

CITY OF CARLSBAD

COUNCIL POLICY STATEMENT

DATED: March 7, 2008

Exhibit 2

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Policy No.	74
Date of Issue:	11/30/10
Effective Date	11/30/10
Cancellation Date	
Supersedes No.	4/15/08

Subject: General Fund Reserve Guidelines

Copies to: City Council, City Manager, City Attorney, Department Heads and Division Heads, Employee Bulletin Boards, Press, File

PURPOSE:

To provide guidelines to the City Council and staff for establishing, maintaining and the annual review of a minimum and target General Fund reserve for the City of Carlsbad.

BACKGROUND:

Establishing a minimum General Fund reserve is a mechanism that governments can implement to help 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. Some examples of unforeseen situations include, but are not limited to:

- Unfunded Legislative or Judicial Mandates
- Economic Downturns or Increases in Inflation
- Reduced Revenues
- Federal/State/County Budget Cuts
- One-Time City Council Approved Expenditures
- Natural Disasters

The Government Finance Officers Association (GFOA), an international organization that promotes the professional management of governments for the public interest, recommends maintaining a minimum unreserved fund balance in the General Fund of no less than 5 to 15 percent of regular General Fund Operating Revenues or no less than two months or 17% of General Fund Operating Expenditures. According to the GFOA, the methodology used to create the reserve depends on the circumstances of the individual organizations. The GFOA also recommends the establishment of a formal written policy on the level of unreserved fund balance that should be maintained in the General Fund.

According to a recent survey, most cities choose General Fund Operating Expenditures as the basis for a reserve. Typically there is less fluctuation and risk in forecasting future expenditures. The General Fund Operating Expenditures methodology is also typically considered the more conservative basis for establishing a General Fund reserve.

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There are additional benefits to establishing a minimum General Fund reserve. Credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government's General Fund to evaluate a government's continued creditworthiness. Finally, fund balance levels are a crucial consideration in long-term financial planning.

POLICY:

For purposes of this policy, the term "reserve" includes undesignated, unreserved fund balance. It is the policy of the City of Carlsbad to maintain a minimum reserve for unforeseen emergencies or catastrophic impacts upon the City, and whenever fiscally possible and financially prudent to maintain a greater target reserve. The minimum reserve of the General Fund balance would be 30% of General Fund Operating Expenditures and the target reserve would be a range of 40% to 50% of General Fund Operating Expenditures.

The minimum reserve may be used for cash flow needs necessitated by unforeseen emergencies, while reserves in excess of the minimum will be used only for one-time uses associated with unexpected events, such as economic downturns or temporary reductions in revenues. In general, General Fund reserves will be used for one-time uses only.

The reserve level, which includes undesignated fund balance, will be calculated using the prior fiscal year's Adopted General Fund Budgeted expenditures. Reserves would be evaluated annually in conjunction with the development of the City's 10 Year Financial Forecast and Annual Operating Budget process. Staff recommendations will be made to City Council annually on the available funds and the appropriate reserve levels. If the General Fund balance should ever drop below the minimum reserve level, a plan would be developed to return the General Fund back to the minimum reserve level.

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The minimum and target undesignated and unreserved General Fund balances are intended to be a prudent and conservative fiscal policy which should help 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.