Long Term Financial Forecast

FY 2024-FY 2028

I. Introduction

This document is the City of Clayton's Long-Term Financial Forecast (LTFF). This forecast will be updated annually to assist in the planning for a successful future for the City of Clayton. The entire city organization is committed to doing all that is necessary to develop and stabilize our financial base, which is essential to the provision of service to the community. Regardless of whether the economy is expanding, contracting, or remaining stable, financial planning is a prudent activity, and maintenance of the LTFF is essential to sound fiscal management. In general, budgetary problems will result when revenues do not keep pace with expenditures (from an annual growth perspective). That said, there is more to financial planning than just keeping the budget balanced. The LTFF provides the strategic foundation to understanding the various trends to allow a comprehensive review of programs and services provided to the community and how these needs may change both in the near-term and the long-term.

<u>Purpose of the Long-Term Financial Forecast</u>

The LTFF takes a forward look at the city's General Fund and Landscape Maintenance District (LMD) Fund revenues and expenditures. Its purpose is to identify financial trends, shortfalls, opportunities, and issues so the city can proactively address them. It does so by projecting the future fiscal results of continuing the city's current service levels, policies, and identifying any unmet structural needs such as vehicle, technology, or capital replacement, significant staffing shortages, etc. The LTFF lays the foundation for the budget, aiding both the City Manager and Council in establishing priorities and allocating resources appropriately.

Components of the Long-Term Financial Forecast

The city's forecast is focused on emerging issues and has been documented for public review to encourage input and feedback from various stakeholders. This forecast includes FY 2023/24 through FY 2027/28. The LTFF is not a "crystal ball", but rather it serves as a tool to highlight significant trends or issues that must be addressed if the city's goals are to be achieved. Although both the General Fund and Landscape Maintenance District (LMD) Fund are being reviewed, the major focus of the memo this year will be on the General Fund, as the timing to make a decision on a possible revenue solution must occur much quicker than a possible decision around revenue with the LMD.

II. Financial Forecast

An updated financial forecast for the General Fund and LMD fund has been prepared to reflect economic projections of the City's future financial condition. The General Fund provides the resources to pay for most city services such as (but not limited to) police services, street maintenance, park maintenance including ball fields, right-of-way maintenance, and administrative functions.

Revenue and Expenditure Assumptions

The assumptions for the major revenue and expenditure categories are identified below. That said, in both scenarios the pace of expenditures increases is larger than the pace of revenue increases, thus leading to an overall structural imbalance in both scenarios.

Revenue

Category	Assumptions
Property Tax (all secured types except supplemental and transfer tax)	4% per year growth; slightly above the past few fiscal year increases
Unsecured Property Tax	3% per year; discussion with HdL
Supplemental Property Tax	$40k per year
Transfer Tax	$100k per year
Sales Tax	3% per year growth

Franchise Fees	Based on Trends; reflecting contract increases in PGE and Garbage fees
Interest	Maintains a 2% rate of return; assumes fund balance usage lowering total assets available
Other Revenue Sources	Based on trends/future current information

Expenses

<u>**Category**</u>	<u>**Assumptions**</u>
Salaries	Contracted step increases and COLAs. 3% annual increase for years not currently contracted.
Retirement	Based on actuarial estimates
Health/Dental Vision	Assumes a 6% annual increase
Services and Supplies	4% annual increase

Although there can be variability in the assumed expense increases, staff believe the current assumptions within the table provide a reasonable baseline scenario for the forecast. Retirement and healthcare costs have the most risk for larger increases than the assumption due to the level of volatility in those cost categories. That said, increases in those areas would only further reflect the cost pressures on the General Fund, thus the current baseline assumptions are a more reasonable and conservative approach.

<u>Forecast Summary</u>

Operating position refers to the city's ability to match revenues to expenditure levels, i.e., if revenues exceed expenditures, the city will have an operating surplus, if revenues fall below expenditures, the result is an operating deficit. Over the forecast period, the city projects, in both the General Fund and the Landscape Maintenance Fund, will have a negative operating position.

