



TO: THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL
MEETING DATE: NOVEMBER 4, 2024
FROM: MASON PETERS, FINANCE SUPERVISOR
SUBJECT: GENERAL FUND OPERATING & TOTAL RESERVES POLICIES

RECOMMENDATION:

Review and approve the General Fund Operating Reserve and the General Fund Total Reserve policies.

BACKGROUND:

The City of Sutter Creek does not have official adopted policies for the General Fund Operating Reserve or the Total General Fund Reserves. The City allocates a portion of general fund revenues each year to put towards reserves, and setting an acceptable range of reserve levels based on general fund revenues would help the City strategize when and how these funds should be used during budget development each year. Enterprise fund reserves are explicitly for the purpose of the enterprise fund, operating and capital needs.

DISCUSSION:

A sufficient General Operating Reserve should be able to keep a city running for 2-3 months, or approximately 17% of General Fund annual revenues for a fiscal year, according to the Government Finance Officers Association (GFOA). The use of these funds would be for unexpected operating expenses and maintaining city services during an economic downturn.

However, based on each city's cash flow throughout the year and volatility in revenue generation, this level of reserves can vary. In Sutter Creek's case, staff believes that 17-25% of General Fund annual revenues is an appropriate level to maintain in the Operating Reserve. The reason for this higher level of reserves is due to the dip in cash inflows each fiscal year in Q1 and Q2. The slowdown in revenues is because property tax and some of the franchise fees we rely on are not being received during Q1 and Q2. We also have some of our largest invoices at that time as well (typically any construction invoices, and our annual insurance payment is due as well). We consistently see a noticeable increase in general fund revenues in Q3 and Q4 for each fiscal year (property tax, franchise fees, boost in sales tax due to the holiday season), and we rely on those revenue increases to carry us through Q1 and Q2 of the following fiscal year. It is crucial that we retain enough funds to keep us steady through that first half of each fiscal year. In terms of fund levels, Sutter Creek should maintain Operating Reserves for the 2024-25 fiscal year of \$566,574. According to the budget for this fiscal year, it is projected that Sutter Creek will have

\$457,805 in its General Fund Operating Reserve at the end of the year. Staff recommends that we transfer a small percentage (1% - 2%) of General Fund revenues each year to the General Operating Reserve fund, to build it up to the higher end of the 17-25% range within 3 years.

In terms of Total General Fund reserves, historically the City had a number of “reserves” that were named buckets of money within the accounting software but consisted of general fund reserves. Starting with Interim City Manager Spellicy and continuing with City Manager DuBois, we’ve combined those reserves into a single general fund reserve, consisting of the Operating reserve and General Fund reserve. In total, General Fund reserve levels in total will be in the range of 35% - 45% of annual general fund revenues. The use of these funds would primarily be for council-approved projects that were not originally budgeted for and capital projects. If we refer to the 2024-25 adopted budget with general fund revenues of \$2,832,870, the City should set a goal to have between \$991,505 and \$1,274,792 in Total General Fund Reserves. It is projected that at the end of the 2024-25 fiscal year, the City will have \$1,129,120 in the General Fund Reserve, which equates to 39.9% of projected annual revenues for this fiscal year.

Because our total reserves are nearly 40% staff is comfortable with our operating reserve being on the lower end of the range.

During budget development for the 2025-26 fiscal year, staff and council will determine an appropriate percentage of general fund revenues for that fiscal year to allocate to the Total General Fund Reserve. The percentage can vary depending on what needs to be prioritized in each fiscal year, but growing this fund will help defend the city against unexpected fiscal impacts and fund capital projects. The result of the local sales tax measure will greatly impact our planning for 2025-2026.

In the event that total general fund reserves exceed the upper range of 45%, the City Manager can recommend that excess fees be kept in reserve, be used for a contribution to the Section 115 Trust, or used for some other project, subject to Council approve.

Staff recommends that council adopt the following motion:

MOTION – Adopt the General Fund Reserves policy for both the Operating and total General Fund Reserves.

