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

June 1, 2015

TO: Adrienne Moore, City Manager, City of Willits
Susan Holmes, Finance Director, City of Willits

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 if 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 unassigned General Fund balance at 35% of operating expenditures. This 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 35% of operating expenditures is recommended. Based on the City's circumstances, the GFOA's methodology recommends a target of 26% to 35%. Given the volatility of the City's most important General Fund revenue – sales tax, combined with the economic uncertainties of the impact of the Highway 101 bypass, I recommend setting the target at the high-end of this range.

This compares with the City's most recent audit results for the fiscal year ended June 30, 2014, where the City had an unassigned General Fund balance of $1,995,100 (46% of actual operating expenditures); and the 2014-15 Budget, which projects that the ending unassigned General Fund balance will be $1,730,000 (40% of operating expenditures).

Uses and Restoration of the Reserve

In addressing in the future where the reserve may be 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 at least 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:

- Meeting cash flow needs during the fiscal year; 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 the City should avoid using reserves 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 unassigned fund balance: net of non-spendable, restricted, committed or assigned 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. (This is also the recommended approach by the GFOA in its publication *Financial Policies*).

It should also be net of other commitments or assignments, so it is available to meet its intended purposes.

Based on the unassigned fund balance, two things can be readily determined from the audited financial statements after calculating the policy target based on actual operating expenditures:

- Whether the City has achieved its policy goal.

- And the amount (if any) that reserves (unassigned fund balance) exceed or are less than the policy goal.

General Fund Balance Classifications

Under generally accepted accounting principles set by the Government Accounting Standards Board (GASB) in Statement No. 54, General Fund balance is classified into five components:

- ***Non-Spendable.*** Amounts that are not in spendable form, such prepaid items or inventories.

- ***Restricted*.** Amounts subject to *externally* enforceable restrictions imposed by outside third parties.

- ***Committed*.** Amounts whose use is constrained internally by the agency itself for specific purposes set by the governing body.

- ***Assigned*.** Amounts intended for specific purposes as determined by the governing body or others it has formally designated.

- ***Unassigned.*** Residual classification of spendable amounts available for other purposes.

As discussed below, the City's target reserve should be reported as part of the "unassigned" fund balance.

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.

Including the Reserve Policy in the Budget Document

Having a clearly stated reserve policy has its greatest value during the budget preparation, review and adoption process. According, I recommend including the reserve policy (Attachment 1) in the budget document itself (along with any other significant budget and fiscal policies).

ALTERNATIVES

Set the Reserve at 30%

Based on the GFOA assessment methodology, a case could be made to set the minimum reserve at the mid-range of its suggested target (26% to 35%). However, based on the high-level cash flow analysis prepared as part of this project, at least 15% should be reserved for cash flow purposes alone. At 30%, this would only provide 15% for all other purposes. Given the volatility of the City's most important General Fund revenue source – sales tax – and the uncertain economic impact of the Highway 101 bypass, the high-end of the range is warranted.

Show the Reserve as "Assigned" in the Financial Statements

On one hand, it makes intuitive sense to consider the recommended reserve as "assigned" for fiscal stability, cash flow and contingencies. However, these purposes fall into a category that GASB calls "revenue stabilization, working capital needs, contingencies or emergencies;" and unless they are specifically classified as restricted or committed (which would not be appropriate in this case), GASB 54 states that they "… should be reported as unassigned in the general fund."

Segregate the Reserve into Separate Components

The proposed policy sets a unified reserve target of 35% 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: 15%
- Fiscal Stability: 10%
- Contingencies: 10%

ATTACHMENTS

1. Proposed General Fund Reserve Policy
2. Analyzing General Fund Reserve Risk Factors
3. Reserve Calculation Worksheet Summary (Full Worksheet Available Upon Request)
4. Cash Flow Analysis
5. GASB 54 Summary

Attachment 1

General Fund Reserve Policy

Reserves for Fiscal Stability, Cash Flow and Contingencies

The City will strive to maintain a minimum unassigned fund balance of at least 35% of operating expenditures in the General Fund for fiscal stability, cash flow and contingencies. This is based on the risk assessment methodology for setting reserve levels developed by the Government Finance Officers Association of the United States and Canada (GFOA) in adequately addressing:

- Revenue source stability, local disasters and other financial hardships or downturns in the local or national economy.
- Contingencies for unseen operating or capital needs.
- Unfunded liabilities such as self-insurance, pensions and retiree health obligations.
- Dependency of other funds on the General Fund.
- Institutional changes, such as State budget takeaways and unfunded mandates.
- 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 at least 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:

- Meeting cash flow needs during the fiscal year; 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, the City should avoid using reserves 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.