General Fund

	FY 24	FY25	FY 26	FY 27	FY 28
Revenue	5,411,412	5,467,530	5,619,336	5,776,321	5,939,209
Expense	5,651,412	6,028,710	6,191,647	6,572,344	6,815,079
Net Surplus/ (Deficit)	(240,000)	(561,181)	(572,311)	(796,023)	(875,870)

General Fund Revenues

General Fund revenue is projected to grow at a rate of 2.5% over the forecasted period. Staff anticipate property tax and sales tax growth flatten out during that time. With the net property tax rate of the City of Clayton (determined during incorporation) at slightly more than $.06 per every property tax dollar, current policy to have modest Commercial properties, and limited areas to add new commercial properties, the ability to grow existing revenue beyond the current trends is extremely limited. This also does not factor in from time to time the stagnation of revenue growth due to "normal recessions." It will be important that the fund balance policy considers a smoothing fund (designation for fiscal uncertainty) to assist during those economic time periods.

Property Tax continues to be the largest part of the city's revenue, at 61% of total revenue (all property tax sources) followed by sales tax and franchise fees, each at 11% respectively. The pie chart below illustrates the various revenue sources, by type, for the City.

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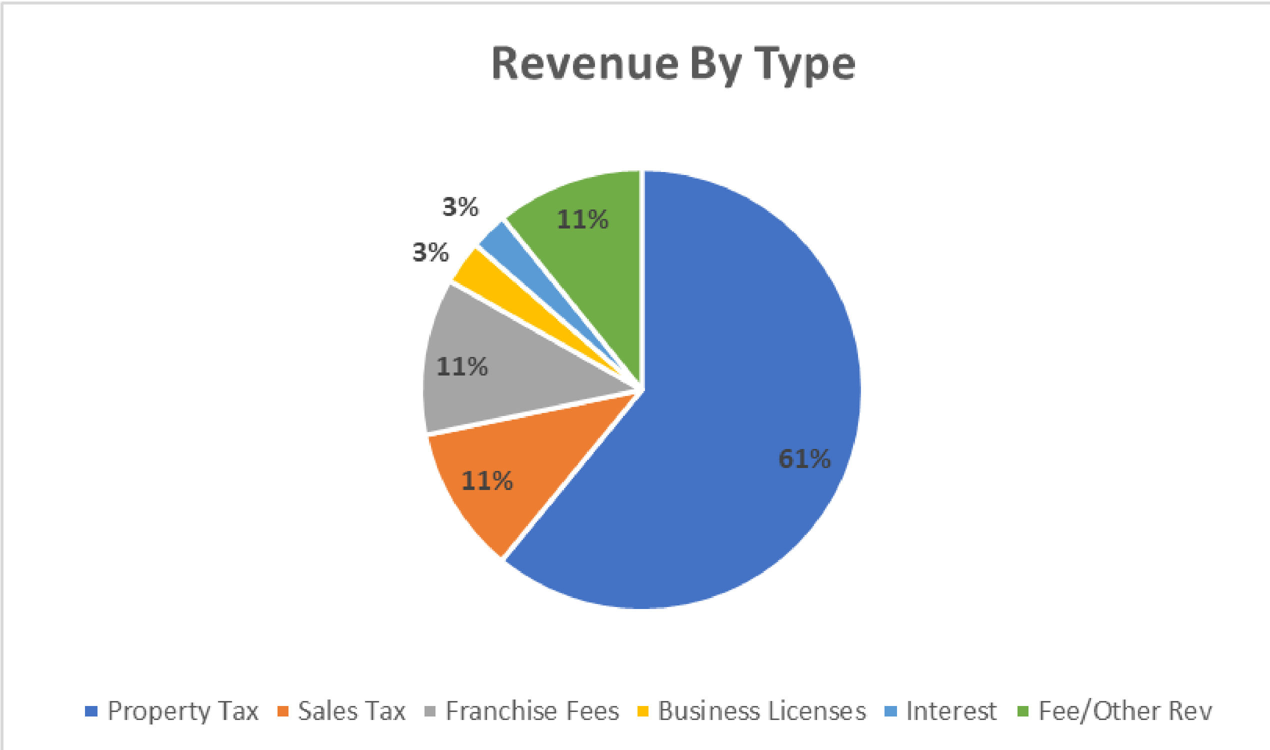

