

CITY OF FONTANA

General Fund Reserve Policy

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City of Fontana
General Fund Reserve Policy

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PURPOSE

The City is committed to prudent fiscal practices and maintaining adequate General Fund reserves to ensure consistent, uninterrupted municipal services in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures, as well as the creditworthiness of the City. The General Fund Reserve Policy (the Policy) establishes the appropriate level of unassigned fund balance in the General Fund, sets conditions warranting its use, and outlines the plan to replenish it if the balance fell below the Policy level.

DEFINITIONS

1. Fund Balance – the difference between the assets and liabilities reported in a governmental fund and reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. These classifications include:
 - a. Nonspendable Fund Balance – inherently non-spendable, such as inventory
 - b. Restricted Fund Balance – externally enforceable limitations on use, such as grants, contributions, or endowments
 - c. Committed Fund Balance – self-imposed limitation on use through City Council action
 - d. Assigned Fund Balance – limitation resulting from intended use
 - e. Unassigned Fund Balance – residual net resources

(Note: The first two components listed above are not specifically addressed in the Policy due to the nature of their restrictions.)

2. General Fund Contingency Reserves – an amount held in the General Fund for known and unknown contingencies. Funds are classified as either unassigned fund balance or committed reserves.
3. New Ongoing Revenues – a new general tax, an increase in the rate of an existing tax, a new lease of City property, or a new, clearly identifiable unrestricted revenue source not previously included in the City's budget at the time of adoption of this policy; which generates at least \$100,000 per year in revenue; and is expected to continue for at least a period of 20 years.
4. New One-Time Revenues – defined as either: (1) unrestricted revenue from new

one-time events (for example, property sales, etc.) of at least \$100,000 (excluding recapturing of lost funds); (2) a new, clearly identifiable unrestricted revenue source of at least \$100,000 per year and not previously included in the City's budget at the time of adoption of this policy, which is expected to continue for a period of less than 20 years; or (3) unanticipated positive General Fund budget variances of any amount (i.e., positive changes in General Fund financial position greater than final budgeted amounts)

5. New Revenue Allocation Categories – the policy identifies four allocation categories for new revenue sources and include the following:
 - a. General Government Services – essential municipal services that are required for daily operations and community welfare.
 - b. Infrastructure and Equipment – including but not limited the replacement, improvement and maintenance of facilities, transportation, utilities, waste management, communications, aviation, and technology projects.

POLICY

The General Fund is the City's primary operating fund. It is not connected to any one specific revenue source and pays for general services provided by the City as well as public safety and capital improvements. A vital attribute of a financially stable organization is having the appropriate level of reserves to allow the City to mitigate current and future financial risks resulting from economic instability or catastrophic loss.

The City shall establish and maintain adequate financial reserves to prepare for the impact that economic cycles, and physical disasters may have upon essential services to the public and ensure annual fluctuations in revenue do not impede the City's ability to meet expenditure obligations. These reserves may be programmed in committed, assigned, or unassigned fund balance categories.

1. General Fund Committed Fund Balance

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal period; however, the amount can be determined subsequently.

- a. Committed Fund Balance

The City shall maintain two General Fund Committed Fund Balances:

- i. General Fund Contingency Reserves shall have committed fund balance to mitigate financial risks associated with unforeseen or unexpected revenue shortfalls due to changes in the economic environment and to mitigate costs associated with public emergencies such as natural disasters or other catastrophic events. In times of economic downturn, if revenues are insufficient to meet the normal operating requirements of essential services or in the event of extreme, one-time events, such as earthquakes, fires, floods, civil disturbance, and terrorist attacks, funds contained in the Contingencies Reserve may be used if authorized by a two-thirds vote of the City Council
- ii. General Fund Operating Reserves shall have a committed fund balance to provide one-time funding for unexpected or unprogrammed operational needs and may be used if authorized by a majority vote of the City Council.

b. Target Levels and Methodology for Committed Fund Balance

Per the Government Finance Officers Association (GFOA), it is recommended, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their General Fund of no less than two months of regular General Fund operating revenues or expenditures.

- i. General Fund Contingencies Reserve – Following sound financial practices and adhering to the GFOA recommendation, the City commits to maintaining a minimum level of 40% (or 4.8 months) of adopted operating expenditures, with a goal of reaching 50% over time in Contingency Reserves. The methodology for calculating the required 40% Committed Fund Balance is 40% of budgeted operating expenditures, excluding one-time expenditures. One-time expenditures are identified with the adoption of the annual budget.
- ii. General Fund Operating Reserves – reserves shall have a committed fund balance of \$3.0 million.

c. Methodology to Meet Target Reserve Levels

At the end of each fiscal year, the Finance Department reports on the audited fiscal results. Should actual General Fund revenues exceed expenditures, encumbrances/carryovers, and one-time expenditures budgeted in the next fiscal year are fully funded, a year-end operating surplus shall be reported. The yearend surplus could be appropriated as follows (listed in order of priority):

- i. Meet the required minimum funding target reserve levels as set by the

Target Levels and Methodology for Committed Fund Balance above.

- ii. Based upon the City Manager's direction, commit additional funding to the Committed Fund Balance Contingency Reserve up to 50%.

d. Replenishment of General Fund Reserves

A replenishment schedule shall be adopted simultaneously with the appropriation from the reserve funds. Replenishment shall begin no later than 5 years from the year of the appropriation and be completed within 10 years.

2. Assigned Fund Balance

Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, are considered as Assigned Fund Balance. This policy hereby delegates the authority to assign amounts for specific purposes to the City Manager. Assigned Fund Balance could include:

- a. Encumbrances – goods and services on purchase orders and contracts that are to be delivered.
- b. Carryover – appropriation by City Council for specific projects or programs that were not completed and not encumbered by fiscal year-end.
- c. GASB 31 Gain – unrealized investment gains that have been recorded in the financial statement in accordance with governmental accounting standards.
- d. Set Asides – amount designated for certain capital replacement, reduction of debt, special events or non-recurring expenditure needs of the City.

3. Unassigned Fund Balance

Unassigned fund balance results from when fund balance exceeds the combined total of non-spendable, restricted, committed and assigned fund balances. As the City is committed to prudent fiscal practices, upon final close of the fiscal year, any unassigned fund balance, less any encumbrances and budget being carried forward to the next fiscal year, shall be appropriated 50/50 between the prefunding of the City's pension unfunded liability and road improvements.

4. New Ongoing Revenue Allocation

The allocation of New Ongoing Revenues are to be determined as follows:

Allocation Category	% of Total
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	Revenue
Infrastructure and Equipment	50%
General Government Services	50%

5. Fund Balance – Financial Reporting versus Budget

Fund balance, as a measurement of financial resources available in a governmental fund, is used in both financial reporting and budgeting. There are differences between the two, which will likely result in different amounts reported in the financial statements and the budget. Financial statements report the total of all General Fund and its sub-funds' fund balances, yet budgetary fund balance typically focuses on the General Fund itself only. In addition, the timing difference in recognition of revenues and expenditures also contributes to the variance between the two. For example, encumbrances arising from purchase orders and contracts reduce budgetary fund balance, yet it has no impact on the financial statements.

6. Revisions to the General Fund Reserve Policy

This policy shall be a policy of the City Council and is subject to change based on a four-fifths (4/5^{ths}) vote of the Council.