

City of Brisbane

Agenda Report

To: City Council via City Manager
From: Administrative Services Director
Subject: General Fund Reserve Policy
Date: April 16, 2015

Purpose:

Ensure long-term financial stability for the City organization.

Recommendation:

Adopt the proposed General Fund – Fund Balance Policy.

Background:

With the adoption of the budget in June of 2014 the City Council directed staff and the Budget/Finance Subcommittee to review the City's General Fund fund balance policy. The current policy requires 50% of the General Fund's operating expenditures be maintained in Fund Balance. Operating expenditures is not defined in our policy but it usually excludes one-time capital items or other costs which do not contribute to the day to day operations of the City such as bond payments. Without a definition the City has used all expenses including transfers out as its benchmark in order to be as conservative as possible. For Fiscal Year 2013/14 the overall actual expenditures including transfers were approximately \$13,900,000. Therefore the required reserves at the end of the year would have been \$6,950,000. The City ended the year with \$12,142,756 in reserves. This exceed the policy required amount by a little over \$4,000,000.

However, the current policy does not lay out a use for the reserves or when they could be used, or how much could be used for what purposes. The subcommittee reviewed the idea of delinating the reserve to look at three separate issues: a natural disaster or other unforeseen emergency, a recession reserve, and an annual reserve.

Discussion:

The first portion of the reserve looked at was for natural disasters or other sudden emergencies. This portion of the reserve should be seen as the amount of funds that would be needed above and beyond what is available in the budget to respond to an emergency of an extended duration. Staff looked at this as the amount of funds which could go towards overtime, rental or purchase of additional supplies or equipment to ensure the infrastructure of the City is safe and human safety is taken care of. The amount for this was determined to be \$3,500,000. This dollar amount should be reviewed once every three years to determine if additional funds should be set aside for this purpose.

The recession reserve amount was determined by looking at what occurred during the great recession from 2008/09 to 2012/13. Staff reviewed the impact on our major revenue sources: Property Tax, Sales Tax, Transient Occupancy Tax (Room Tax), and Business Licenses. Staff looked at what the actual amount received in each of those years were compared to what the City would have received if there was no recession. Property Tax was down approximately 12% a year, Sales Tax was down 5.8% a year, Transient Occupancy Tax increased during the recession, Business License Tax fluctuated every year but averaged a 2% decrease. Staff then used the projected 2015/16 projections as a starting point and assumed a recession starting in 2016/17 and ending in 2019/20 or another four year recession. Staff determined that the City could be down about \$2,500,000 during that period of time if another recession like the 2008 recession occurred. Therefore, to protect against the next recession the City should keep an additional \$2,500,000 in reserve. This exercise should be done each year with the budget based on current projections. As revenues increase the amount needed in reserves will also increase. The third aspect of reserves are changes in the annual budget which do not rise to the level of a recession. The subcommittee and staff determined a five percent reduction in revenues or over expenditure in expenses should be considered normal for any given year. This would require a new calculation each year with the budget and as revenues and expenditures increase so would this portion of the reserve. If the revenues and expenditures for the City are \$15,000,000 each the reserves would be \$1,500,000. Based on this the reserves for the General Fund should be about \$7,500,000. Using the old formula of a \$15,000,000 budget the reserves would be the same. However, the new policy provides clearer direction to staff on when and how much reserves should be used for various purposes. It also, provides staff with clearer direction on how to determine reserves at the time of the budget.

Funds above the amount available could be used for one-time capital projects or to further reduce long-term liabilities. As long-term liabilities are paid off the City is in a more stable financial position.

Fiscal Impact:


The fiscal impact on the budget will be determined on an annual basis. The long-term fiscal impact will be to create a more stable reserve system for the City's needs.

Measure of Success

The City is able to meet its short and long-term needs without causing a disruption in services.



Stuart Schillinger
Administrative Services Director



Clay Holstine
City Manager

General Fund Fund Balance Policy

The City of Brisbane will maintain a Fund Balance which will be comprised of three portions:

- 1) The City will maintain an Emergency of \$3,500,000. This amount will be used in times of natural disasters or unanticipated non-financial emergencies. The amount will be reviewed every three years to ensure the amount is adequate to cover the cost of personnel and additional supplies and services to respond to disasters and emergencies.
- 2) The City will maintain a reserve which covers loss revenue due to a recession the size of the recession of 2008/09. The City had a decrease of revenues for four years in Property Tax, Sales Tax, and Business License Tax. The City will maintain a reserve which would cover this loss for four years going forward from the current budget year unless the City is within four years of the last recession. If the City is within four years of the last recession the amount of funds in this area can be drawn on to stabilize revenues and ensure services can continue to be provided to the community. After the recession is over staff will need to provide a plan to the City Council for the continued use and replenishment of this reserve amount.
- 3) The City will maintain a reserve which covers 5% of expenditures will continue into the next three budget years. The City will also maintain a reserve of 5% of the revenues the City budgets to receive. This amount will be calculated with each budget and be set aside to be used during the budget year in case expenditures are higher than expected or revenues are lower than expected except in cases of a one-time natural disaster or emergency or a recession.