. The City has consistently maintained reserves in excess of the informal policy threshold. Per current financial reporting standards, the reserve balances have not been specifically classified or presented as committed reserve balances in the City's financial statements due to the informal nature of the current reserve policy.

DISCUSSION/ANALYSIS

The informal reserve balance for the General Fund for fiscal year 2021-22 is \$5,464,429. This balance is not reflected in the City's financial statements as a reserve balance and is included in the unrestricted fund balance. The presentation of the reserve balance as part of the unrestricted fund balance leads public readers of the financial statements to believe that the entire unrestricted fund balance (projected to be \$10.6 million in the fiscal 2021-22 budget) is available for general use. This presentation is not consistent with Council's intentions to maintain a minimum reserve balance and potentially misrepresents the amount of financial resources available for general expenditure.

Implementing a fiscal reserve policy will allow for the fiscal reserve to be presented as a separate committed component of fund balance. This will properly convey the fiscal resources available for general expenditure to the public readers of the City's financial statements.

This action will also allow for fund balance assignments to be presented in the City's financial statements. These assignments will reflect known uses for reserves so members of the public will be aware of the need for financial resources and not presume the funds are available for general use.

The Water Authority and Sanitation District have needs for emergency reserves to cover temporary cash needs in the event of emergencies or deteriorated economic conditions. The reserve requirements of the fiscal reserve policy will be calculated into the utility rates established under prop 218.

The lack of a formal fiscal reserve policy has been detrimental to the City's credit rating process during recent bond issuances and the adoption of such a policy is a condition of the 2022 Water Revenue Refunding Bonds currently being issued by the Water Authority.

FISCAL IMPACT:

This item will not have a direct fiscal impact in that no financial resources will be expensed. The item will provide for additional financial statement clarity and place limited restrictions on the use of fund balance reserves.

EXHIBITS:

1. Resolution No. 2022-02
2. Fiscal Reserve Policy - Exhibit A