

RESOLUTION No. C-2020-60

**A RESOLUTION OF THE CITY OF HALF MOON BAY APPROVING THE
CITY OF HALF MOON BAY GENERAL FUND & ECONOMIC
UNCERTAINTY RESERVE POLICY**

WHEREAS, the General Fund & Economic Uncertainty Reserve policy ensure the City's ability to maintain vital services to the community during times of economic uncertainty; and

WHEREAS, the City is committed to achieving long-term fiscal stability as well as mitigating the negative impacts of extraordinary risk such as earthquakes, fires, and floods; and

WHEREAS, the prior Committed Contingency Reserve Fund is hereby renamed to the General Fund Reserve; and

WHEREAS, the creation of the Economic Uncertainty Reserve required a revision of the Reserve policy to include the Economic Uncertainty Reserve; and

WHEREAS, the use and replenishment of the General Fund & Economic Uncertainty Reserve Funds should be defined.

NOW, THEREFORE, BE IT RESOLVED THAT

The City Council of the City of Half Moon Bay hereby approves the City of Half Moon Bay's General Fund & Economic Uncertainty Reserve Policy as contained in Exhibit A attached hereto.

I, the undersigned, hereby certify that the forgoing Resolution was duly passed and adopted on the 16th day of June, 2020 by the City Council of Half Moon Bay by the following vote:

AYES, Councilmembers: Penrose, Rarback, Ruddock, Brownstone, Eisen

NOES, Councilmembers:

ABSENT, Councilmembers:


ABSTAIN, Councilmembers:

ATTEST:



For Jessica Blair, City Clerk

APPROVED:



Adam Eisen, Mayor

City of Half Moon Bay

General Fund & Economic Uncertainty Reserve Policy

Adoption Date: June 16, 2020

Last Revision Date: June 16, 2020

I. Introduction:

Prudent financial management dictates that a portion of the funds available to the City be held in reserve for future use whereas standard funding sources are not adequate for continued operation of general City operation. This policy establishes the amounts the City will strive to maintain in the General Fund Reserve & Economic Uncertainty Reserve, as well as the conditions under which the reserves may be spent.

The General Fund Reserve and Economic Uncertainty Reserve helps to ensure that the City of Half Moon Bay can provide consistent, uninterrupted municipal services in the event of economic disruption or an extreme event. Two of the City's primary revenue sources, the transient occupancy tax and sales tax, are known to be sensitive to downturns in the economy. Like other California cities, Half Moon Bay must be prepared for seismic and other catastrophic events that could threaten its long-term fiscal health.

As a General Budget principle, the City Council is charged with determining an appropriate General Fund Reserve and Economic Uncertainty Reserve thresholds and to allocate or change those funding thresholds as appropriate. The funding levels are to be based on sound risk assessment methodology for setting reserve levels developed by the Government Finance Officers Association of the United States and Canada (GFOAO). The General Fund Reserve and Economic Uncertainty Reserve follows Generally Accepted Accounting Principles set by the Government Accounting Standards Board (GASB) in Statement No. 54.

II. Amounts Held in Reserve

The City of Half Moon Bay will strive to maintain the following threshold funding as "assigned" General Fund balance. The reserve balances are conveyed as a percentage of the City's general fund annual operating expenditures. As a percentage of the annual operating expenditures, the actual assigned fund balances will fluctuate. The reserves are broken into two categories, each with their associated target threshold of reserve:

General Fund Reserve (30% of General Fund operating expenditures):

- The City will fund the General Fund Reserve at a minimum of 30% of the budgeted Annual General Fund Expenditures with no maximum. Funds held in this assigned reserve are held for the following uses:
 - Meeting cash flow needs during the fiscal year.
 - Closing a projected short-term revenue-expenditure gap.
 - Responding to unexpected expenditure requirements or revenue shortfalls.

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- When an economic downturn results in a short-term budgetary shortfall and where reasonable cuts to expenditures are not adequate to meet revenue without the use of the reserve.
- Unfunded liabilities such as self-insurance, pensions and retiree health obligations
- Institutional changes, such as State budget takeaways and unfunded mandates

Economic Uncertainty Reserve (20% of General Fund operating expenditures):

- The City will fund the Economic Uncertainty Reserve at a minimum of 20% of the budgeted Annual General Fund Operating Expenditures with no maximum. Funds held in this assigned reserve are held for the following uses:
 - When a fiscal forecast shows an ongoing structural gap due to an economic downturn to providing a strategic bridge to future economic stability.
 - When during a declared emergency, expenditures exceed revenues and where the reserve will meet economic shortfalls due to a related economic downturn.
 - When an economic downturn results in a long-term budgetary shortfall and where reasonable cuts to expenditures are not adequate to meet revenue without the use of the reserve.
 - Where its use will prevent a reduction of required services.

III. Funding Target Balance

The General Fund Reserve and Economic Uncertainty Reserve will be funded from excess ongoing and one-time funds when available. If reserve fund balances fall below established thresholds, the City will replenish reserves in the following priority:

- 1. General Fund Reserve**
- 2. Economic Uncertainty Reserve**

IV. Conditions for Use of Reserves

A. Use of Reserves

It is the intent of the City to limit use of reserves to address unanticipated, non-recurring needs or known, planned future obligations. Reserves shall not normally be applied to recurring annual operating expenditures. The reserves may, however, be used to allow time for the City to restructure its operations in a deliberate manner (such as might be required in the case of a severe economic downturn), but such use will only take place in the context of an adopted long-term plan to reach a sustainable structure.

B. Authority to Use Reserves

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The reserves are only used in accordance with this policy and at the direction of the City Council.

C. Funding in Excess of Threshold

Where funding of the General Fund Reserve and Economic Uncertainty Reserve exceeds the established thresholds, City Council may authorize the use of those funds for any budgetary need.

D. Authority for Interfund Borrowing

The City Manager may authorize inter-fund borrowing in the event that resources are needed by the General Fund to recover from damages incurred in a catastrophic event. Borrowed funds can be provided from any other funds that are not fiscally compromised by the event and are legally available for use. Borrowed funds will be reimbursed at a rate determined by the City's overall portfolio yield.

E. Replenishment of Reserves

In the event the City Council authorizes use of the reserves, the City Manager shall propose a plan for the replenishment of the reserves to the City Council during City budget hearings. The City will make every reasonable effort to fully replenish the reserves within five years.

If, based on the Finance Director's analysis and forecasting, the target balance is not being met or is likely not going to be met at some point within a five-year period, a plan to meet the target balance will be developed and presented to the City Council for consideration.

V. Annual Review of Policy

The General Fund Reserve and Economic Uncertainty Reserve policy will be reviewed annually and discussed if changes are deemed necessary. The review of this policy is to safeguard its effectiveness and relevance to the City's long-term needs, and to ensure that the policy remains current with best practices that are based on sound risk assessment methodology developed by the Government Finance Officers Association of the United States and Canada (GFOAO).

Attachments:

-None-

Policy Revision History:

Date	Actions
June 16, 2020	Originally Issued