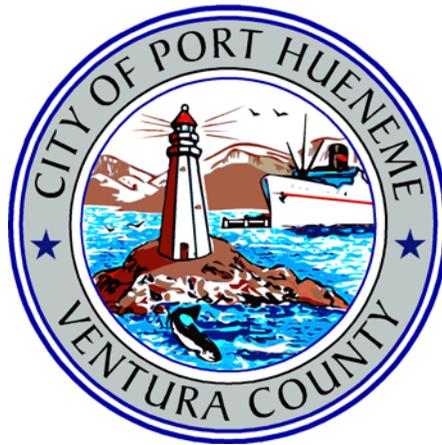


City of Port Hueneme

**County of Ventura
California**



Reserve Policy

Adopted April 7, 2014

City of Port Hueneme

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RESERVE POLICY
City of Port Hueneme

1. POLICY STATEMENT AND PURPOSE

It is the policy of the City of Port Hueneme (“City”) to establish sound financial policies that will serve as guidelines to the City Council and staff for responsible and prudent decision making related to financial matters, and maintaining minimum and targeted reserves. The purpose of this policy is to establish a formal process by which one-time revenues and surpluses are to be allocated and used for funding one-time needs in support of overall City goals and priorities.

2. SCOPE

The scope of this policy is limited to annual budget surpluses, and one-time source of non-recurring revenue. The Policy does not include one-time grants, which by their nature are designated for specific purposes.

GENERAL FUND

1. DEFINITIONS

General Fund Surplus – The City’s budget is a financial plan based on the best information available at the time it is developed. Budgeted revenue and expenditure projections are therefore not exact and may change over time. Through strict monitoring and prudent financial management, the City periodically realizes a General Fund Surplus. A General Fund Surplus, under this Policy occurs within actual General Fund revenues exceed expenditures, after fulfilling all annual auditing and financial reporting requirements.

One-Time Revenues – Non-recurring resources generated by one-time events, which may include, but are not limited to the following:

- Sale of City-owned assets or property
- Litigation Settlements
- Development Agreements

RESERVE POLICY
City of Port Hueneme

One-Time Expenses – Non-recurring and non-operational expenses, typically related to short duration activities or one-time projects, which may include, but are not limited to the following:

- Unmet needs in the City’s Capital Budget, such as Right of Way Projects(streets, sidewalks, curb and gutters, storm drains; major facility maintenance, upgrades or renovations; acquisition, design and construction of new facilities)
- Equipment replacements
- Technology replacements or upgrades
- Emergency repairs of City infrastructure

General Fund Balance Reserve Categories – The City Council has committed to maintaining General Fund reserve balances at appropriate levels to protect City assets, assure availability of cash to meet short-term obligations, address unforeseen events and avoid future debt. The City may establish reserves into a number of categories to address unforeseen emergencies or disasters, legal claims, workers compensation, and significant changes in the economic environment. Pursuant to Government Accounting and Standards Board (GASB) Statement No. 54, the City’s existing fund balances are organized within five classifications:

<u>CLASSIFICATION</u>	<u>NATURE OF RESTRICTION</u>
• Non-spendable	Cannot be readily converted to cash
• Restricted	Externally imposed restriction
• Committed	City Council imposed commitment
• Assigned	City Manager assigned purpose/intent
• Unassigned	Residual balance not otherwise restricted.

Per GASB 54, when the City has the ability to expend various resources in different Fund Balance classifications, the order of use has to be specified. The City’s order of use will be as follows: Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and lastly, Unassigned Fund Balance.

Interest Earnings – The reserves discussed in this document provide guidelines for establishing adequate reserve levels and policies. An important consideration when determining the adequacy of reserve levels and policies is that the City’s reserves are invested, thereby generating interest revenue that contributes to operating revenues. This interest earned on reserve funds can be viewed as an endowment providing additional operating revenues that fund important services

RESERVE POLICY

City of Port Hueneme

to residents. Conversely, as reserves are spent and not replaced, the endowment disappears along with the reserves, further depleting the availability to fund operations.

2. RESPONSIBILITY

Implementation of the Policy is the responsibility of the Finance Department.

3. BACKGROUND

Determining minimum and targeted General Fund reserves is a mechanism that governments can implement to insure adequate levels of fund balance are available to help mitigate current and future risks. A minimum General Fund reserve is generally considered a prudent and conservative fiscal policy to deal with unforeseen situations. The Government Finance Officers of America (GFOA), an international organization that promotes professional management of governments for the public interest, recommends that reserve levels be directly related to the degree of uncertainty a local government faces; the greater the uncertainty, the greater the financial resources necessary. Past experience should be used as a guide, with particular attention being paid to the following:

- Diversity of revenue base
- Dependency on other funds
- Volatility of revenue structure
- Inflationary environment
- Natural or man-made disasters
- Unfunded state, federal or judicial mandates
- Consistent operating surpluses/occasional or frequent operation deficits
- Uneven cash flows, requiring short-term borrowing
- Capital and infrastructure needs

There are additional benefits to establishing a minimum General Fund reserve. Credit rating agencies carefully monitor level of fund balance and unreserved fund balance in government's General Fund to evaluate government's continued credit worthiness. In addition, fund balance levels are a crucial consideration in long-term financial planning. Finally, by their nature, one-time revenues cannot be relied on to support future on-going programs. Use of one-time revenues to fund ongoing programs jeopardizes the City's ability to meet continued service demands and undermines the organization's commitment to fiscal discipline. As a policy and practice, one-time revenues, whether derived from year-end budget surpluses or one-time events, should only be used for the purpose of paying one-time expenses.

