

**CITY OF WILDOMAR
CITY COUNCIL POLICY**

SUBJECT: Fund Balance and Reserve Policy
EFFECTIVE DATE: 11/8/2023
LAST REVISED: 11/8/2023

I. PURPOSE

The purpose of the Fund Balance and Reserve Policy is to ensure strong fiscal management to guide the City of Wildomar's financial planning. A reserve is one of the City's most important hedges against risk. It helps ensure that the City can provide consistent, uninterrupted municipal services in the event of economic disruption or a natural or man-made disaster. Additionally, the policy will: aid in reducing financial impacts of temporary revenue shortfalls or spikes in contracted expenses, allowing the City to respond to challenges of a changing economic environment; and preserve adequate reserve levels to improve or maintain the City's credit worthiness.

The Fund Balance and Reserve Policy establishes the appropriate level of reserves in the General Fund and in Measure AA. It sets conditions warranting the use of reserves and outlines the plan to replenish them if balances fall below the levels established in this policy.

II. BACKGROUND

Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions was implemented in fiscal year 2010-2011 with the intent of improving financial reporting by providing fund balance categories that are more easily understood. The categories are more clearly defined to make the nature and extent of the constraints placed on a government's fund balance more transparent. This Fund Balance and Reserve Policy establishes the procedures for reporting unrestricted fund balance in financial statements. The policy also authorizes and directs the Administrative Services Director to prepare financial reports which accurately categorize fund balance as per GASB Statement No. 54.

There are five separate components of fund balance which identify the specific purposes for which amounts can be spent:

1. *Non-expendable Fund Balance* - Amounts that cannot be spent because they are either (a) not in spendable form, such as prepaid items or inventories; or (b) legally required to be maintained intact, such as the principal portion of an endowment.
2. *Restricted Fund Balance* - Amounts for a specific purpose that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, other governments' regulations; or (b) imposed by law through constitutional provisions or enabling legislation.
3. *Committed Fund Balance* - Amounts authorized for specific purposes by a government's highest level of decision-making authority (City Council). These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period, however, the amount can be determined subsequently.
4. *Assigned Fund Balance* - Amounts that are constrained for specific purposes but are neither restricted nor committed. For all governmental funds other than the General Fund, any remaining amounts not classified as non-expendable, restricted, or committed are considered assigned. For

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the General Fund, this policy delegates the authority to propose amounts to be used for specific purposes to the Administrative Services Director, in consultation with the City Manager for the purpose adopting these amounts in the operating budget and reporting in the annual financial statements.

5. *Unassigned Fund Balance* - Residual net resources of the General Fund in excess of what can be classified in one of the other four categories.

III. POLICY

The Government Finance Officers Association (GFOA) recommends that general-purpose governments maintain reserves in the general fund of no less than two months (16.67%) of annual general fund operating revenues or annual general fund operating expenditures. The City of Wildomar will commit to reserve a total of 20% of budgeted annual operating revenues in both the General Fund and Measure AA fund.

General Fund Committed Fund Balance

The City will strive to hold the amount listed below in its committed General Fund balance, expressed as a percentage of the City's budgeted and ongoing General Fund operating revenue. One-time revenues should be excluded from this annual calculation. These designated reserves are broken into the following two separate categories, each with the associated target amount:

- **15% of annual original budgeted operating revenue – Economic Stability Reserve.** Available to protect and preserve City services from dramatic drops in General Fund revenues that are highly sensitive to economic conditions, like sales tax and property tax. Eligible uses of these reserve funds include:
 - Loss of major revenue source(s) due to financial hardship or economic downturn
 - State-imposed take of local revenue/mandated payments
 - Significant unanticipated expenditures
 - Temporarily sustain staffing during periods of extreme economic downturn
 - Significant payout of eligible Leave for employees leaving City service
- **5% of annual original budgeted operating revenue – Extreme Event Reserve.** Available to respond quickly and decisively to man-made or natural disasters. This reserve could fund the initial public safety response or repairs and reconstruction of public right of way required in the aftermath of an event.

