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Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

May 31, 2013

TO: Brad Wilkie, Management Services Director, City of Lompoc

FROM: Bill Statler

SUBJECT: GENERAL FUND RESERVE POLICY

Attached is my recommended General Fund reserve policy, which covers six key areas:

- Sets the minimum General Fund reserve target using the structured approach developed by the Government Finance Officers Association of the United States and Canada (GFOA) in assessing risk factors (www.gfoa.org/financialpolicies).
- Identifies when it is appropriate to use reserves below the target amount.
- Provides a strategy for restoring the reserve when it falls below the target minimum.
- Presents guidelines for accounting and financial reporting of the reserve.
- Discusses other areas where the Council may decide to set reserve amounts.
- Compares actual versus target.

POLICY OVERVIEW

Minimum Reserve Target

The recommended policy sets the minimum unrestricted General Fund balance at 25% of operating expenditures. This represents 90 days of operating cash flow and is based on the structured assessment methodology for setting reserve levels developed by the GFOA in considering a city's exposure to the following eight fiscal risk factors:

1. ***Vulnerability to extreme events and public safety concerns.*** Major extreme events the community could reasonably be subject to and the likelihood and potential magnitude of loss for each event.

2. ***Revenue source stability.*** Volatility of each major revenue source based on factors such as past experience and trends with that revenue, characteristics of the tax or rate payers, state or federal revenue takeaways and economic factors.

3. ***Expenditure volatility.*** Spikes in expenditures, usually arising from special, non-recurring circumstances such as lawsuits; critical special projects without a funding source; or new state or federal spending requirements and unfunded mandates.

4. ***Leverage.*** Common examples include pensions, unfunded asset maintenance and debt: is the source of leverage very large? Does it have an off-setting funding source or asset?

5. ***Liquidity (cash flow).*** Intra-period cash imbalances, such as property taxes that are only received at two major points during the year (December and June).

6. ***Other funds.*** Are there other funds that have a significant dependence on the General Fund?

7. ***Growth.*** Is significant growth a realistic possibility in the next three to five years? This includes assessing likely potential marginal costs associated with serving new growth compared with marginal revenues, and resulting gaps.

8. ***Capital projects.*** Are there high priority projects without a funding source, where reserves may be looked to as a funding source?

Depending on the results of this assessment, the GFOA methodology provides recommended targets ranging from a minimum of 17% of expenditures (60 days cash flow) to circumstances where more than 35% might be warranted. Based on this structured assessment methodology relative to the City's fiscal situation, a target of 25% of operating expenditures is recommended, which represents 90 days of cash flow.

This compares with the City's existing circumstances, where reserves at the end of 2013-15 are projected to be 19% of operating expenditures.

Uses and Restoration of the Reserve

In addressing circumstances now and in the future where the reserve is less than the target amount, the proposed policy recommends that the City strive to restore reserves to the policy minimum within five years. As revenues versus expenditures improve, the policy recommends that the City allocate about half to reserve restoration, with the balance available to fund outstanding liabilities, asset replacements, service levels restoration, new operating programs or capital improvement projects.

The policy also addresses circumstances where taking reserves below policy levels would be appropriate in responding to the risks that reserves are intended to mitigate, such as:

- One-time uses in meeting cash flow needs; closing a projected short term revenue-expenditure gap; responding to unexpected expenditure requirements or revenue shortfalls; and making investments in human resources, technology, liability reductions, economic development and revenue base improvements, productivity improvements and other strategies that will strengthen City revenues or reduce future costs.

- And where a fiscal forecast shows an ongoing structural gap, in providing a strategic bridge to the future.

On the other hand, the policy notes that reserves should not be used to fund ongoing costs or projected “gaps.” Stated simply, reserves can only be used once, so their use should be restricted to one-time (or short-term) uses.

Accounting for the Reserve

The policy sets the target based on the “unrestricted” fund balance: net of non-spendable and restricted balances. This intuitively makes sense: non-spendable and externally restricted funds are not readily available to meet the risks that the reserve is intended to mitigate. And for this reason, this is also the recommended approach by the GFOA in its publication *Financial Policies* (2012).