Future Capital Project Fund Balance Assignments

The Council may also commit or assign specific General Fund balance levels above the reserve target for future development of capital projects or other long-term goals that it determines to be in the best interests of the City.

Other Commitments and Assignments

In addition to the 35% target 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 restrictions, commitments or assignments required by contractual obligations, state law or generally accepted accounting principles.

Status: In Compliance. *For the last audited financial statements for the fiscal year ended June 30, 2014, the City had an unassigned General Fund balance of $1,995,100, which is 46% of actual operating expenditures. The 2014-15 Budget projects that the ending unassigned General Fund balance will be $1,730,000, which is 40% of operating expenditures.*

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

28	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

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.

28	< 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.

Attachment 4

City of Willits General Fund Cash Flow: 2014-15 Budget

	Total	% Total	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
REVENUES														
Taxes														
Property Tax	328,953	8%						164,477						164,477
Sales Tax	1,303,786	31%	108,649	108,649	108,649	108,649	108,649	108,649	108,649	108,649	108,649	108,649	108,649	108,649
Sales Tax: Triple Flip	434,595	10%						217,298						217,298
TOT	250,000	6%	-	-	-	78,791	4,004	-	36,874	18,824	-	27,808	14,306	69,393
Other Taxes	34,688	1%	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891
Total Taxes	2,352,022	56%	111,539	111,539	111,539	190,331	115,543	493,314	148,413	130,363	111,539	139,347	125,845	562,707
Licenses & Franchises														
Business License	162,000	4%	33,946	7,465	1,405	30,874	7,339	3,465	27,097	7,111	4,953	30,249	5,868	2,228
Franchise: CATV	19,750	0%	4,938			4,938			4,938			4,938		
Franchise: Garbage	126,480	3%	31,620			31,620			31,620			31,620		
Franchise: Other	77,000	2%										77,000		
Total Licenses & Franchises	385,230	9%	70,504	7,465	1,405	67,432	7,339	3,465	63,655	7,111	4,953	143,806	5,868	2,228
Intergovernmental														
VLF Swap	406,140	10%						203,070						203,070
Other	5,983	0%	499	499	499	499	499	499	499	499	499	499	499	499
Total Intergovernmental	412,123	10%	499	499	499	499	499	203,569	499	499	499	499	499	203,569
Overhead Allocation	544,168	13%	45,347	45,347	45,347	45,347	45,347	45,347	45,347	45,347	45,347	45,347	45,347	45,347
Other Revenues	28,720	1%	2,393	2,393	2,393	2,393	2,393	2,393	2,393	2,393	2,393	2,393	2,393	2,393
Total Non-Departmental	3,722,263	89%	230,282	167,244	161,183	306,002	171,121	748,088	260,307	185,714	164,732	331,393	179,952	816,244
Departmental Revenues	474,754	11%	39,563	39,563	39,563	39,563	39,563	39,563	39,563	39,563	39,563	39,563	39,563	39,563
ANNUAL REVENUES	4,197,017	100%	269,845	206,807	200,746	345,565	210,684	787,650	299,870	225,277	204,295	370,955	219,515	855,807
ANNUALCOSTS	4,335,866	100%	361,322	361,322	361,322	361,322	361,322	361,322	361,322	361,322	361,322	361,322	361,322	361,322
NET REVENUES	(138,849)		(91,477)	(154,516)	(160,576)	(15,757)	(150,638)	426,328	(61,452)	(136,045)	(157,028)	9,633	(141,807)	494,485
Cummulative Net	(138,849)		(91,477)	(245,993)	(406,568)	(422,326)	(572,964)	(146,636)	(208,087)	(344,133)	(501,160)	(491,527)	(633,334)	(138,849)
% OF ANNUAL COSTS	**-3%**		**-2%**	**-6%**	**-9%**	**-10%**	**-13%**	**-3%**	**-5%**	**-8%**	**-12%**	**-11%**	**-15%**	**-3%**

Attachment 5

SUMMARY OF STATEMENT NO. 54

SUMMARIES / STATUS

SUMMARY OF STATEMENT NO. 54
FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS
(ISSUED 02/09)

The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable,* such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

How the Changes in This Statement Will Improve Financial Reporting

The requirements in this Statement will improve financial reporting by providing fund balance categories and classifications that will be more easily understood. Elimination of the *reserved* component of fund balance in favor of a *restricted* classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance classification approach in this Statement will require governments to classify amounts consistently, regardless of the fund type or column in which they are presented. As a result, an amount cannot be classified as restricted in one fund but unrestricted in another. The fund balance disclosures will give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. The clarifications of the governmental fund type definitions will reduce uncertainty about which resources can or should be reported in the respective fund types.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.