



REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Jason Simpson, City Manager

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Date: October 11, 2022

Subject: Adoption of Updated Fund Balance Reserve Policy

Recommendation

adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ADOPTING CITY COUNCIL POLICY NO. 300-9, "FUND BALANCE RESERVE POLICY"

Background

Sound fiscal management dictates that the City reserve funds which are then set aside to address specific needs and future contingencies.

The City Council originally adopted Policy No. 300-9, previously entitled "Unallocated Revenues," on July 13, 2004. The purpose of the policy was to provide guidelines on how the City uses unallocated revenue. The policy addressed the funds that were covered by the policy, how the unallocated revenue balance would be calculated, reporting, and recommended types of expenditures for unallocated revenues (e.g., increasing reserve funds, CIP, etc.)

A key component of a well-managed organization is a written policy that address prudent fund balance reserve levels. City staff has determined that the existing policy should be replaced with a more detailed policy that address reserve funds for specific expenditures in addition to updating the contingency reserve in the City's General Fund.

Discussion

As a general budget principle concerning the use of reserves, the City Council may have limited discretion in determining the level of reserves or may have broad discretion, depending on the source of funds and other factors. Moreover, reserve funds may be restricted to a specific purpose of the reserve account from which they are drawn without specific direction in the annual budget or by a separate City Council action.

Policy 300-9 establishes guideline with respect to three categories of reserved funds.

A fund balance set aside for a specific purpose will be done so by City Council resolution and is known as a "Committed Fund Balance."

Updated Fund Balance Reserve Policy

Somewhat similar to a Committed Fund Balance, an “Assigned Fund Balance” is for monies intended to be used for a specific purpose but subject to administrative modification by the City Manager.

Finally, the Contingency Reserve is the most significant fiscal management tool and sets aside General Funds monies as part of the City’s operating budget. Appropriation and/or access to these funds are generally reserved for emergency or unforeseen situations but may be accessed by the City Council by a simple budget appropriation. Notably, the policy provides that Capital Improvement Projects, Transfers Out (that is, transfers between governmental agencies or interfund transfers), and additional discretionary payments to the City’s unfunded pension liability are not the sort of expenditures in which the Contingency Reserve may be used.

To set the reserve level for contingencies related to the City's general operations, the City has maintained an operating reserve equal to 17.5% of operating expenditures. Adopting this Policy by the Council will increase the Contingency Reserve to 20%.

Accordingly, this updated Policy is intended to provide a framework for establishing annual reserve levels during the budget process that will allow the City to adapt to local, regional, and statewide economic changes and stabilize the delivery of City services.

Fiscal Impact

There is no immediate fiscal impact resulting from adoption of the Policy.

Exhibits

A – Resolution No. 22-xx

B – Policy No. 300-4 – Fund Balance Reserve Policy