Along with other assignments as appropriate, the policy recommends that the reserve target (or less, if that is the case) be shown as “assigned” in the City’s audited financial statements. If the fund balance is greater than the target (after accounting for other commitments and assignments), then two things will be readily transparent in the financial statements:

- That the City has achieved its policy goal.
- And the amount (if any) that reserves (fund balance) exceed this goal.

Implementing this policy will require revisions to the City’s financial reporting policies in implementing the Governmental Accounting Standard Board (GASB) Statement No. 54 (City Resolution No. 5750-11).

Status Summary: Actual Versus Target

Lastly, the policy provides a status summary of the policy target with the actual reserve amount. This should be updated at least annually.

ALTERNATIVES

Set the Reserve at 20%

Based on the GFOA assessment methodology, a case could be made to set the minimum reserve at the mid-range of its suggested target. However, based on the high-level cash flow analysis prepared as part of this project, at least 10% should be assigned for cash flow purposes alone. At 20%, this would only provide 10% for all other purposes.

Show the Reserve as “Committed” in Financial Statements

This would also be consistent with showing reserves as part of the unrestricted fund balance. GASB defines “committed” fund balance as:

> *"… amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint."*

Showing the reserve as "committed" may reflect a greater constraint than the City intends to convey with its reserve policy (especially as it relates to cash flow needs, since some of the reserve will be needed for this purpose during the year). That said, since majority Council approval will be required to adopt this policy, and Council approval to use reserves (although this is problematic for the portion that will be needed for cash flow purposes), reporting this as "Committed" would be allowable.

However, "Assigned" may be a better description under GASB's fund balance definitions:

> *"… amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority."*

Given the *intended* purposes of the City's reserve, "Assigned" seems the most appropriate category. In either case, it would be inappropriate to categorize the reserve as "Unassigned."

In finalizing the most appropriate categorization, I recommend consulting with the City's independent auditor firm.

Segregate the Reserve into Separate Components

The proposed policy sets a unified reserve target of 25% to meet the aggregate of the risks it is intended to meet. Since not all factors are likely to come into play at the same time, I believe that this approach makes the most sense, and by "pooling" purposes, serves to lower the overall reserve amount that might otherwise be needed to meet each of the risk factors. Moreover, budgeting and accounting for the reserve is simpler and more straightforward, as is communicating its purpose to the community and organization.

That said, there may be some interest in separating the need for the reserve into specific categories. In that case, I recommend the following:

- Cash Flow: 10%
- Fiscal Stability: 10%
- Contingencies: 5%

Regardless of approach, I recommend discontinuing the use of Fund 11 (Economic Uncertainty Fund), and accounting for all General Fund balances in Fund 10. Restrictions, commitments and assignments of fund balance are more appropriately made via General Fund balance sheet classifications, rather than separate funds. This will not only be in accordance with generally accepted accounting principles, but also provide greater transparency regarding the financial condition of the General Fund.

ATTACHMENTS

1. Proposed General Fund Reserve Policy
2. Analyzing General Fund Reserve Risk Factors
3. Reserve Calculation Worksheet Summary
4. Cash Flow Analysis
5. City Resolution 5750-11

General Fund Reserve Policy

A. **Assignment for Fiscal Stability, Cash Flow and Contingencies.** The City will strive to maintain a minimum unrestricted fund balance of at least 25% of operating expenditures in the General Fund. This represents 90 days of cash flow and is based on the risk assessment methodology for setting reserve levels developed by the Government Finance Officers Association of the United States and Canada in adequately addressing:

1. Revenue source stability, local disasters and other financial hardships or downturns in the local or national economy.
2. Contingencies for unseen operating or capital needs.
3. Unfunded liabilities such as self-insurance, pensions and retiree health obligations.
4. Dependency of other funds on the General Fund.
5. Institutional changes, such as State budget takeaways and unfunded mandates.
6. Cash flow requirements.