General Fund Expenses

The General Fund expenses are projected to grow at an average rate of 5% per year, with the majority of that occurring between FY 24 and FY 25 due to contracted Memorandum of Understanding (MOU) with our police and miscellaneous employee groups as well as the debt service on the Climatec project starting in FY 2027. These contracts, especially with our police union, are vital to creating a competitive environment for recruitment and retention. Clayton has had a recent history of significant turnover and has made progress in the past 12 months in this area. These contracts lessen the gap between Clayton staff and the other cities within the County. Since staff are such a vital piece of our service delivery it is important to ensure the city can recruit and retain the quality level of employee to deliver the same level of service expected by the community. Since salaries and benefits are the largest part of any municipal government, it does, however, put strain on the General Fund.

What is not included in the forecast?

It is important to identify the assumptions within any forecast, but it is also as important to understand what is not included in the forecast. The City of Clayton has fundamental annual operating expenses that were not a part of previous financial plans. These areas are:

- Vehicle Replacement Reserve
- Technology/Equipment Replacement Reserve
- Capital/Maintenance/Special Projects Reserve

In a typical approach, replacement schedules are created on a rolling 5-to-10-year basis and the operating budget allocates an annual amount to these “sinking” funds to prepare for future costs. These costs must be covered through annual revenue to fund these items as well as normal day-to-day operations. The combination of these two elements is what allows a budget to be structurally balanced.

Since there has not been time to create specific replacement schedules for each of these funds, we will use conservative estimates for the annual allocation that would be required from the General Fund operating budget. These amounts may be lower than what would ultimately be required but it will give an order of magnitude view of the impact the costs will have on an already structurally imbalanced General Fund.

The estimated annual amounts are as follows:

- Vehicle Replacement Reserve- $60,000 per year
- Technology/Equipment Replacement Reserve- $20,000 per year
- Capital/Maintenance/Special Projects Reserve- $75,000 per year

This $155,000 annual cost is a conservative estimate of the allocation which should be occurring but is not included in the current forecast. The city can, with relative confidence, not include it within its budget over the forecasted period as the significant amount of current General Fund reserves, approximately $7.7 million, can be utilized to “catch up” on some but not all of these needs over the next five (5) years. That said, in FY 2028 and beyond, if specific allocations are not created to match actual replacement schedules the city will continue to fall behind and create significant repairs on aging vehicles, equipment, and infrastructure, as well as be forced into the current "pay as you go" approach, which will be extremely difficult in a General Fund budget with a structural deficit. Additionally, the future cost of repairs and replacements are likely to be at a higher amount than current year cost estimates.

The structural deficit with or without the capital allocations identified above is projected to exist over the life of the forecast. The inclusion of the allocations would only grow the projected deficit to over $1 million in 2028. The City, through its recent efforts, has continued to minimize any unneeded expenses, or float in the operational budget. If additional revenues are not achieved, the city would need to look to austerity measures to bring the budget back to structural balance. These austerity measures would not be removing any excess from the budget but rather a wholesale change in portions of the service delivery to the community. In the next section of this memo, the example of the level of reductions will be identified to allow City Council an understanding of the impact of service delivery to the community.

