



TO: THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL
MEETING DATE: SEPTEMBER 2, 2025
FROM: TOM DUBOIS
SUBJECT: GENERAL FUND OPERATING & TOTAL RESERVES POLICIES

RECOMMENDATION:

Council reviewed and approved a reserve policy in Nov 4, 2024. We are recommending an update to that policy.

BACKGROUND:

Last November the Council discussed and approved official General Fund Operating Reserve and Total General Fund Reserve policies. The staff report and policies from that meeting are attached. There was a typo in the Operating Reserve policy, where the staff report suggested a minimum of 20% but the policy appeared to be a copy of the Total Reserve Policy with a minimum of 35%. The Total Reserve Policy also has a minimum of 35% and that amount includes capital reserves. It doesn't make sense that the Operating Reserve on its own would be at 35% and then when we add in capital reserves it remains at 35%. We are suggesting that Council discuss and adopt a policy for just operating reserves, with a minimum of 20% and a maximum of 45%.

DISCUSSION:

A sufficient General Operating Reserve should be able to keep a city running for 2-3 months according to the Government Finance Officers Association (GFOA). The use of these funds would be for unexpected expenses and maintaining city services during an economic downturn. In Sutter Creek's case, staff believe that a minimum of 20% of General Fund annual revenues is an appropriate level to maintain in the Operating Reserve. Operating Reserves include all reserves not dedicated to capital expenses or enterprise funds (streets and wastewater).

In terms of fund levels, Sutter Creek should maintain Operating Reserves for the 2025-26 fiscal year of 20% of general fund expenses (\$2.9M) or \$580,000. According to the budget for this fiscal year, it is projected that Sutter Creek will have \$1.1M in its General Fund Operating Reserve at the end of the year. This excludes all capital funds as well as Measure P funds and equates to a reserve of 38% of our operating budget. In an emergency, Measure P funds are

technically available as general fund money, but staff understands that Measure P is to be treated effectively as a capital fund.

In reviewing our reserve policy and budget, we realized that one thing that may have created confusion is a change in how we are managing general fund accounts including Fund 01. The City practices in prior years were to create lots of named “accounts” in the general fund and money would transfer in and out frequently. There were many funds with negative balances that would be carried forward.

However, those negative balances were eventually coming out of the general fund. This is like what happened with the Highway mitigation fund, as an example – loans built up over time until they needed to be addressed or paid by some source of funding.

Over the last 2 years, Mason and I have worked to clean up those accounts, combining general fund accounts to eliminate negative balances. The impact of that has been that what is in fund 39 titled “General Fund Reserve” appears small compared to FY2022, and Fund 01 is large. General Fund 01 is now operating more like a reserve fund.

You can think of it as a Checking account and Savings accounts. In the past the city transferred funds into lots of savings accounts but allowed some of them to go negative. Now we are effectively holding savings in our checking account (Fund 01).

Our overall reserves are healthy with a total of \$2.2M expected at the end of FY26. Taking out Measure P and Capital Funds and zeroing out the Road CIP Fund that has a negative balance leaves us with \$1.1M in general fund reserves. During the budget discussion we focused on the \$360K in Fund 39 as the sole reserves, which was technically incorrect. Most of the funds in the table are general fund reserves, and we failed to highlight the shift in how Fund 01 is being used. Apologies for confusion this may have caused.

	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
<i>Fund Balance / Reserve Types:</i>				
01 - General Fund	\$ 270,855	\$ 1,094,068	1,014,150	\$ 1,014,150
39 - General Fund Reserve	697,390	378,817	260,752	360,271
95 - General Operating Reserve	102,421	105,322	245,432	-
96 - General Capital Reserve	49,677	50,573	50,573	50,573
Measure P reserves			118,066	602,720
29 - Swimming Pool Reserve	(57,591)	(30,455)	(32,431)	-
48 - ARPA Reserve	575,152	-	-	-
60 - Bypass Mitigation Fund	88	90	90	-
81 - Visitor Center Fund	(22,470)	-	-	-
86 - General Savings Fund	72,113	73,377	73,377	-
87 - Refuse Fund	3,354	3,415	3,415	3,586
88 - City Council Fund	20,564	20,935	20,935	20,935
91 - Road CIP Fund	113,909	(483,270)	(483,270)	(483,270)
92 - Pension & Insurance Fund	136,389	138,849	138,849	138,849
93 - Vehicle Capital Fund	17,183	17,893	17,893	17,893
94 - Vacation Fund	91,086	50,515	50,515	50,515

RECOMMENDATION:

Staff recommends that Council approve a motion to Update the Operating Reserve Policy and maintain the Total Reserve Policy “as is.”