Whenever the City's General Fund unrestricted fund balance falls below this target, the City will strive to restore reserves to this level within five years. As revenues versus expenditures improve, the City will allocate about half to reserve restoration, with the balance available to fund outstanding liabilities, asset replacements, service levels restoration, new operating programs or capital improvement projects.

Circumstances where taking reserves below policy levels would be appropriate include responding to the risks that reserves are intended to mitigate, such as:

- One-time uses in meeting cash flow needs; closing a projected *short term* revenue-expenditure gap; responding to unexpected expenditure requirements or revenue shortfalls; and making investments in human resources, technology, liability reductions, economic development and revenue base improvements, productivity improvements and other strategies that will strengthen City revenues or reduce future costs.

- Where a forecast shows an ongoing structural gap, in providing a strategic bridge to the future.

On the other hand, reserves should not be used to fund ongoing costs or projected systemic "gaps." Stated simply, reserves can only be used once, so their use should be restricted to one-time (or short-term) uses.

In accordance with generally accepted accounting principles, where the unrestricted balance at fiscal year-end meets or is less than this target, the amount will be shown as "assigned" in the City's audited financial statements.

B. **Future Capital Project Fund Balance Assignments.** The Council may also assign specific General Fund balance levels for future development of capital projects or other long-term goals that it determines to be in the best interests of the City.

C. **Other Commitments and Assignments.** In addition to the assignments noted above, unrestricted fund balance levels will be sufficient to meet funding requirements for programs or projects approved in prior years which are carried forward into the new year; debt service reserve requirements; commitments for encumbrances; and other reserves, commitments or assignments required by contractual obligations, state law or generally accepted accounting principles.

Status: *The City currently has reserves of about 19% of General Fund expenditures. Achieving the 25% target will be a multi-year endeavor.*

Analyzing the General Fund Reserve Risk Factors

The sections below provide guidance on analyzing the risk factors described in Chapter 4 on general fund reserves. Each heading corresponds to a worksheet in the Excel workbook that is available at www.gfoa.org/financialpolicies. The blue cells in the sheet are entry cells. There should be no need to type in other cells. Complete the sheets starting with the left-most and continue all the way to the final sheet at the right.

The first eight sheets ask you to analyze each risk factor in the book. First, you identify your basic sources of risk. Then you assess the level of risk you face. Next, you identify other available risk mitigation approaches. The sections below provide more specific guidance on how to accomplish this for each risk factor. Finally, you decide how important it is for your government to retain risk through general fund reserves. The level of importance is indicated by assigning a 1 through 5 score, where 5 indicates the greatest need to retain risk. Each sheet contains guidelines to help you decide the most appropriate score for each risk factor.

The ninth and final sheet helps you to zero in on a final reserve target by summarizing the results of the prior eight sheets and bringing in other drivers of reserve size. Note that this sheet does not provide you with a precise suggested target. Rather it suggests a broad range and strategies for arriving at a final target.

Below is more specific guidance for analyzing the risk factors in the first eight sheets.

Vulnerability to extreme events and public safety concerns

Identify Risks. List out the major extreme events to which the community could reasonably be subjected. This could include both natural and man-made events. Public safety professionals may have a community disaster preparedness plan that could help identify these risks; linking the reserve analysis to such a plan would increase the credibility of the resulting policy.

Assess Risks. Consider the potential magnitude of loss for each event. The magnitude of loss should be based on past experiences with similar extreme events or reasonable estimates based on the disaster preparedness plan (note that the estimate is not necessarily a worst-case scenario).

Identify Other Risk Mitigation Approaches. If extreme events a are serious risk for the community, also consider risk transfer options. Might more comprehensive insurance coverage be a better option than very high levels of fund balance? If the source of risk is man-made, such as the potential for an accident at a hazardous chemical plant, might the chemical company be able to take greater responsibility for the risk they pose to the community? Also consider how quickly federal assistance can be accessed and the speed with which funds spent responding to a disaster might be reimbursed.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to extreme events.

Revenue Source Stability

Identify Risks. Start by listing out major revenue sources.

Assess Risks. Consider the volatility of each source, based on factors such as past experience and trends with that revenue, characteristics of the tax or rate payers, and economic factors.

