

RESOLUTION NO. 23-124

A RESOLUTION OF THE COUNCIL OF THE CITY OF SANTA BARBARA ESTABLISHING POLICIES FOR RESERVES FOR THE CITY'S GENERAL FUND, ENTERPRISE FUNDS AND INTERNAL SERVICE FUNDS, AND AMENDING RESOLUTION NO. 22-126.

WHEREAS, the City desires to establish policies regarding reserves for the various City funds for the purpose of providing consistent designations for different categories of reserves, ensuring fiscal security for the funds, and defining standards for minimum amounts to be maintained in reserves;

WHEREAS, such reserves policies will be most readily communicated and understood if they are consolidated and formally adopted in a single document;

WHEREAS, the Council has considered the proposed reserve policies applicable to the General Fund, Enterprise Funds, and Internal Service Funds at a regular Council meeting on September 12, 2023.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SANTA BARBARA THAT the following reserves policies are adopted:

SECTION 1: CALCULATION OF RESERVE AMOUNTS

Final reserve balances will be calculated at end of each fiscal year after the closing of the City's accounting records. An amount will be established for each fund, as applicable, as a commitment of fund balance for each type of reserve established by this policy.

As soon as practical after the close of a fiscal year, staff will provide City Council a report showing the status of reserves as of June 30. At any time it is proposed to utilize reserves pursuant to this policy, staff will provide a similar report on reserves and projected fiscal impact from the proposed use of reserves.

SECTION 2: DISASTER RESERVES

The amount of the required Disaster Reserve is calculated based on 15% of the most recently adopted fiscal year operating expenditure budget.

The Disaster Reserve is restricted to use in addressing the financial impacts of natural disasters, such as storm, floods, wildfires, droughts, tsunamis, earthquakes and any other event that results in significant damage to City facilities and infrastructure or a significant reduction of normal operating revenues.

The use of Disaster Reserves should generally be limited to federal or state declared disasters. The use of Disaster Reserves is also allowable in cases where the natural disaster is less severe, such as a major fire to a City building that requires temporary facilities to be leased. Disaster reserves may be used only after other available funds are exhausted, including the Contingency Reserve.

Examples of financial impacts that would justify the use of Disaster Reserves include:

- Extraordinary costs incurred in connection with the immediate emergency response to address public safety matters.
- Revenue losses resulting from a significant decline or temporary halt in services due to major damage to facilities, infrastructure and local businesses.
- Additional costs necessary to maintain City operations.
- Long-term costs incurred to rebuild City facilities and infrastructure.

SECTION 3: CONTINGENCY RESERVES

The Contingency Reserve is calculated based on 10% of the most recently adopted fiscal year operating expenditure budget.

The purpose of the Contingency Reserve is to allow for the orderly implementation of a balancing strategy to address the fiscal impacts of unexpected events in order to minimize the impacts to the organization and community. The most common of these events would be an economic recession that results in a significant impact on key revenues such as sales, transient occupancy or property taxes.

Other unexpected events for which these reserves could be used include the following:

- Natural disasters, as described above for Disaster Reserves;
- Revenue impacts resulting from State of California actions or unfunded State mandates;
- Unexpected loss of external funding from sources such as grants or entitlements;
- An unplanned loss of, or damage to, a City facility such as the loss of a building due to fire;
- Mitigation of an emergency that poses a threat to public health and safety; and
- An adverse judicial action that requires large cash payments to third parties and is not covered by insurance.

The general intent of the Contingency Reserve is for unexpected events or situations. In general, its purpose is not to fund known or anticipated financial impacts, such as negotiated salary and benefit increases or scheduled increases to health insurance premiums or retirement costs.

SECTION 4: COUNCIL APPROVAL OF DISASTER AND CONTINGENCY RESERVES

Any use of the Disaster or Contingency reserves described in Sections 2 and 3 requires a majority vote of approval by the City Council.

When the use of reserves is recommended to the City Council by staff, the justification should include the following elements:

An Assessment of the Fiscal Condition and Outlook:

This assessment should include an objective evaluation of the operating fund's fiscal condition and an evaluation of the impacts of the event that triggered the need to use reserves. The purpose of this evaluation is to measure and define the scope and duration of the problem to assist in developing an appropriate balancing strategy.

This assessment of fiscal condition should include the use of available and relevant financial and non-financial data, including economic and demographic indexes and trends; historical revenue and expenditures results; and local economic forecasts developed by recognized academic and financial institutions and paid consultants.

Balancing Strategy

The balancing strategy should include measures that minimize the use of Contingency Reserves, such as:

- Expenditure reductions achieved through efficiency measures, cuts to programs, services and associated staffing;
- Revenue enhancement measures that generate new or increased revenues;
- Use of existing one-time funds; and
- Use of available reserves in other funds, as allowable and appropriate.

The balancing strategy should also be consistent with the nature of the fiscal impact. For example, a one-time impact may be resolved fully with the use of reserves, depending on its severity. However, an event that has an ongoing financial impact, such as decline in revenues due to a major recession, will require a balancing strategy that includes ongoing budget and programmatic adjustments to minimize the use of reserves.

Plan of Replenishment

The replenishment plan should include the following elements, as appropriate:

- A one-time (one-year) use of reserves should be accompanied by a specific plan for how and when the reserves will be restored.
- An extended use of reserves for more than one year should be accompanied by a long-term strategy that includes a more general plan for how the reserves will be restored.

SECTION 5: ENTERPRISE FUNDS

Enterprise Funds will be subject to the same Disaster and Contingency Reserve and approval requirements as described in Sections 2, 3 and 4 of this resolution.