RESERVE POLICY
City of Port Hueneme

Using General Fund Operating Expenditures as the basis for establishing a reserve is one of the most common methods used in cities today. Typically there is less fluctuation and risk in forecasting future expenditures than future revenues. Using General Fund Operating Expenditures is also considered a more conservative basis for establishing General Fund reserves.

NON-SPENDABLE RESERVES:

The portion of the fund balance that includes amounts that are either not in a spendable form or legally or contractually required to be maintained intact.

NOTES RECEIVABLE

The Non-Spendable fund is set aside equal to the amount of the Notes Receivable maintained and the principal payments received for Note Receivable will be reserved and shall be considered restricted.

RESTRICTED RESERVES:

The portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

COMMITTED RESERVES:

That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the government's highest level of decision making authority, and remain binding unless removed in the same manner. The City considers a resolution to constitute a formal action for the purposes of establishing committed fund balance. The action to constrain resources must occur within the fiscal reporting period; however the amount can be determined subsequently. City Council imposed Commitments are as follows:

1. ECONOMIC UNCERTAINTY

A reserve set aside for future uncertainties such as economic downturns, unanticipated changes in tax and spending policies of the State and County governments, imposition of Federal or State mandates, limitations on the City's taxing and spending levels as the result of voter initiatives, financial impacts of labor agreements, and other unforeseen changes in the economic environment.

RESERVE POLICY

City of Port Hueneme

Policy and Practice

The policy is to set aside a minimum reserve amount equal to six (6) months of General Fund expenditures, with a target reserve amount equal to eight (8) months of General Fund expenditures from current fiscal year adopted budget. The minimum and target General Fund balances are intended to be a prudent and conservative fiscal policy, which should contribute to the fiscal security of the City. The reserve levels can be changed or used for specific purposes at the discretion of the City Council. There is no maximum unreserved General Fund balance and any reasonable additional reserve above the minimum reserve would provide a greater level of fiscal security for the City.

The minimum reserve may be used for cash flow needs necessitated by unforeseen emergencies, while reserves in excess of the minimum will only be used for one-time uses associated with unexpected events such as economic downturns or temporary reductions in revenues. In general, General Fund Reserve funds will be used for one-time uses only. Once established, appropriations from the General Fund Reserve funds commitment can only be made by formal City Council action.

The reserve level will be calculated using the prior fiscal year's Adopted General Fund Budgeted expenditures. General Fund Reserve funds will be evaluated annually in conjunction with the development of the City's 5-year Financial Forecast and Annual Operating Budget process. Staff recommendations will be made to the City Council annually on the available funds and appropriate reserve levels. Should the General Fund Reserve commitment be used, and its level fall below the minimum amount of six (6) months of General Fund expenditures, the goal is to replenish the fund to the minimum amount within two fiscal years or a plan developed to return the General Fund Reserve back to the minimum level.

2. CATASTROPHIC EMERGENCY

The Catastrophic Emergency fund is available for use in the event of actual or threatened existence of conditions of disaster or of extreme peril to the safety of person and property within this City caused by such conditions as fire, flood, epidemic, riot, earthquake, tsunami, nuclear disaster, tornado, or terrorism.

RESERVE POLICY
City of Port Hueneme

Policy and Practice

The minimum and targeted budgeted reserve should be equal to 10% of annual General Fund budgeted operating expenditures.

3. COMPENSATED ABSENCES

The primary purpose of paid leave is to provide for compensated time off for personal, vacation or sickness as appropriate and approved. However, under certain circumstances, typically at separation from service, some employees have the option of receiving cash-out payments for some accumulated leave balances. The Compensated Absences Fund is utilized primarily as a budget smoothing technique for such leave bank liquidation.

Policy and Practice

The contribution rate will be set to cover estimated annual cash flows based on a three-year trailing average. The minimum cash reserve should not fall below that three-year average. The maximum cash reserve should not exceed fifty percent (50%) of the long-term liability. Each department will make contributions to the Compensated Absence based on a percentage of salary with the goal to reach the minimum over 3 years.

4. PERS LIABILITY/HEALTHCARE

The PERS liability and Healthcare fund is utilized to set aside funds for PERS and healthcare costs either to pay down future liabilities or smooth large increases anticipated for the next budget cycle, whichever is the most fiscally advantageous.

