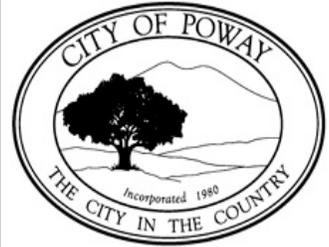


CITY OF POWAY GENERAL FUND RESERVE POLICY



I. Purpose

The City of Poway (the City) is committed to prudent fiscal practices and maintaining adequate General Fund reserves to ensure consistent, uninterrupted municipal services and facilities in the wake of potential risk events, such as a major economic downturn or natural disaster (e.g., wildfires, winter storms or earthquakes). Additionally, the City is committed to maintaining an adequate reserve to protect its credit quality and reduce the City's cost of borrowing, as adequate reserves represent a significant factor in a rating agency's evaluation.

II. General Fund Reserve

The City engaged the Government Finance Officers Association (GFOA) to evaluate the City's specific risk exposures and to help size an appropriate General Fund reserve. The GFOA findings (see Appendix A) guided the following policy provisions.

A. Overall General Fund Reserve

- The City of Poway will maintain a General Fund reserve equivalent to **45%** of budgeted annual General Fund operating expenditures.

B. Risk-Based Reserve Classifications

The 45% General Fund reserve will be sub-divided into the following three (3) risk exposure classifications. Each will be established as a percentage of budgeted annual General Fund operating expenditures.

- **10% Reserve for Revenue Volatility.** The City will maintain this amount as a hedge against swings in revenue from economic conditions, state actions and other adverse conditions, particularly changes in sales tax, property tax, and other fee-based revenue.
- **5% Reserve for Expenditure Volatility.** The City will maintain this amount as a hedge against unanticipated costs such as major litigation, a spike in pension contributions resulting from the market volatility, or unplanned capital expenditures.

- **30% Reserve for Extreme Events/Public Safety.** The City will maintain this amount as a hedge against natural disasters, other public safety emergencies and unexpected infrastructure repair and replacement.

C. Reserve Administration

The following is provided for appropriate and timely administration of the City's General Fund reserve.

- The City's overall General Fund Reserve amount (i.e., 45%) will be reported and adjusted annually with budget adoption.
- Any funds in excess of the City's 45% General Fund reserve will be identified at the close of each fiscal year for programming at the City Council's discretion.
- If, based on the Administrative Services Department's forecasting and analysis, a 45% General Fund reserve is not being met or will likely not be met within a five-year time horizon, the Director of Administrative Services will work with the City Manager to develop a plan to achieve the 45% reserve balance. The plan will be presented to City Council for consideration and adoption as soon as practicable.

III. Conditions for Use of Reserves

The following is provided to govern the appropriate use and replenishment of the City's General Fund reserve.

A. Use of Reserves

- The three (3) *Risk-Based Reserve* classifications are identified separately as justification for the City's *Overall General Fund Reserve*, consistent with the GFOA findings and GASB Statement No. 54. The full 45% reserve is available to address unanticipated events in any area (e.g., Revenue Volatility, Expenditure Volatility, and Extreme Events/Public Safety) at the City Council's discretion.
- It is the intent of the City to limit use of General Fund reserves to address unanticipated, non-recurring needs. Reserves shall not normally be applied to recurring annual operating expenditures.
- With Council authorization, General Fund reserves may be used to allow time for the City to restructure its operations in a deliberate manner (e.g., to address a severe economic downturn), but such use will only occur in the context of an adopted long-term plan to achieve a sustainable structure.

B. Authority to Use Reserves

- Upon City Council declaration of an emergency or other action to appropriate these funds, the use of reserves by the City Manager shall be consistent with the purposes and provisions contained within this policy and the City of Poway's general Financial Policy.
- Any use of General Funds that would cause the City's reserve to drop below 45% of budgeted annual General Fund operating expenditures shall be permitted only on a specific, case-by-case basis as authorized by the City Council.

C. Replenishment of Reserves

- In the event City Council authorizes use of the General Fund reserve, the City Manager shall propose a plan for the replenishment of the reserves to the City Council. The proposed plan shall be provided to the City Council within 60 days or as soon as practicable.
- The City will strive to replenish the General Fund reserve within one year of use, but will fully replenish the reserve within five years of use.
- The City will seek reimbursement from the Federal Emergency Management Agency to replenish reserves used in connection with a catastrophic event. Application for reimbursement will be made as soon as practicable following a catastrophic event, consistent with all federal guidelines.

D. Risk Mitigation Strategy to Supplement General Fund Reserve

- The City will procure appropriate insurance coverages to protect and preserve its General Fund reserve should an unanticipated risk event occur. The City's insurance program may include coverage for catastrophic events (e.g., wildfires, winter storms or earthquakes).
- When necessary and appropriate, the City should consider borrowing from other City funds (i.e., inter-fund loans) or through access to the debt markets rather than draw upon General Fund reserves. Any action to incur debt will be consistent with the City's Debt Management Policy provisions.

APPENDIX A

Risk-Based Analysis of General Fund Reserve Requirements