Identify Other Risk Mitigation Approaches. Think about other approaches that the government has to deal with declining revenues. This might include means to easily reduce variable costs or the ability to access other sources of funding.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to revenue stability.

Expenditure Volatility

Identify Risks. Start by listing sources of potential spikes in expenditure (usually arising from special, non-recurring circumstances) that could be expected to occur within the next three to five years. Examples might include lawsuits against the government or critical special projects without a funding source. Typically, recurring sources of expenditure volatility, such as health care benefit costs, would not be included because they should be dealt with in the context of an annual budget process. An exception to this might be highly variable and difficult-to-predict costs, such as energy or fuel (in the case of a fleet).

Assess Risks. Enumerate a reasonable estimate of the potential cost of each source (i.e., the magnitude of the risk), taking into account the probability of it occurring (i.e., an unlikely event is less of a risk than a more likely event of similar potential loss).

Identify Other Risk Mitigation Approaches. Think about other approaches to dealing with these expenditure spikes. For example, the finance officer may find that some events (like an essential special project) have a very high chance of occurring, but will not occur for a number of years into the future. In this case, the finance officer could suggest a "sinking fund" where the project would be gradually funded over time. This could be made a commitment or assignment within the fund balance to help differentiate it from funds used to manage more uncertain risks. A similar approach could be used for known lawsuits.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to expenditure spikes.

Leverage

Identify Risks. Start by listing major sources of leverage. Common examples include pensions, unfunded asset maintenance, and debt.

Assess Risks. Then assess each source's implications for the organization's future financial flexibility by consider the size of the obligation. Is the source of leverage very large? Does it have an off-setting funding source or asset?

Identify Other Risk Mitigation Approaches. It is often better to use other approaches to risk management on these sources of leverage, rather than retaining the risk through reserves. For example, if unfunded asset maintenance is a problem, then the finance officer might use an asset maintenance plan (or other suitable estimate) to demonstrate the magnitude of the risk and encourage the governing board create a special set-aside to begin funding this liability – and avoid managing this risk with general fund reserves. In another example, if unfunded pension liabilities are an issue, the organization should develop a strategy to pay down those liabilities. In this situation, the finance officer could point out how pension liability constrains the financial flexibility of the organization, thereby decreasing the reserve's ability to manage other types of risk.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to leverage.

Liquidity

Identify Risks. List major sources of intra-period cash imbalances. A good example is property taxes that are only received at one or two points during the year.

Assess Risks. Describe the size of the problem created by these sources of imbalance. Does it have the potential to significantly interfere with operations?

Identify Other Risk Mitigation Approaches. To what extent can tools like internal borrowing or tax anticipation notes provide a cost-effective alternative to keeping a reserve?

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to liquidity.

Other Funds' Dependency

Identify Risks. Start by listing other funds that have significant dependence on the general fund. Dependence will usually be indicated by regular operating transfers that are an unusually high percentage of the receiving fund's expenditure budget.

Assess Risks. Assess the level of reserves in these other funds. Are reserves low? If so, is this fund subject to potential risks that could require a substantial draw on reserves? If so, is the general fund expected to backstop this fund?

Identify Other Risk Mitigation Approaches. A major point for the finance officer to explore is whether the general fund should be "back stopping" these other funds in the first place. For example, an under-performing enterprise fund may be receiving operating transfers not because it is good public policy, but because the political will has not been mobilized to make the enterprise self-sufficient or to divest of it.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to other funds.

Growth

Identify Risks. This factor is only relevant if significant growth is a realistic possibility in the next three to five years. Start by identifying major potential sources of growth.

Assess Risks. Estimate the potential marginal costs associated with serving new growth and compare it to marginal revenues (this information should be available from long-term financial plans and forecasts). If there is a gap due to significant timing differences between when revenue is received from growth and when expenditures are made on services for that growth, then reserve targets could be adjusted to account for that gap.