BUDGET IMPACT:

No immediate impact, but having an explicit policy will help direct this and future councils on the intent to allocate General Fund revenues to General Fund Reserves. Reserve levels will be a discussion item during budget development each year.

City of Sutter Creek
General Fund Operating Reserve Policy

Section 1: Purpose

The purpose of this policy is for the City of Sutter Creek to formally establish a General Fund Operating Reserve fund policy based on budgeted revenue. The purpose of this reserve fund is to mitigate the effect of unanticipated expenses. Reserves also provide the City with stability in times of economic fluctuations that are anomalous. Operating reserves help provide for a smooth, temporary transition to prevent drastic changes in service levels caused by changes in the City's financial situation, including unanticipated decreases in revenue or increases in expenditures.

Section 2: Policy

The City of Sutter Creek is establishing this reserve funding policy with the following guidelines:

Reserve Levels:

The General Fund Reserve goal is to stay within 17% -25% of the General Fund's adopted annual budget revenues.

The City Manager will first evaluate the City's financial condition and make a recommendation to City Council as to the need to make contributions to the General Fund Operating Reserve. This process will be typically done during the budget development process, but this can be performed at any time the City Manager deems necessary.

Use and Replenishment of the General Fund Reserve:

The General Fund Operating Reserve should be used for the following: emergency repairs, non-budgeted projects approved by City Council, and maintaining essential services to the public during economic difficulties. The City Manager will present a report to City Council to justify the use of the General Fund Operating Reserve. All uses of the General Fund Operating Reserve must be approved by resolution of the City Council with a three-fifths vote. Any such uses are to be repaid over a period of time to be determined by City Council at the time of voting for approval of usage of the General Fund Operating Reserve.

Exceeding the Upper Target

If Operating reserves exceed 25%, the City Manager can transfer the excess into another General Fund Reserve, including capital reserves

Year-End Excess Revenue

As part of the annual budget development process, or at any time deemed appropriate by the City Manager, the City Manager would recommend whether the year-end excess funds could be used as one-time funding to reach the General Fund Operating Reserve goal faster.

City of Sutter Creek Other General Fund Reserves Policy

Section 1: Purpose

The purpose of this policy is for the City of Sutter Creek to formally establish an overall General Fund Reserves policy based on budgeted revenues. These reserve funds are for funding capital projects, purchasing capital assets (vehicles, large equipment, capital repairs), and any other purposes that are approved by City Council. This policy looks at all General Fund reserve funds wholistically and serves as a guiding principle for the General Fund reserves in totality.

Section 2: Policy

The City of Sutter Creek is establishing this reserves funding policy with the following guidelines:

Reserve Levels:

The Total General Fund Reserves goal is to stay within 35% - 45% of the General Fund's adopted annual budget revenues.

The City Manager will first evaluate the City's financial condition and make a recommendation to City Council as to the need to make contributions to Total General Fund Reserves. This process will be typically done during the budget development process, but this can be performed at any time the City Manager deems necessary.

Use and Replenishment of Total General Fund Reserves:

The Total General Fund Reserves should be used for the following: capital projects, purchases of vehicles and equipment, and any other uses that are approved by City Council. The City Manager will present a report to City Council to justify the use of General Fund Reserves. All uses of General Fund Reserves must be approved by resolution of the City Council with a three-fifths vote. Any such uses are to be repaid over a period of time to be determined by City Council at the time of voting for approval of usage of General Fund Reserves.

Exceeding the Upper Target

If total general fund reserves exceed 45%, the City Manager can recommend that Council approve the use of the excess. The excess amount can be maintained in reserves, used to make a contribution to the Section 115 Trust or dedicated to a specific project.

Year-End Excess Revenue

As part of the annual budget development process, or at any time deemed appropriate by the City Manager, the City Manager would recommend whether the year-end excess funds could be used as one-time funding to reach General Fund Reserves target range faster.