Policy and Practice

Policy is at minimum to set aside prior two years of PERS pension and healthcare costs. Each department will make contributions to the PERS Liability and healthcare reserve based on a percentage of PERS and healthcare costs with the goal of reaching the minimum over 5 years.

RESERVE POLICY
City of Port Hueneme

5. RISK MANAGEMENT

The Risk Management fund is utilized to set aside funds to cover unanticipated insurance costs that exceed the regularly budgeted amount.

Policy and Practice

Policy is to set aside an amount equal to 50% of annual property, liability and worker's compensation insurance expenses from current fiscal year adopted budget, but with a minimum target of no less than \$500,000.

6. CAPITAL IMPROVEMENTS

The Capital Improvements fund is utilized to set aside funds to cover capital and infrastructure improvements throughout the City.

Policy and Practice

Policy is to set aside a minimum of the total of next three years of capital improvement projects identified in the Capital Improvement Plan from the current year's adopted budget, with the target of five years of capital improvement projects.

7. VEHICLE AND EQUIPMENT REPLACEMENT

The Vehicle and Equipment Replacement fund is utilized to set aside funds to cover vehicle and equipment replacement used by City employees.

Policy and Practice

Policy is to set aside a minimum of the total of next three years of vehicles and equipment identified for replacement, with the target of five years of replacement.

8. TECHNOLOGY IMPROVEMENTS

The Technology Improvements fund is utilized to set aside funds to cover upcoming technologic needs throughout the City.

Policy and Practice

Policy is to set aside a minimum of \$100,000 to fund technologic improvements and a target amount of \$500,000.

RESERVE POLICY
City of Port Hueneme

ASSIGNED:

That portion of a fund balance that includes amounts that are constrained by the City's intent to be used for specific purposes but that are not restricted or committed. This policy hereby delegates the authority to the City Manager or designee to modify or create new assignments of fund balance. Constraints imposed on the use of assigned amounts may be changed by the City Manager or his designee. Appropriations of balances are subject to budget adoption and administration.

When the City Manager or designee authorizes a change in General Fund, Assigned Fund Balance, City Council shall be notified quarterly.

1. OPERATING CONTINGENCY

This provides the use funds for one-time unanticipated operational needs not otherwise anticipated or included in budget, within limits of the City Manager's discretionary authority without needing prior Council approval.

Policy and Practice

Policy is to set aside \$100,000.

2. CITY COUNCIL CONTINGENCY

This provides the Council a use of funds to take advantage of one-time unforeseen opportunities or problems that may occur during the budget cycle.

Policy and Practice

Policy is to set aside \$50,000.

UNASSIGNED FUND BALANCE:

The residual portion of available fund balance that is not otherwise restricted, committed or assigned.

Policy and Practice

Policy is to transfer any surplus/deficit fund balance on an annual basis to the Committed Reserve fund as designated by the City Manager.

RESERVE POLICY
City of Port Hueneme

ENTERPRISE FUNDS

DESIGNATED OPERATING RESERVES:

Enterprise Funds (Water, Wastewater, and Solid Waste) shall be operated in a manner similar to private business enterprises. As such, all costs including direct and indirect personnel costs, and depreciation will be supported by their own rates and/or grants and shall not be subsidized by the General Fund. The City's Enterprise Funds will strive to maintain reserves equal to three months of operating expenses.

EQUIPMENT/FURNISHINGS/VEHICLES REPLACEMENT DESIGNATED RESERVE:

A reserve for replacement of equipment, computers, furnishings, and vehicles equal to 100% of accumulated depreciation, to fund replacement of these items when they reach the end of their useful lives, is to be maintained.

FACILITY REPLACEMENT DESIGNATED RESERVE:

A reserve for the rehabilitation and replacement of facilities equal to 60% of accumulated depreciation, to fund the rehabilitation or replacement costs of existing buildings, recreational facilities, and parks/sports fields, and other fixtures when they reach the end of their useful lives, is to be maintained.

CAPITAL PROJECTS (INFRASTRUCTURE):

Capital projects (infrastructure) may consist of expensive, but non-recurring, improvements. Capital financing (long term debt) and/or cash will be evaluated as to which would be in the best long-term interests of the City. If projects are financed, the term of the debt service shall not exceed the expected useful life of the project.

RESERVE POLICY
City of Port Hueneme

SPECIAL REVENUE FUNDS

DESIGNATED OPERATING RESERVES:

Special Revenue Funds are used to account for revenue derived from specific taxes or other earmarked revenue sources (other than for major projects) that are restricted by law or administrative action to expenditures for specified purposes. Where possible, reserves for Special Revenue Funds (e.g. Gas Tax Fund) will be adopted at the same levels as the General Fund, as long as they do not conflict with legal or grantor requirements.

DEBT SERVICE FUNDS

Reserve levels for Debt Service Funds will be established as prescribed by the bond covenants adopted at the time of the issuance of debt.