Measure AA Committed Fund Balance

The City will strive to hold the amount listed below in its committed Measure AA Fund balance, expressed as a percentage of the City's budgeted and ongoing Measure AA operating revenue. Measure AA reserves will be tied to public safety contract costs and road maintenance projects or for addressing homelessness. One-time revenues should be excluded from this annual calculation.

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- **15% of annual original budgeted operating revenue – Economic Stability Reserve.** Available to protect and preserve Measure AA fund from dramatic drops sales tax revenue. Eligible uses of these reserve funds include:
 - Buffer unanticipated spikes in public safety contract increases
 - State imposed mandated expenses related to homelessness, street repair and/or maintenance, and public safety
- **5% of annual original budgeted operating revenue – Extreme Event Reserve.** Available to respond quickly and decisively to man-made or natural disasters. This reserve could fund an initial public safety response or emergency repairs to streets and roads required in the aftermath of an event.

Assigned Fund Balance

The City may choose to designate additional amounts for purposes other than those described above. For example, the City may wish to set aside monies for a one-time investment in a special project or program like a second fire station, park enhancements, and road improvements; or to fund an unfunded pension or other post-employment benefit liability.

At the end of each fiscal year, the Finance Department will report on the audited year-end financial results. In the event that actual General Fund revenues exceed expenditures and encumbrances, a year-end operating surplus shall be reported. Any year-end operating surplus which exceeds the levels required by the reserve policies, noted above, will be deemed as Assigned Fund Balance, and shall be appropriated for one-time (nonrecurring) expenditures in accordance with the following guidelines, subject to City Council approval.

1. Public Safety equipment or non-recurring programs
2. Capital improvement projects
3. Unfunded liabilities related to CalPERS pension and/or Other Postemployment Benefits (OPEB)
4. Reduction, or avoidance, of City debt

Ongoing, or recurring expenditures, are not appropriate uses of available Assigned Fund Balance.

Priority Funding of Reserve Targets

Funding of the assigned fund balance and the two committed fund balances to be within their targeted amounts, will come generally from one-time revenues and/or expenditure savings, and projected General Fund revenues in excess of projected expenditures. Replenishing these accounts will generally occur in the following priority order:

1. Working capital (assigned fund balance) for the duration of the Five-Year Forecast
2. Economic Stability Reserve
3. Extreme Event Reserve

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If, based on use and/or City staff's analysis and forecasting, the target range is not being met, or is likely not going to be met at some point within a five-year time horizon, then a plan to meet the target balance will be developed. The plan will be presented to the City Council for consideration.

Acceptable Uses of Reserves

Reserves are meant to address unexpected, nonrecurring costs. Reserves should not be used for recurring annual operating costs. An exception is poor economic conditions or events that disrupt Wildomar's revenues. In such cases, reserves may be used to provide short-term relief so that Wildomar can restructure its operations in an orderly manner. Such use will only take place in the context that the City will concurrently adopt a plan to reach a sustainable, balanced budget structure.

If necessary, the City should only use up to 50% of either designated reserve to continue operations. The use of the reserves is limited in this way so that a reserve balance will be available to help address additional financial issues or extreme events encountered in the subsequent year. Further, use of a significant portion of the economic Stability Reserve in any given year should be accompanied by analysis of the fiscal outlook and, if necessary, consideration of reductions to ongoing operations to ensure fiscal sustainability.

Authority to Use Reserves

Should unforeseen and unavoidable events occur that require the expenditure of City resources beyond those provided for in the annual budget, the City Manager or designee shall have authority to approve appropriations from the Economic Stability Reserve and/or Extreme Event Reserve. The City Manager or designee shall then present to the City Council for authorization a budget amendment detailing the nature of the emergency or economic event triggering the appropriation of the reserve funds.

Replenishment of Reserves

In the event committed reserves are used in an amount that takes them below the City's target amounts, the City Manager shall propose a plan within 180 days to the City Council for the replenishment of the reserve(s). The City will strive to replenish the reserves within one year of use, but will fully replenish it within five years of use.

These guidelines may be suspended, in whole or part, if financial or economic circumstances prevent meeting any or all the timelines.

This policy is instituted to provide a measure of protection for the City against unforeseen circumstances and to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.