Identify Other Risk Mitigation Approaches. Special growth or impact fees could be assessed at the time of construction to avoid this risk. For example, if a new development is expected to generate $10M annually in new taxes starting three years in the future (but nothing before then), but costs $7M to service starting in two years, then a reserve (or impact fees) may be needed. If the gap between revenue growth and service expenditures is due to a structural mismatch between costs and revenues (i.e., the growth does not pay for itself), then the government should re-examine its tax-fee structures, service provision methods, and/or land use plans to correct this imbalance.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to growth.

Capital Projects

Identify Risks. Use a capital improvement plan to determine if there are high priority projects without a funding source.

Assess Risks. Assess whether decision-makers might consider pay-as-you-go financing, using general fund reserves as at least part of the source.

Identify Other Risk Mitigation Approaches. If pay-as-you-go financing is something decision-makers might consider, then the finance officer may wish to broach the possibility of a commitment or assignment for the project so that pay-as-you-go financing does not detract from the general reserve's ability to manage other risks.

Assess Necessity of Risk Retention. Assign a score for the importance of risk retention through the use of reserves, when it comes to capital projects.

Your Target

Step 1. Determine Your TotalSscore from the Risk Factors
Step 1 on this sheet totals your scores from the foregoing sheets.

Step 2. Preliminary Analysis
In Step 2, find your score in the ranges presented and consult the analytical guidance. This is preliminary, as the analytical guidance will be refined in the next steps.

Step 3. Consider the Impact of Government Size, Budget Practices, and Borrowing Capacity
In Step 3, you consider additional drivers of fund balance: government size, budget practices, and borrowing capacity. In each blue box, enter the indicated number of positive or negative points for each driver (totaling them for each driver, as might be needed).

Size of Government. GFOA's analysis of the thousands of governments that participate in GFOA's comprehensive annual financial report presentation award program shows a very weak direct relationship between population size and size of fund balance. In fact, a statistical analysis of the data shows that although there is an inverse relationship between population size and size of fund balance, only about between 10% and 20% of the variation in fund balance size between governments can be explained by population.[i] Hence, the sheet only provides points for the very largest and smallest governments.

Budget Practices. The presence of formal or informal contingencies already built into the budget may relieve the need to carry some additional reserves. The finance officer can search directly for the presence of informal contingencies by searching prior years' budget-versus-actual reports for areas with consistent positive variances – this may indicate areas that are consistently over-budgeted. The finance officer can also look indirectly for contingencies by examining the budgeting system for practices that unintentionally encourage informal contingencies. For example, systems that provide little flexibility for managers to transfer budgets between different accounts will encourage managers to build additional slack into their budget since they do not have the ability to move surpluses in one account to counteract a deficit in another.

Borrowing Capacity. You can evaluate your borrowing capacity by comparing your current level of debt against your financial policy for debt. If no policy standards are in place, consider the rating agency guidelines below.

Standard and Poor's Debt Ratios and Ranges[ii]

	Overall Net Debt per Capita	Overall Net Debt as a % of Market Value	Debt Service as a % of Expenditures
Low	Below $1,000	Below 3%	Below 8%
Moderate	$1,000 - $3,000	3% - 6%	8% - 15%
Moderately High	$3,000 - $5,000	6% - 10%	15% - 20%
High	Above $5,000	Above 10%	Above 25%

The finance officer should also consider internal borrowing capacity. Inventory reserves in other funds and assess the extent to which these reserves are necessary to deal with the risks with which these funds are faced. If other funds have sizable reserves compared to the risks they are retaining, they could serve as an alternative to larger general fund reserve targets. However, internal borrowing should not be considered an alternative without a strong internal borrowing policy in place.

Step 4. Consider the Impact of Commitments/Assignments, Outsider Perceptions, and Political Support

In Step 4, you consider the drivers of Commitments/Assignments, Outsider Perceptions, and Political Support. Put an "X" in the blue cell next to all the statements that apply to you.

Commitments or Assignments. Think about all assignments and commitments that impact fund balance. Then assess how constraining those assignment and commitments are and how available that portion of the fund balance might be to retain risk. For instance, a board might "commit" a certain amount to a "rainy day" reserve. This sort of commitment would be very consistent with the purpose of retaining the types of risk defined in this analysis, and so could be considered part of the total amount of general fund balances available for a reserve. Conversely, an assignment or commitment for asset maintenance or a special project is intended to be spent on a particular use, and therefore is not really available for risk retention. These sorts of uses should be subtracted from the definition of fund balance available for a reserve.