Landscape Maintenance District

The Landscape Maintenance District (LMD) receives its revenue from a parcel tax, which is scheduled to expire in 2027. In short, the district funds are used to conduct landscape maintenance/vegetation management throughout the city's medians, right of ways, creeks, and other non-park areas, including maintenance and capital work related to the city's thirteen (13) trails, and various pathways and sections that are throughout the incorporated city. The fund has been increasingly under pressure in recent years as the cost to maintain such a large amount of vegetation/landscape continues to increase. Additionally, the fund has not been structured to allocate funding for capital reserves to address larger capital and maintenance projects related to landscape throughout the city and trails. The breakdown of revenues and expenses projected over the next five (5) years is outlined in the table below.

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Landscape Maintenance District

	FY 24	FY 25	FY 26	FY 27	FY 28
Revenue	1,288,285	1,333,025	1,379,330	1,427,257	1,476,861
Expenses	1,267,797	1,403,284	1,455,286	1,488,967	1,542,400
Surplus/(Deficit)	**20,488**	**(70,260)**	**(75,955)**	**(61,710)**	**(65,540)**

Unlike the General Fund, the LMD is somewhat closer to being balanced. Below are the assumptions within the forecast.

- Parcel Tax revenue grows by 3.5% each year and continues through 2028 (for illustrative purposes) even though it expires in 2027.
- Expenses include an assumed contract for landscape services for medians, right of ways, and other non-park portions of the City at $400,000 per year increase by 4% annually.
- Due to the assumed contract in the bullet above, the expenses for temporary staff and the charges from city staff to the fund for work conducted dropped by 65% and 60% respectively. There still would be some city staff and temporary staff work needed beyond the contracted areas.
- Services and supplies grow at a 4% rate per year. This might be too conservative as the cost for these types of services are increasing but this may be due to short-term inflation factors.
- $100,000 per year Capital Improvement Allocation is added starting in FY 2025 to begin to build reserves for larger projects related to our landscaping and trails.

As with the General Fund, the LMD is also not in structural balance. That said, staff believes a small increase to the parcel tax of $30 to $40 dollars per year per parcel should be sufficient to bring the fund into balance including allowing for the capital reserves to grow over time. $30 to $40 more per year per parcel would generate $150,000 to $200,000 per year in additional revenue. As discussed at the beginning of the memo, due to the timing of the decision the primary focus of this analysis is the General Fund, but any decision on how to address the General Fund's structural deficit must also consider the needs of the LMD. If the City Council decides an increased revenue option is desired for the General Fund, the timing of such a vote of the people should not overlap with the timing of the need to renew/increase the parcel tax for the LMD as two revenue measures on the same ballot is not usually a plan for success.

The decision on the LMD does not have to be made today, but the awareness of what decision may need to be made in the somewhat near future is an important data point in looking at the totality of all the possible taxes facing Clayton residence in the coming two (2) years.

III. Solutions for the Structural Deficit of the General Fund

We will be reviewing two options for addressing the structural deficit: one is revenue based and the other is austerity (service delivery changes). One might ask the question, "why not do both austerity and revenue thus requiring less revenue/taxes to add"? The issue with that approach is that the city does not have any significant expense reductions that can occur while not changing the service delivery to the community. The city has made adjustments to become more efficient and effective in the last 12 months, identifying areas where reductions can take place and where technology can assist in operations. Thus, the city is at its foundational level to run operations under the current service delivery model, and one could argue that the city is still a few staff members short in certain areas to achieve a typical staff level for the overall service delivery currently being provided.

Revenue Generation

Staff is recommending a Transaction Use Tax (TUT) which is essentially an additional sales tax percentage that does not go through the normal County pool as the Bradley Burns 1% sales tax. Many cities add this sales tax piece to improve their revenue, thus the ability to fund operations. Staff are recommending this approach over a parcel tax for general operations for two reasons 1.) a sales tax is shared by more individuals than a parcel tax. A parcel tax only impacts homeowners where a sales tax impacts homeowner, renters, visitors to the city, as they all contribute to the revenue increase. 2.) the city already has a parcel tax for the Landscape Maintenance District which expires in 2027, thus the city will need to ask voters to approve the tax (and a possible increase in said parcel tax) in 2026.

