

**CITY OF DANA POINT  
COUNCIL POLICY**

|   |                                   |  |                                      |
|---|-----------------------------------|--|--------------------------------------|
| <b>SUBJECT:</b><br><br><b>General Fund Reserve Policy</b> | <b>PAGE:</b><br><br><b>1 of 3</b> | <b>EFFECTIVE DATE:</b><br><br><b>6/30/19</b> | <b>POLICY NO.:</b><br><br><b>233</b> |
|---|-----------------------------------|--|--------------------------------------|

**BACKGROUND:**

A General Fund reserve is one of the City of Dana Point’s most important hedges against risk. It helps ensure that the City can provide consistent, uninterrupted municipal services in the event of economic disruption or an extreme event. For example, the City’s primary revenue source is transient occupancy tax (TOT), which was shown to be sensitive to the Great Recession’s economic downturn. Further, like many other cities, Dana Point could be damaged by extreme events like an earthquake, tsunamis, or landslide, among others. Maintaining sufficient financial reserves would assist in maintaining a high level of creditworthiness which would be helpful should the City need access to financing; furthermore, it allows the City to meet its fiscal obligations per the adopted budget, despite normal cash flow fluctuations.

This policy establishes the amount the City will strive to maintain in its General Fund reserve, how the reserve will be funded, and the conditions under which the reserve may be spent.

**AMOUNTS HELD IN RESERVE**

The City will strive to hold the amount listed below in its designated (not legally restricted) General Fund balance, expressed as a percentage of the City’s budgeted and ongoing General Fund operating revenue. One-time revenues should be excluded from this annual calculation. The designated reserves are broken into the following two separate categories, each with their associated target amount:

- **11% of annual operating revenue - Economic Stability Reserve.** Available to protect and preserve City services from dramatic drops in General Fund revenues that are highly sensitive to economic conditions, mainly transient occupancy tax.
- **9% of annual operating revenue – Extreme Event Reserve.** Available to respond quickly and decisively to man-made or natural extreme events. This reserve could fund the initial public safety response or repairs and reconstruction of public property required in the aftermath of an event.

If, based on use and/or the City staff’s analysis and forecasting, the target amount is not being met or is likely not going to be met at some point within a five-year time horizon, then a plan to meet the target balance will be developed. This plan will be presented to the City Council for consideration.

In addition to the amounts above, the City may choose to designate additional amounts for purposes other than those described above. For example, the City may wish to set aside monies for a one-time investment in a special project or program; or, to fund an unfunded pension or other post-employment benefit liability. Any such designated reserve will be accounted for separately

|                                    |               |                        |                    |
|------------------------------------|---------------|------------------------|--------------------|
| <b>SUBJECT:</b>                    | <b>PAGE:</b>  | <b>EFFECTIVE DATE:</b> | <b>POLICY NO.:</b> |
| <b>General Fund Reserve Policy</b> | <b>2 of 3</b> | <b>6/30/19</b>         | <b>233</b>         |

from the Economic Stability Reserve and Extreme Event Reserve; this separation is to prevent the funds the City needs to respond quickly and decisively to emergency situations from being tied up by other potential uses. Funds designated for capital projects or facility projects should be transferred to and set aside in a specific, designated reserve in the Capital Projects Fund or Facilities Fund, respectively.

Finally, though not a designated reserve, the City shall maintain an adequate amount of working capital on hand in order ensure smooth operations through normal differences between the timing of the City’s revenue inflows and expenditure outflows. Generally, an amount equal to 4% to 7% of General Fund budgeted, ongoing revenue will be maintained as a minimum, unassigned fund balance. The City will aim to fund at the top of this range.

Priority Funding of the Designated Reserve Targets

Funding of the unassigned fund balance and the two designated (not legally restricted) reserves, will come generally from one-time revenues (e.g., unusually large receipts from transient occupancy, property, sales taxes, etc.), and projected General Fund revenues in excess of projected expenditures. Replenishing these accounts will generally occur in the following priority order:

1. Working capital (unassigned fund balance)
2. Extreme event reserve
3. Economic stability reserve

**CONDITIONS FOR USE OF RESERVES**

**A. Use of Reserves.** The City shall limit use of the General Fund’s designated reserves to address unanticipated, non-recurring needs or known and planned future obligations. Designated reserves shall not under normal circumstances be applied to recurring, annual operating expenditures. The Economic Stability reserve may be used to allow time for the City to restructure its operations in a deliberate manner (such as might be required in the case of a severe economic downturn), but such use will only take place in the context that the City will concurrently adopt a plan to reach a sustainable, balanced budget structure.

If necessary, the City should only use up to 50% of either designated reserve to continue operations. The use of the reserves is limited in this way so that a reserve balance will be available to help address additional financial issues or extreme events encountered in the subsequent year. Further, use of a significant portion of the Economic Stability Reserve in any given year should be accompanied by analysis of the fiscal outlook and, if necessary, consideration of reductions to ongoing operations to ensure fiscal sustainability.

|   |                                   |  |                                      |
|---|-----------------------------------|--|--------------------------------------|
| <b>SUBJECT:</b><br><br><b>General Fund Reserve Policy</b> | <b>PAGE:</b><br><br><b>3 of 3</b> | <b>EFFECTIVE DATE:</b><br><br><b>6/30/19</b> | <b>POLICY NO.:</b><br><br><b>233</b> |
|---|-----------------------------------|--|--------------------------------------|

**B. Authority to Use Reserves.** The City Council may authorize the use of the designated reserves. In all cases, the City Council and management shall only use reserves for purposes consistent with the purposes described in this policy.

**C. Replenishment of Reserves.** In the event designated reserves are used in an amount that takes them below the City's target amounts, the City Manager shall propose a plan within 180 days to the City Council for the replenishment of the reserve(s). The City will strive to replenish the reserves within one year of use, but will fully replenish it within five years of use.