Outsider Perceptions. Take stock of relevant outsider perceptions. What have rating agencies said in the past about your level of reserves? Could failure to carry a certain level of reserves contribute to a ratings downgrade? Also consider citizen perspectives – ould having too high of a reserve provoke a backlash? Take these perceptions into account when settling on a final reserve target.

Political Support. A reserve target must be formally adopted by the board in order to do much good. Therefore, consider what might lead to a politically acceptable target level. For instance, governing boards often place great weight on benchmarking studies with similar organizations – a proposed target might garner more support if it is seen as consistent with the practices of comparable governments.

Step 5: Putting It All Together

The green cell contains a revised risk score, which takes account of your point totals from Step 3. Using this revised score, revisit the ranges and analytical guidance in Step 2.

Also, consider the boxes you checked in Step 4. Add the advice from these statements to your final analytical guidance from Step 2. Using this advice, you can finalize a reserve target and present it to the board.

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[i] The range comes from using different permutations of the data set, such as removing or including certain outliers.

[ii] The ratios are taken from David G Hitchcock, Karl Jacob, and James Wiemken, "Key General Obligation Ratio Credit Ranges – Analysis vs. Reality," Standard & Poor's: 2008. However, the ranges have been modified slightly by the authors to provide a more streamlined presentation. Specifically, in the original document, the overall net debt per capita "low" range is $1,000 to $2,000 and the "moderate" range is $2,000 to $5,000.

Guiding Your Selection of a Fund Balance Target

Step 1. Determine your total score from the risk factors

25	Your total score from the risk factors (calculated if you entered a score in other sheets)

Step 2. Preliminary Analysis

Compare your score from Step 1 to the guidelines below.

Your Score	*Analytical Guidance*
8 - 16	You face minimal risk to retain through reserves. Consider a target equal to the GFOA minimum recommended reserve of 16.6% of revenues/expenditures.
17-24	You face a low to moderate level of risk to retain through reserves. Consider adopting a reserve target somewhat higher than the GFOA minimum (e.g. 17-25% of revenues/expenditures). Since risk is low, do not invest excessive analytical effort in determining an exact target amount. Consider a short, informal benchmarking study with peer agencies to provide guidance.
25-31	You face a moderate to high level of risk to retain through reserves. Consider adopting a target amount of reserves significantly higher than the GFOA recommended minimum (e.g., 26 - 35%). Consider a short, informal benchmarking survey as a starting point, but then analyze your most significant risk factors to make sure they are adequately covered by what the survey suggests is reasonable.
32 - 40	You face a high level of risk to retain through reserves. Consider adopting a much higher target than the GFOA minimum (e.g., greater than 35%). Consider performing a more indepth analysis of the risks you face to arrive at target level of reserved that provides sufficient coverage.

Step 3. Consider Impact of Government Size, Budget Practices, & Borrowing Capacity

For each driver pick which description best fits you and enter the appropriate number of points.

2	**Government Size**
+2	We are under 50,000 in population
0	We are between 50,000 and 300,000 in population
-4	We are over 300,000 in popultion

0	**Budget Practices**
-3	The budget has a formal contingency beyond what is being considered for this reserve.
-2	The budget has informal contingencies beyond what is being considered for the reserve.
0	The budget is lean and has no contingencies in it.

-2	**Borrowing Capacity**
-3	We have excellent external and internal borrowing capacity, including a good rating, little existing debt, and political will to use it.
-2	We have some external and/or internal borrowing capacity and political will could be mobilized to use it.

0 We have little or no borrowing capacity.

Moodys Ratings

Water/sewer revenue bonds: A1

Aquatics center lease-revenue bonds: Baa1

Step 4. Consider Impact of Commitments/Assignments, Outsider Perceptions & Political Support

Place an "X" next to each statement that applies to you.