A TUT addition to the sales tax would add the following annual revenue:

- ½ cent TUT=$350K-$450K per year
- 1 cent TUT+ $700L-$900K per year

If you recall the table in the earlier section of this memo, the structural deficit is estimated to grow above the ½ cent TUT revenue increase in the middle of the forecasting period. If City Council were to elect to move forward with this approach, the success would be short lived and would require an additional revenue increase somewhat in the near future and it may not stop some levels of significant service delivery reductions. A 1 cent TUT would provide a longer runway for the city to be within structural balance, and although years 6-10 may still only be finely balanced with the 1 cent revenue increase it has the ability to act as more of a longer-term assistance to the General Fund.

For illustrative purposes, below is a table showing a variety of cities sales tax rates within Contra Costa County.

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City	Sales Tax Rate	1/2 cent increase	1 cent increase
Clayton	**8.75%**	**9.25**	**9.75**
Concord	9.75%		
Walnut Creek	9.25%		
Pleasant Hill	9.25%		
Moraga	9.75%		
Lafayette	8.75%		
Orinda	9.75%		
Richmond	9.75%		
Antioch	9.75%		
Oakley	8.75%		

An increase of either ½ cent or 1 cent would put the city within a reasonable range of the majority of Contra Costa cities. If the City Council desires to move forward with a sales tax, staff recommend putting it on the November 2024 ballot so as to not create an issue in 2026 in which two revenue measures would be presented to the residents at one time. History has shown in other agencies and through discussions with experts who lead this work that having two revenue related measures for one city on the same ballot can make it difficult to pass either ballot measure. Placing a sales tax measure on the November 2024 ballot will require expediency and focus from key city staff who may need to delay other priorities to make this happen. Additionally, staff would need to come back to City Council quickly identifying the assistance that would be required, including the funding for the education campaign and other related functions for the ballot measure process.

Austerity Measures

If revenue is not the desired option of the City Council, staff would need to move to austerity measures. Since reducing service delivery will have an impact on the community and city staff, it is the recommendation of staff that it occur over two budget cycles (FY 2025 and FY 2026). There is sufficient reserves to allow the austerity to occur over that period without drastically impacting the required reserve levels.

The following service level reductions are potential actions that would be taken but may not be the final actions chosen. The reductions below provide an example of the impact the reductions would have on service delivery.

- Reduce staff within the planning/code enforcement division- **$200,000 annual savings (net code enforcement contract required and contracted facility rental costs)**.
    - City Hall would only be open to the public one (1) day per week as the city would no longer have front counter staff available to receive and assist the public.
    - Code Enforcement would be conducted on a contracted basis and only for significant life/health safety immanent issues.
    - Permits and city planning would see significant time delays in assisting in any development projects and any permits requiring city attention. If any additional support for the Community

Development Director is required, it would lessen the savings identified above.
    - It would make recruiting for a Community Development Director, when vacant, very difficult as it would not be desirable for most qualified candidates to be the only person for this purpose.
    - HCD could interpret the lack of planning and development staff as a barrier to housing which would run afoul of our Housing Element.
- Elimination of 1-FTE non-sworn police position- **$100.000 to $130,000 annual savings**
    - The remaining non-sworn staff member would have to handle the public counter as well as records and additional police non-sworn related administrative support. This would make the timing to assist the public delayed and could create some timeliness issue with records and other related tasks.
    - When the remaining staff person is on vacation or not in the office, it would put pressure on the Admin Sergeant to cover some of these functions, not allowing that person to be available for operations and impacting daily sworn police functions.
- Reduce Park Maintenance including tree trimming, grounds maintenance (inclusive of lawn care, and ball field maintenance)- **$150,000 annual savings**
    - The city may have to eliminate the use of one ballfield as well as limit any ground maintenance work in any park outside of Clayton Community Park, which may also see reductions in quality and upkeep.
- Reduce the Maintenance staff by 1-FTE and Reduction of $75K of temporary workers- **$150K total annual savings**
    - As outlined in the late fall presentation to the City Council, the maintenance team was already understaffed by thousands of hours per year. Elimination of 1-FTE along with most of the temporary works will reduce city parks' landscape and trimming. The city would omit non-core areas to make this possible, thus resulting in significant weeds, overgrown areas

