



GENERAL FUND RESERVE POLICY

General Fund Reserve Policy
(Resolution No.06-112, June 20, 2006)

Purpose

The City of Davis establishes its General Fund Reserve policy as additional insurance against disasters, emergencies and unforeseen expenditures.

Reserve Level

The City Council hereby establishes the following minimum General Fund reserve targets:

- The City shall strive to maintain a General Fund reserve equal to 15% of discretionary General Fund revenues. These funds are set-aside to address potential needs in the following areas:
 - A Reserve for Economic Uncertainty - funds designated to mitigate periodic revenue shortfalls due to downturn in economic cycles, thereby avoiding the need for service-level reductions within the fiscal year.
 - An Emergency Reserve - funds designated to mitigate costs of unforeseeable emergencies and natural disasters.
- The appropriate level of General Fund reserves shall be reviewed every two years.

For the purpose of this section, discretionary General Fund revenues include all taxes, assessments, fee and miscellaneous revenues that are not restricted as to use.

Use of Reserve Funds

Reserve for Economic Uncertainty – Funds reserved under this category shall be used to mitigate annual revenue shortfalls (actual revenues less than projected revenues) due to slowdown in general economic conditions as well as reductions in revenues caused by actions by State/Federal governments. Should any unanticipated reductions in revenues be deemed to be recurring, adjustments will be made in the following budget so as to reflect revised revenue expectations.

Any reserve funds expended within this category that result in year-end reserves below the established policy level shall be restored in the subsequent budget year. However, if the reserve level falls to below 10%, the Council may restore funds over a multi-year period.

Emergency Reserve - Funds reserved under this category shall be used to mitigate costs associated with unforeseen emergencies, including natural disasters. Should unforeseen and

unavoidable events occur that require expenditure of City resources beyond those provided for in the annual budget, the City Manager shall have the authority to approve appropriation of Emergency Reserve Funds. The City Manager shall then present to the City Council – no later than its first regularly scheduled meeting - a resolution confirming the nature of the emergency and formally authorizing the appropriation of reserve funds.

Excess Fund Balance

At the end of each fiscal year, the Finance Department will report on the audited year-end budgetary fiscal results. Should actual General Fund revenues exceed expenditures and encumbrances, a year-end operating surplus shall be reported. Any year-end operating surplus which results in the General Fund fund balance exceeding the level required by the reserve policy shall be deemed available for allocation for the following, subject to Council approval:

- Transfer to other funds, as appropriate, to offset year-end deficits within those funds,
- Transfer to the Capital Program Fund (Fund TBD) for appropriation within the Capital Improvement Program Budget and/or Deferred Maintenance for non-recurring needs,
- Re-appropriation within the subsequent year's operating budget to provide for one-time, non-recurring needs.

It is the intent of the City Council to limit use of fund balances in the General Fund to address unanticipated one-time needs. Fund Balances shall not be applied to recurring annual operating expenditures.

Other Funds

In conjunction with approving the General Fund Reserve Policy, the City Council expresses its intent to evaluate other Special Revenue, Enterprise and Internal Service funds to establish appropriateness of developing formal fund-specific reserve policies.