Commitments and Assignments

	We we have commitments or assignments that designate fund balance for uses other than retaining the types of risk described in this analysis. If so, these commitments/assignments should not be included in the total reserve used to reach your target.

Outisder Perceptions

	Rating agencies have given us a target level of reserve for getting a good rating. If so, use that target in place of or in addition to a benchmarking survey to provide guidance on starting point for your target.
	The public is likely to question reserve levels as too high. If so, be sure to document your analysis findings in the other sheets.

Political Support

	The governing board places great weight on the policies of comparable jurisdictions. If so, conduct a benchmarking survey that includes governments the board preceives as relevant.
	The board places great weight on rating agency recommendations. If so, tie the reserve target recommendation to rating agency recommendations or standards.
	The board places great weight on GFOA recommendations. If so, use this analysis and GFOA's Best Practices to support your recommendation.

Step 5. Putting it All Together

A. Consider your adjusted risk score and re-consult the analytical guidance.

25	< Your adjusted risk score (risk score modified with results from Step 3)

B. Review results of Step 4.

Review each item you checked from Step 4 and add the advice to your analytical guidance.

C. Proceed with finalizing target

Proceed with setting a final reserve target based on analytical guidance.

Lompoc General Fund Cash Flow

	Total	% Total	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
REVENUES														
Taxes														
Property Tax	6,399,140	11%						3,199,570						3,199,570
Property Tax: VLF Swap	6,143,174	11%						3,071,587						3,071,587
Sales Tax	6,200,332	11%	516,694	516,694	516,694	516,694	516,694	516,694	516,694	516,694	516,694	516,694	516,694	516,694
Sales Tax: Triple Flip	2,137,185	4%						1,068,593						1,068,593
TOT	2,632,565	5%	219,380	219,380	219,380	219,380	219,380	219,380	219,380	219,380	219,380	219,380	219,380	219,380
Franchise: CATV	549,433	1%	45,786	45,786	45,786	45,786	45,786	45,786	45,786	45,786	45,786	45,786	45,786	45,786
Franchise: Other	185,669	0%										185,669		
Business License	653,494	1%	326,747	163,374	163,374									
Other Taxes	871,463	2%	72,622	72,622	72,622	72,622	72,622	72,622	72,622	72,622	72,622	72,622	72,622	72,622
Total Taxes	25,772,455	45%	1,181,230	1,017,856	1,017,856	854,483	854,483	8,194,232	854,483	854,483	854,483	1,040,152	854,483	8,194,232
Internal Service Charges	3,167,614	6%	263,968	263,968	263,968	263,968	263,968	263,968	263,968	263,968	263,968	263,968	263,968	263,968
Other Internal Charges	11,323,830	20%	943,653	943,653	943,653	943,653	943,653	943,653	943,653	943,653	943,653	943,653	943,653	943,653
Transfers	11,074,494	19%	922,875	922,875	922,875	922,875	922,875	922,875	922,875	922,875	922,875	922,875	922,875	922,875
Total from Other Funds	25,565,938	45%	2,130,495	2,130,495	2,130,495	2,130,495	2,130,495	2,130,495	2,130,495	2,130,495	2,130,495	2,130,495	2,130,495	2,130,495
All Other Revenues	6,077,158	11%	506,430	506,430	506,430	506,430	506,430	506,430	506,430	506,430	506,430	506,430	506,430	506,430
Total 2-Year Revenues	57,415,551	100%	3,818,154	3,654,781	3,654,781	3,491,407	3,491,407	10,831,157	3,491,407	3,491,407	3,491,407	3,677,076	3,491,407	10,831,157
Annual Revenues	28,707,776		1,909,077	1,827,390	1,827,390	1,745,704	1,745,704	5,415,578	1,745,704	1,745,704	1,745,704	1,838,538	1,745,704	5,415,578
ANNUALCOSTS	28,707,776		2,392,315	2,392,315	2,392,315	2,392,315	2,392,315	2,392,315	2,392,315	2,392,315	2,392,315	2,392,315	2,392,315	2,392,315
NET REVENUES	-		(483,237)	(564,924)	(564,924)	(646,611)	(646,611)	3,023,264	(646,611)	(646,611)	(646,611)	(553,776)	(646,611)	3,023,264
Cummulative Net			(483,237)	(1,048,162)	(1,613,086)	(2,259,697)	(2,906,308)	116,956	(529,655)	(1,176,266)	(1,822,877)	(2,376,653)	(3,023,264)	-
% OF ANNUAL COSTS			**-2%**	**-4%**	**-6%**	**-8%**	**-10%**	**0%**	**-2%**	**-4%**	**-6%**	**-8%**	**-11%**	**0%**