throughout the city, adding to potential fire risk, and large mainline breaks would take significantly longer to fix.
    - The city would also be limiting the amount of annual preventative work on creeks, storm drains, and v-ditches throughout the city that are supported by the General Fund. This may make the city more subjectable to storm damage as well as possible regulatory issues with our storm drain plan.
- Eliminate all training and travel that is not related to legal certifications- **$25K annual savings**

The above reductions would allow the General Fund to move into structural balance through FY 2026, and depending on contract negotiations with city employees in the years currently not under contract, it may remain imbalanced through the forecasted period if those negotiations are above the estimates within the forecast. That said, the culture and compensation these changes would create will make retention and recruitment of staff very difficult. These changes would erode the current progress made within the city over the past 12 months and ultimately would make it harder and more expensive if the city ever achieved a revenue measure in the future that would allow these and other services to be restored.

IV. Fund Balance

The city's fund balance has been generally unmanaged over the past decade, especially in the past few fiscal years. The current fund balance policy does not align with future projected needs. Historically, the city has recognized various levels of ending year fund balance but has not addressed the systemic reason why unassigned fund balance has been larger, at times, than one would assume.

In reviewing the history, in many cases the fund balance was created from a combination of slightly overly conservative revenue estimates when creating fiscal year budgets but more significantly consistently being unable to fill vacancies across a variety of departments. This systemic problem of being understaffed, or ineffectively staffed in some cases, has led to poor business decisions, creating ongoing liabilities or lack of revenue generation (or a combination of both). As part of the forecast, staff has identified opportunities to revise the fund balance policy (revised fund balance policy is Attachment A of this memo). The city has significant amounts of deferred facility maintenance, limited specific roads funding, and a “pay go” model for many other capital and maintenance expenses which will soon require funding sources.

Breaking down the fund balance into “assignments” or “commitments” will allow for the funding to have specific purposes. Although the City Council can adjust these assignments and amounts if needed, having a clear fund balance policy that can utilize the funding sources for needed projects is an important piece of strong fiscal management and use of taxpayer funds. In summary, staff is recommending the following breakdown of the $7.7 million dollar General Fund fund balance.

General Reserve Commitment	2,720,000	Per revised recommended policy= 40% of General Fund operating expenses. Pre-fund at estimated FY 2028 level
Assignment for Budget Stabilization	680,000	Per revised recommended policy- 10% of General Fund operating expenses. Pre-fund at estimated FY 2028 level
Assignment for Capital Projects/Maintenance/Special Projects	3,200,000	
Assignment for Technology/Equipment	300,000	
Assignment for Vehicle Replacement	500,000	
Assignment for Pension Stabilization	300,000	

The reserve levels identified in the table allow the General Fund to delay the annual allocation for the technology/equipment, vehicle, and capital/maintenance/special projects using these reserves over the next five years and provide funding for continuing to complete needed capital improvements on roads, park, and facilities including ongoing capital programs around ADA, street stripping, and other related infrastructure improvements, including economic development studies, and park feasibility studies, as identified as three (3) of the City Council's top five (5) strategic goals.

