

RESOLUTION 2021-061

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TRACY  
APPROVING THE FUND RESERVES POLICY EFFECTIVE FISCAL YEAR  
ENDING JUNE 30, 2021

WHEREAS, City of Tracy follows Governmental Accounting Standards Board (GASB) for the basis its financial reporting; and

WHEREAS, GASB issued Statement 54: Fund Balance Reporting and Governmental Fund Type Definition and the requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010, and

WHEREAS, The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions, and

WHEREAS, The City Council adopted Resolution No. 2021-23 adopting the City Council Budget Principles, and

WHEREAS, The City Council desires to be consistent with Government Finance Officer Association (GFOA) recommendations, a funds' Catastrophic/Emergency Reserve should be maintained at a minimum of 17% of annual operating revenue/expenditure, in addition, it recommends that a funds' Economic/Budget Stabilization reserve which should be maintained at a minimum of 13% of annual operating revenue/expenditure;

WHEREAS, The City Council desires to be consistent with Government Finance Officer Association (GFOA) recommendations that a fund's Capital Replenishment reserves should be maintained at a minimum of one year's annual capital depreciations;

NOW, THEREFORE, BE IT RESOLVED THAT the City Council of the City of Tracy hereby approves the attached amended Fund (Reserve) Balance Policy.

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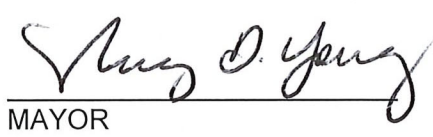
The foregoing Resolution 2021-061 is hereby passed and adopted by the Tracy City Council this 18th day of May, 2021, by the following vote:


AYES: COUNCIL MEMBERS: ARRIOLA, BEDOLLA, DAVIS, VARGAS, YOUNG

NOES: COUNCIL MEMBERS: NONE

ABSENT: COUNCIL MEMBERS: NONE

ABSTAIN: COUNCIL MEMBERS: NONE

  
MAYOR

ATTEST:  
  
CITY CLERK

**CITY OF TRACY**  
**COUNCIL POLICY AND PROCEDURES**  
**A-5**

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SUBJECT: Council Fund Committed Reserve Policy

DATE UPDATED May 18, 2021

SECTION: A-5

SECTION 1: PURPOSE

The purpose of this policy is for the City of Tracy to formally establish Contingency/Emergency and Economic/Budget Stability Reserves. The purpose of the Reserves is to mitigate the effect of unanticipated situations such as natural disasters and severe unforeseen events. Reserves also provide the City with stability in times of economic fluctuations that are non-reoccurring and/or unanticipated. Reserves help provide for a smooth, temporary transition to prevent drastic or devastating changes in service levels caused by changes in the City's financial situation. These reserves are presented as Committed Fund balance in fund financial statements and are adopted by City Council by resolution. The City Council may authorize the use of these reserves by declaring a Catastrophic and/or Fiscal Emergency with a four-fifths vote.

SECTION 2: POLICY

The City of Tracy is establishing reserves with the following designations:

**FUND CATASTROPHIC/EMERGENCY RESERVE:**

The Catastrophic/Emergency Reserve funds help mitigate the effects of unanticipated situations such as natural disasters and severe, unforeseen events. The Catastrophic Reserve also serves as back-up liquidity to self-insured losses if this need were to arise.

The Catastrophic/Emergency Reserve is to be established with a target goal of 17% of the funds' adopted annual budget for operating expenditures and recurring transfers out.

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 Catastrophic Reserve or the possible need to access funds from the Catastrophic/Emergency Reserve. This action is done as part of the annual budget adoption; however, these actions can be completed at any time the City Manager deems necessary.

**GENERAL FUND AND ENTERPRISE FUNDS ECONOMIC/BUDGET STABILIZATION RESERVE**

The Economic/Budget Stabilization Reserve is to be established with a target goal of 13% of the funds' adopted annual budget for expenditures and recurring transfers out. The Economic/Budget Stabilization Reserve is intended to offset quantifiable revenue/expenditure uncertainty in the multi-year forecast thereby helping to stabilize service levels through economic cycles. The City should develop measures that collectively are necessary to assess City's fiscal sustainability.

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These specific measures include:

- Projections of the major individual inflows of resources in dollars and as a percentage of total inflows of resources along with explanations of the known causes of resource fluctuations (including nonrecurring resources)
- Projections of the major individual outflows of resources by program or function in dollars and as a percentage of total outflows of resources along with explanations of the known causes of resource fluctuations
- Projections of major individual financial obligations and total financial obligations including bonds, pensions, OPEB, and long-term contracts
- Projections of annual debt service payments (principal and interest)
- Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies.