RESOLUTION NO. 5750(11)

A Resolution Of The Council Of The City Of Lompoc County Of Santa Barbara, State of California, adopting Governmental Accounting Standards Board Statement 54 setting a Fund Balance Policy with a General Fund Stabilization Reserve and authorizing the Management Services Director to implement the Fund Balance Policy

WHEREAS, the Governmental Accounting Standards Board (GASB) has issued Statement 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (Statement 54) with the intention of improving financial reporting by providing fund balance categories that will be more easily understood; and

WHEREAS, the City Council has considered the policy entitled Fund Balance Policy – General Fund and Other Governmental Funds which outlines the policy and procedures enacted to accurately categorize and report fund balance in the General Fund and other Governmental Funds; and

WHEREAS, Statement 54 will modify the reporting of fund balance for governmental funds and establish a hierarchy of classifications for fund balance and requires documenting certain financial policies, some of which require approval by the City Council; and

WHEREAS, the policy entitled "Fund Balance Policy – General Fund and Other Governmental Funds" provides that the City Council may commit General Fund balance for specific purposes by taking formal action and these committed amounts cannot be used for any other purposes unless the City Council removes or changes the specific use through the same formal action taken to establish the commitment; and

WHEREAS, the Management Services Director has recommended to the City Council that the General Fund Stabilization Reserve commitment of the General Fund balance be established at $4,556,000 for the Fiscal Year 2011-2012; and

WHEREAS, the policy entitled "Fund Balance Policy – General Fund and Other Governmental Funds" states the intent of the City Council to maintain a minimum of two (2) months of regular General Fund operating uses in the Stabilization Reserve when amounts are not adequate to fund the Stabilization Reserve commitment of $4,556,000; and

WHEREAS, the intent of the City Council is to increase the Stabilization Reserve in any subsequent fiscal year when financial resources are sufficient to do so when balance of the reserve is below either the level of two (2) months of regular General Fund operating uses or the commitment of $4,556,000; and

WHEREAS, the City Council has determined that the General Fund Stabilization Reserve commitment of the General Fund balance should be established and approved at $4,556,000 for Fiscal Year 2011-2012 as recommended by the Management Services Director; and

WHEREAS, the Fund Balance Policy (Exhibit A) complies with the requirements of Statement 54.

NOW, THEREFORE, THE COUNCIL OF THE CITY OF LOMPOC DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. The City Council hereby establishes and approves the General Fund Stabilization Reserve commitment of the General Fund balance to be in the range of two (2) months of regular General Fund operating uses and $4,556,000 for Fiscal Year 2011-2012.

SECTION 2. The classification and reporting of fund balance components as required by Governmental Accounting Standards Board Statement No. 54 will become effective starting with the financial statements issued for the 2010-2011 fiscal year.

SECTION 3. The City Council designates the City Administrator, or her/his designee, as the City-official to determine and define the amounts of those components of fund balance that are to be classified as assigned fund balance with the amounts to be first effective with the financial statements issued for the 2010-2011 fiscal year.

SECTION 4. This Resolution is effective on its date of adoption.

The foregoing Resolution was proposed by Council Member ____________, seconded by Council Member _________________, and duly passed and adopted by the Council of the City of Lompoc at its regular meeting on ___________________, by the following electronic vote:

AYES: Council Member(s):

NOES: Council Member(s):

____
John H. Linn, Mayor
City of Lompoc

ATTEST:

____
Stacey Alvarez, City Clerk
City of Lompoc

Attachment:

Exhibit A – Fund Balance Policy – General Fund