V. Conclusion

A structural imbalance exists in both the General Fund and Landscape Maintenance District Fund. There is limited ability to "trim budget fat" to address these structural imbalances. The decision in front of the City Council is to take a revenue focused approach or an austerity focused approach to address the issue. Each has its impact on the community and staff. A revenue focused approach has an added variable requiring voter approval. A failed tax measure vote would leave the city with no choice but to begin some version of the austerity measures outlined in this memo. In either instance, whatever is decided by the City Council, staff will put forth its best efforts to limit the impact on service to the community.

Attachment “A”

Reserve Policy of the City of Clayton

Effective March 5, 2024

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1. Overview

One of the key components of a financially stable municipality is the adherence to a policy of maintaining an appropriate level of reserves. Establishing a target minimum General Fund reserve is a mechanism that governments can implement to help ensure adequate levels of fund balance are available to help mitigate current and future risks. A minimum General Fund reserve is generally considered a prudent and conservative fiscal policy to deal with unforeseen situations. Some examples of unforeseen situations include, but are not limited to extreme events, economic downturns, reduced revenues, Federal/State/County Budget Cuts, unfunded legislative or judicial mandates, capital obligations, one-time City Council approved expenditures, and innovative opportunities for the betterment of the community.

The Government Finance Officers Association (GFOA), an international organization that promotes the professional management of governments for the public interest, recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of operating revenues or operating expenditures or a minimum of approximately 16.67% of General Fund operating expenditures. The GFOA further recommends that reserve levels be directly related to the degree of uncertainty the local government faces, specifically, the greater the uncertainty, the greater the financial resources necessary. Given the fact that the City of Clayton budget is overall relatively limited, the City should plan for a catastrophic reserve in excess of the minimum two months of expenses, except in years in which the reserve is being re-built due to the need to use the reserve to manage an emergency. In cases of extreme emergencies, the Federal Emergency Management Agency (FEMA) would be utilized, and it becomes less about funding the entire emergency and more about cash flow. Thus, the General Reserve level is not just for emergency but acts as a cash flow “buffer” during revenue dry periods i.e. in between property tax installments (January and May).

Most cities choose General Fund Operating Expenditures as the basis for reserve. Typically, there is less fluctuation and risk in forecasting future expenditures. The General Fund Operating Expenditures methodology is also typically considered the more conservative basis for establishing a General Fund reserve. There are additional benefits to establishing a minimum General Fund reserve. Credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government’s General Fund to evaluate a government’s continued creditworthiness. Finally, fund balance levels are a crucial consideration in long-term financial planning.

2. Policy Guidelines

This policy is intended to provide guidelines for establishing, maintaining, and reviewing a minimum target level of General Fund reserves for the City of Clayton in order to:

- Maintain creditworthiness.
- Ensure cash availability during times of economic uncertainties and other financial hardships or downturns in the local or national economy or extreme events.
- Provide for long-range planning, especially around future debt or capital obligations.
- Decide when to use reserve funds, define what the minimum level is and how to replenish this if it should fall below the defined minimum threshold.

For purposes of this policy, the term "reserve" includes unrestricted fund balance as well as certain designated reserves. For purposes of this policy document, cash reserves refer to the sum of the Committed, Assigned, and Unassigned portions of the fund balance in the General Fund. The Governmental Accounting Standards Board Statement No. 54 (GASB 54) defines five distinct classifications of fund balances, applicable to governmental funds only, as follows:

CLASSIFICATION	NATURE OF RESERVATION
Non-spendable	Cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to remain intact.
Restricted	Restricted either externally imposed or imposed by law through constitutional provisions or enabling legislation.
Committed	Reserved for specific purposes pursuant to constraints imposed by formal action of the City Council.
Assigned	Reserved by the City Council or City Manager for specific purposes, but neither restricted nor committed.
Unassigned	Residual balance not classified in any of the above categories and has not been restricted, committed, nor assigned to specific purposes.