Stabilization amounts may be authorized as expended only when certain specific circumstances exist.

- 1) Revenue risks: Revenues falling short of budget projections may cause deficits. Transitional funding may be necessary to respond to reductions in major revenues due to local, regional, and national economic downturns. This may be due to a loss in housing values, a loss of a major employer, a loss of major retailer, a sudden spike in unemployment or inflation, and/or other major economic factors. This may also be due to state and/or voter initiatives; including changes in legislation, revenue sources that sunset or expire, or other political impacts to revenues that are outside of the control of the City Council.
  - a) Projected fund revenue totals in aggregate are anticipated to decrease by 5% (or more) over the prior-year or decrease by 10% (or more) cumulative over three-years; excluding one-time revenue sources.
  - b) Projected fund revenues from a single revenue source are anticipated to decrease by 10% (or more) over the prior-year or decrease by 15% over three-years; excluding one-time revenue sources.
- 2) Expenditure Risks: The City may require a source of supplemental funding for uncontrollable costs or contractually obligated costs. Such costs may include maintaining service levels.
  - a) Projected fund expenditure totals (in aggregate) increase by 10% (or more) over the prior-year or increase by 15% over three-years; excluding one-time expenditure requests.
    - i) Examples may include: major individual financial obligations and total financial obligations including bonds or other debt payments, employee contracts, and/or long-term contracts that create a deficit budget of more than one year.
  - b) Projected fund expenditures from a single source are anticipated to increase by 10% (or more) over the prior-year or increase by 15% over three-years.

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- i) Examples include, but are not limited to: unanticipated increases in CalPERS retirement rates resulting from CalPERS investment performance, or changes in actuarial assumptions CalPERS might impose.
  - ii) In addition, there may be other cost increases that are beyond the City's control (e.g., various fuel and utility charges).
- 3) **Structural Deficit Risk:** Economic factors may create a structural deficit when revenue growth does not keep pace with expenditure growth. The City may elect to use the Economic/Budget Stabilization Reserve for up to 24 months while a plan is developed to correct the deficit.
  - a) Projected fund expenditure totals (in aggregate) exceed incoming revenues by 5% (or more) over the prior-year or exceed by 10% over three-years; excluding one-time expenditure requests.
  - b) Need funding for an unanticipated major repair, purchase, or other maintenance charge creating a deficit of 5% of incoming revenues. The nature of these reserves is intended to stabilize the fund budget in the short-term to address non-routine or unanticipated changes in economic position. A regular 5-year forecast should be used to identify foreseeable changes in revenues and or expenditures. However, not all changes in economic and fiscal position are known. In those cases, the City Manager will first evaluate the City's financial condition and make a recommendation to City Council as the possible need to access funds from the Economic/Budget Stability Reserve. This action is done as part of the annual budget adoption; however, these actions can be completed at any time the City Manager deems necessary

**ENTERPRISE CAPITAL REPLENISHMENT RESERVE**

The Capital Replenishment Reserve is to be established with a target goal of at least one year of capital depreciation expense in the City's Enterprise Funds. The Capital Replenishment Reserve is intended to offset potential failure of capital assets that were unplanned in order to continue providing services to the public. Capital Replenishment funds should hold at least one year of depreciations and should be supported by a multi-year forecast thereby helping to stabilize revenue and expenditures levels through on-going maintenance and capital replacement cycles. The City should develop measures that collectively are necessary to assess City's fiscal sustainability.

**USE AND REPLENISHMENT OF RESERVES**

The City Manager must present a report to the City Council to justify the use of the Catastrophic/Emergency Reserve and Economic/Budget Stabilization Reserve and the circumstances of the Catastrophic and/or Fiscal Emergency. All uses of the Catastrophic Reserve and Economic/Budget Stabilization Reserve must be approved by resolution of the City Council with a super majority (four-fifths) vote. Any such uses are to be repaid to the respective reserves over a

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*Fund Committed Reserve Policy*

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period to be determined by the City Council at the time of usage approval, with a target repayment period of no more than five years.

**YEAR-END EXCESS REVENUE**

Year-end excess and/or one-time revenue under the proposed reserves structure would remain in the City's fund balance. As part of the annual budget adoption process, or at any time the City Manager deems necessary, the City Manager would recommend whether the excess funds could be allocated to other reserves, or used as one-time funding with consideration given to economic development and/or capital projects.

Resolution -2021-061, Dated 05/18/2021