Each Enterprise Operating Fund will establish a Capital Reserve, funded to at least 5% of the value of its capital assets. Alternatively, the Capital Reserve may also be established at an amount equal to the average of the planned capital program budgets for the upcoming three fiscal years, excluding major capital projects that will be debt funded. Appropriations from Capital reserves are intended to address an unexpected capital project or unanticipated increase in capital projects. Capital reserves might also be funded in excess of the minimum in preparation for major (pay-go or cash funded) capital projects.

Another option for funding major future capital projects is a Working Capital reserve. These specific capital reserves would be designated for the replacement of critical infrastructure projected to be funded within a ten-year period. There is no minimum for these reserves as they will function as a working capital reserve for funding of large and costly infrastructure on a routine basis. These include the Council approved Desalination Reserve (Resolution No. 21-082), as well as Main Replacement Reserves (restricted to maintaining, rehabilitating, and installing new main or transmission pipelines) in the Water and Wastewater Enterprise Funds.

Bond funding for the Water and Wastewater Enterprise Funds requires a rate stabilization reserve (as outlined in the 2013 and 2016 bond documents, Resolution No. 13-029 and 16-168 respectively). The minimum reserve requirement for the rate stabilization fund is \$2.9 million and \$1.0 million for the Water and Wastewater Funds respectively. These funds are differentiated from Disaster, Contingency and Capital reserves as they can be considered revenue for the purpose of debt service coverage in a given fiscal year, if they are transferred within 150 days of the end of the prior fiscal year. These reserve funds are restricted and must be maintained and used only for this purpose. Staff may make additional deposits to this reserve if there are anticipated threats to revenues that might exceed the minimum reserve. This might include increasing probability of drought and the need for mandatory water conservation, or other negative impacts on revenues that might reasonably be expected. Deposits into the rate stabilization fund must be reflected as reductions in revenues for the year the deposits are made.

The Solid Waste and Clean Energy Enterprise Operating Funds shall utilize the contingency reserve to buffer a significant loss in revenue or the impacts of significant rate increases. The use of these reserves should be considered one-time revenue as future rates will need to be adjusted to address any ongoing expense increases to operating the enterprise.

Where applicable, each Enterprise shall maintain any required debt service reserve to support the long-term borrowing and shall be restricted to the level of indebtedness of the utility.

The City shall also consider establishing a line of credit with a banking institution that may be leveraged for financing capital projects and in the event of a disaster. Leveraging a line of credit is a viable risk management approach and may address short-term cash flow needs and lessen the need to require disaster reserves in the future. A line of credit shall not be used to pay for operating expenses. The cost of establishing a line of credit shall be considered in relation to the investment earnings that may be achieved through investing funds in line with the City's investment policy and other operating considerations.

SECTION 6: RESERVE REQUIREMENTS FOR INTERNAL SERVICE FUNDS

Internal Service Funds are not subject to the reserve requirements for Disaster Reserves or Contingency Reserves. Instead, Internal Service Funds will maintain an operating reserve equal to 10% of the operating budget of the most recently adopted budget. This reserve will be available to address unexpected events and natural disasters that affect the operations and revenue streams of the Internal Service Funds.

All Internal Service Funds will be subject to the 10% reserve requirement, with the exception of the Self-Insurance Fund, which by design builds up assets for the payment of claims several years into the future, and the Facilities Management Fund, which is based on 10% of the adopted Building Maintenance Program Budget. As a result, there should be adequate cash reserves to cover unanticipated costs. In addition, the reserve requirements do not apply to Internal Service Funds that are specifically designed to accumulate reserves for capital, such as the Vehicle Replacement Fund.

SECTION 7: APPROPRIATED RESERVES

An Appropriated Reserve will be included in each operating fund's adopted budget to provide for unanticipated expenditures or to meet unexpected small increases in service delivery costs within the fiscal year. For the General Fund, the appropriated reserve should be at least \$250,000. For Enterprise and Internal Service operating funds, this reserve will be at least one-half of one percent of the operating budget. Any unused portion of the appropriated reserve in each fund will be returned to fund balance at the end of the fiscal year.

SECTION 8: ALLOCATION OF GENERAL FUND, ENTERPRISE FUNDS AND INTERNAL SERVICE FUNDS YEAR-END SURPLUS TO PENSION EXPENSES AND LIABILITIES

At the end of each fiscal year, any General Fund, Enterprise Funds and Internal Service Funds surplus realized from actual revenues exceeding actual expenditures including the annual capital program will be used to maintain reserve balances at levels required by this policy as well as address pension-related expenses and future liabilities. The amount of reserves to be transferred to a Section 115 trust to address pension-related expenses and future liabilities will be determined based on the proportional burden of expenses and

liabilities in each fund. Maintaining reserve balances will be the highest priority, followed by addressing pension-related expenses and future liabilities.

RESOLUTION NO. 23-124

STATE OF CALIFORNIA)
)
COUNTY OF SANTA BARBARA) ss.
)
CITY OF SANTA BARBARA)

I HEREBY CERTIFY that the foregoing resolution was adopted by the Council of the City of Santa Barbara at a meeting held on October 10, 2023, by the following roll call vote:

- AYES: Councilmembers Eric Friedman, Alejandra Gutierrez, Oscar Gutierrez, Mike Jordan, Kristen W. Sneddon, Mayor Randy Rowse.

- NOES: None

- ABSENT: Councilmember Harmon

- ABSTENTIONS: None

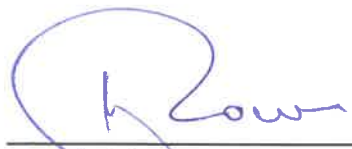
IN WITNESS WHEREOF, I have hereto set my hand and affixed the official seal of the City of Santa Barbara on October 11, 2023.





Sarah Gorman, MMC
City Clerk Services Manager

I HEREBY APPROVE the foregoing resolution on October 11, 2023.



Randy Rowse
Mayor