The City of Clayton defines four distinct reserve funds:

I. *General Reserve Commitment*
II. *Assignment for Budget Stabilization*
III. *Assignment for Capital/Maintenance/Special Projects*
IV. *Assignment for Technology Replacement*
V. *Assignment for Vehicle Replacement*
VI. *Assignment Pension Stabilization*

3. Reserve Funds (defined):

I. General Reserve

It shall be the policy of the City of Clayton to maintain a minimum target reserve for unforeseen situations that impact on the City, and whenever fiscally possible and financially prudent to maintain a greater target reserve. This reserve will be referred to as the General Reserve. The City will continue to maintain the General Reserve to stabilize the fiscal base by anticipating fluctuations in revenues and expenditures and provide for non-recurring, unanticipated expenditures, including those potentially associated with a natural disaster. This reserve will also serve to assist in cash flow management during lean periods in between major property tax allocations (January and May

The minimum target reserve of the General Reserve will be maintained at forty percent (40%) of General Fund Operating Expenditures.

The minimum General Reserve level will be calculated annually using the prior fiscal year's estimated General Fund Operating Expenditures, excluding any major one-time transfers. General Reserve levels will be evaluated as part of the annual budget process or more often if needed. Staff recommendations will be made to City Council on the available funds and the appropriate reserve levels at those times. In the event the General Reserve must be used, the balance must be restored to the 40% amount within the next five fiscal years.

The General Reserve is intended to be a prudent and conservative fiscal policy, which should help contribute to the fiscal security of the City. Nothing in this policy shall prohibit the City Council from maintaining a higher level of reserves than the established minimum reserve target of forty percent (40%). Use of the General Reserve requires a 4/5th majority vote of the City Council.

II. Budget Stabilization Reserve

Budget Stabilization Reserve is equal to ten percent (10%) of General Fund Operating Expenditures. These funds are held in case of smaller budget-related needs, unanticipated expenses or reduced revenues. Any use of the Budget Stabilization Reserve in a given fiscal year shall be replenished the following fiscal year. Any use of the Budget Stabilization Reserve requires a majority vote of the City Council for appropriation.

III. Capital/Maintenance/Special Projects Reserve

The Capital/Maintenance/Special Projects Reserve is established/replenished to meet anticipated capital project, large maintenance project, and special project needs. Any use of the Capital/Maintenance/Special Projects Reserve requires a simple majority vote of the City Council for appropriation. If the General Fund ends a fiscal year with an operating surplus, revenues are more than expenses, once the General Reserve and Budget Stabilization Reserve are at policy levels, any operating surplus shall be moved to the Capital/Maintenance/Special Projects Reserve.

IV. Technology Replacement Reserve

The Technology Replacement Reserve shall be used to plan for ongoing replacement of technology equipment throughout the organization. This may be but is not limited to personal computers, monitors, servers, network infrastructure, smart boards, one-time software implementations or replacement of larger software systems like an Enterprise Resource Program. Funds should be allocated to this reserve as needed to meet replacement schedules. Any use of the Technology Replacement Reserve requires a majority vote of the City Council for appropriation.

V. Vehicle Replacement Reserve

The Vehicle Replacement Reserve shall be used to plan for ongoing replacement of city vehicles. Funds should be allocated to this reserve as needed to meet replacement schedules. Any use of the Vehicle Replacement Reserve requires a majority vote of the City Council for appropriation.

VI. Pension Stabilization Reserve

The Pension Stabilization Reserve was established by the City Council in 2017 to provide a prudent and necessary local financial planning tool to aid in the City's mitigation of its monetary risks via CalPERS' hikes in future public employer pension contribution requirements. This reserve does not directly result in a decrease to the City's annual pension Unfunded Accrued Liabilities (UAL) as calculated by the CalPERS Board of Directors. The sole purpose of this fund is to provide a defined bucket to pull from for pension UAL or normal cost increases during years in which the operating budget may not be in a place to absorb them. Any use of the Pension Stabilization Reserve requires a majority vote of the City Council for appropriation.