

## ATTACHMENT A

### City of Novato Reserve Policies

The City of Novato endeavors to maintain adequate reserves for its General Fund and several other funds as a matter of fiscal prudence and sound financial management. These policies will guide the City in:

- Planning for contingencies and unexpected events;
- Maintaining good standing with credit rating agencies;
- Ensuring cash availability when revenue is unavailable; and
- Deciding when to use reserves and how to replenish reserves if they have been spent.

Per current governmental accounting standards (“GASB 54”), fund balances are divided into 5 categories in the financial statements:

Category	Description
Non-Spendable	Cannot be readily converted to cash or cannot legally be spent
Restricted	Externally imposed (by granting agencies, governmental entities, etc.) restrictions on spending
Committed	City Council formally-imposed (by resolution or other action) restrictions on spending
Assigned	Funds reserved by Council direction or City Manager for designated purposes
Unassigned	Residual balance not classified in any of the above categories

For purposes of this document, a fund’s “reserves” include the sum of the Committed, Assigned, and Unassigned Fund Balances for that fund.

#### **General Fund and Emergency & Disaster Response Fund**

The General Fund shall not maintain any reserves at year end, except for those designated as Assigned for capital projects, which represent budgeted funds for capital projects that have yet to be completed. Instead, the City shall maintain a separate fund on its books, called the “Emergency and Disaster Response Fund” (hereinafter the “EDRF”) which shall be the main reserve fund for the General Fund. The City maintains this fund to provide a financial buffer in the event of significant economic downturns or for unexpected severe emergencies or natural disasters.

The Government Finance Officers Association maintains a best practice for general reserve funds. While the level of reserves should be assessed on a City’s unique circumstances or risk levels, the generally recommended best practice is to keep at least two months of operating expenditures or 15% reserves.

For Novato, the EDRF shall be maintained at a level equal to 15% of annual General Fund expenditures (excluding “Transfers Out” for purposes of this calculation).

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When adopting the budget for each fiscal year, the General Fund budget shall be balanced. If the General Fund budget projects a surplus of revenues over expenditures, then a fund transfer out of the General Fund to the EDRF shall be budgeted. If the General Fund budget is expected to encounter a deficit of revenues compared to expenditures, then a transfer of funds from other available, unencumbered funds shall be budgeted to balance the General Fund. If no such funds are available from another source, a fund transfer shall be budgeted from the EDRF to the General Fund in the amount of the projected deficit to ensure that the budget is balanced.

If the General Fund ends the fiscal year with a surplus of revenues over expenditures, any Unassigned fund balance that would result shall be transferred out of the General Fund and into the EDRF.

If the General Fund ends the year with an unexpected deficit which would create a negative Unassigned fund balance, funds shall be transferred from the EDRF at year end to ensure a zero Unassigned fund balance for the General Fund.

The City Council may from time-to-time authorize budget appropriations that would reduce the EDRF below its policy-mandated 15% level. These appropriations should be made only in response to significant events such as (but not limited to):

- Economic downturns / recessions that impact City revenues;
- Natural disasters and declared emergencies; and/or
- State government reductions or takeaways of City revenues.

If the City Council appropriates funds that, for any purpose authorized in this policy, would drop the EDRF below 15%, the next budget cycle should include a plan outlining how the EDRF will be restored to the 15% required reserve level within a reasonable time period.

If the level of the EDRF rises above the required 15% level, appropriations of EDRF funds may be authorized by the City Council for one-time purchases or projects that bring the EDRF back down to the 15% level. Funds above the 15% level shall not be spent on recurring operating expenditures unless otherwise authorized in this policy or a long-term plan for ongoing funding is developed.

It may be prudent from time-to-time to loan funds from the EDRF to other City funds or to invest EDRF in less-than-immediately liquid investments. The City Council shall authorize all such loans and shall make findings in a resolution acknowledging the duration and payback timeframe of said loans, which should not exceed five years. If the loan is made with another entity (for example, the Redevelopment Successor Agency), the loan should also be accompanied by a written loan agreement.

In case of emergencies falling under the purview of Novato Municipal Code Section 2-13, purchases authorized by the Director of Emergency Services under Section 2-13.13(c) may cause the balance in the EDRF to drop below the required 15% level.

#### **Measure F Transactions and Use Tax Fund**

This fund, hereinafter known as the Measure F fund, shall be used to account for all funds collected under the Measure F transactions and use tax, which shall be collected in the City of Novato from April 1, 2011 through March 31, 2016.

There are no specific reserves required within this fund. However, the City Council has designated \$3 million of unassigned Measure F fund balance as a “Risk Mitigation Reserve”. This reserve will be subject to future City Council decisions about uses for the funds, but is intended to mitigate risk from economic recessions, pension rate and investment earnings fluctuations, unanticipated state takeaways, or unanticipated required expenditures due to changing laws or regulatory requirements.

To the extent Measure F funds are available beyond the Risk Mitigation Reserve mentioned above, they may be used to backfill General Fund deficits while permanent revenue streams or other longer-term budget balancing strategies are implemented.

Recognizing its status as a general purpose tax, the City Council has complete purview to appropriate Measure F funds for any lawful government purpose. However, as a tax with a fixed 5-year duration, Measure F funds should be spent on one-time or short term programs and projects rather than ongoing operating expenditures.

#### **Self-Insurance Fund**

The City shall maintain a reserve of \$1 million in the Self-Insurance Fund. This reserve can be used at the City Council’s discretion to pay one-time insurance and liability related costs, such as large unexpected claims, settlements, etc. in addition this fund may be used for one-time proactive risk mitigation measures. The next year’s budget should include a plan to replenish the reserve back to the \$1 million level.

#### **Equipment, Technology and Vehicle Replacement Fund**

The City shall maintain an Equipment and Vehicle Replacement Fund (hereinafter “EVRF”) to properly fund the replacement of vehicles, technology and equipment. The City will set aside an appropriate amount of money annually in the fund for each vehicle, technology, or equipment, based on that item’s typical usage and expected useful life. Monies that have accumulated in the fund for a specific asset’s replacement can then be used when the asset is replaced.

No specific reserves are required for the EVRF. However, excess funds not specifically needed for replacements from sources such as interest earnings, surplus sales or trade-ins, auction sales, and lower-than-expected replacement prices should remain in the fund until other EVRF-related purposes are identified for the funds and appropriated by the City Council. Such excess funds can also be used to replace or begin replacement cycles for vehicles, equipment, or technology items that are not currently in the replacement fund.