

# City of Gahanna

## General Fund – Fund Balance Emergency Reserve Policy

### I. DEFINITION AND PURPOSE

The purpose of this policy is to provide guidelines to the City Council and Administration staff for establishing, maintaining, and utilizing reviewing the Emergency Reserve and establishing a minimum Unreserved Fund Balance for the City of Gahanna.

#### A. Emergency Reserve

An Emergency 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. An Emergency Reserve is generally considered a prudent and conservative fiscal policy to deal with unforeseen situations.

#### B. Unreserved Fund Balance

Unreserved Fund Balance is the residual balance of the General Fund that is not otherwise restricted, reserved/committed, or assigned for a specific purpose or use. Unreserved Fund Balance is available along with estimated revenue for General Fund appropriations. This balance is complemented with an appropriate Emergency Reserve.

#### C. This policy addresses the following:

- Level of funding for the Emergency Reserve
- Conditions for use
- Authority over Reserves
- Replenishment of the Reserves
- Mechanics of the Emergency Reserve
- Minimum Unreserved Fund Balance
- Reporting and review provisions
- Periodic Review of Targets

This policy addresses the following:

- ~~• Level of funding~~
- ~~• Conditions for use~~
- ~~• Allocation of the Emergency Reserve~~
- ~~• Mechanics of the Emergency Reserve~~
- Reporting and review provisions

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## **BACKGROUND**

Establishing a minimum Emergency Reserve is a mechanism that governments can implement to help insure adequate levels of fund balance are available to help mitigate current and future risks. A minimum Emergency Reserve is generally considered a prudent and conservative fiscal policy to deal with unforeseen situations.

The Government Finance Officers Association (GFOA), an international organization that promotes the professional management of governments for the public interest, recommends maintaining a minimum unreserved fund balance in the General Fund of no less than 5 to 15 percent of regular General Fund Operating Revenues or no less than two months or 17% of General Fund Operating Expenditures. According to the GFOA, the methodology used to create the reserve depends on the circumstances of the individual organizations. The GFOA also recommends the establishment of a formal written policy on the level of unreserved fund balance that should be maintained in the General Fund.

Most cities choose General Fund Operating Expenditures as the basis for a 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 an Emergency Reserve.

There are additional benefits to establishing a minimum Emergency 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.

The City of Gahanna has undertaken a lengthy public process to analyze the City's risk exposure, current mitigation strategies and policy considerations related to the Emergency Reserve.

## **II. EMERGENCY RESERVE POLICY**

The City's risk exposure, current mitigation strategies and policy considerations related to the Emergency Reserve have been carefully analyzed to establish the level of funding for the Emergency Reserve.

The General Fund Reserve policy shall consist of two components (1) a Disaster Recovery component and (2) a Countercyclical component.

The Disaster Recovery component is available to manage one-time emergencies or unanticipated expenditure conditions caused by conditions outside of the City's control.

The Countercyclical component is intended to temporarily offset unanticipated reduced revenues during economic downturns.

According to the GFOA, segmenting reserves in this way can create more transparency to citizens and establishes credibility by defining the specific use and purpose of the reserve.

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### **III. Level of Funding**

The City of Gahanna will use a percentage of General Fund operating expenditures estimated for each year to establish the level of funding for the reserves. General Fund operating expenditures are typically used as the basis for a reserve as there is less fluctuation and risk in forecasting future operating expenditures.

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The City of Gahanna shall maintain an Emergency Reserve equal to 25% of General Fund operating expenditures with 15% for Disaster Recovery and 10 % for Countercyclical impacts. The Director of Finance shall calculate and communicate the Reserve target and components to City Council each year as a part of the annual appropriations process.

Funding of the Emergency Reserve targets will come from excess revenues over expenditures or one-time revenues in the General Fund.

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~~The target funding level for the Emergency Reserve shall be 25% of General Fund operating expenditures. The Director of Finance shall calculate and communicate the Reserve target to City Council each year as a part of the annual appropriations process.~~

~~Funding of the Emergency Reserve target will generally come from excess revenues over expenditures or one-time revenues in the General Fund.~~

### **IV. Conditions for Use**

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The Emergency Reserve is intended to provide the City with sufficient resources and a comfortable margin of safety to support one-time costs for emergencies and/or operations during a significant economic downturn such as:

- Natural disaster or other emergency
- Pandemic or other public health emergencies
- Economic recession/depression
- ~~Unexpected decline in revenue and/or unexpected large one-time expenditure~~

~~Emergency Reserves shall not be used to support recurring operating expenses. An exception may be made for winding down a program or service which must be eliminated in order to provide sufficient notice and reduce the impact to the community. This action shall have a definite end date of not more than one fiscal year.~~

Emergency Reserves shall not be used to leverage dollars for program expansion or as a match requirement for grants. An exception may be made for capital projects and public works under circumstances of a declared emergency.

~~The Countercyclical component is intended for use to offset slower revenue growth during a recession or depression caused by global, national, or local economic conditions. For purposes of using this policy, slower revenue growth shall be defined as a reduction in revenue of three percent or more for two consecutive quarters or the financial forecast estimates a reduction in revenue of three percent or more for the next fiscal year.~~

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~~Neither component of the Emergency Reserve shall be used until General Fund Unreserved Fund Balance falls below two months of General Fund operating expenditures or is anticipated to fall below two months of General Fund operating expenditures. The Director of Finance shall communicate anticipated ending General Fund Unreserved Fund Balance for the following year during the budget process.~~

~~A majority vote of the City Council will be required to use the Emergency Reserve.~~

#### **V. Authority over the Emergency Reserve Allocation of Emergency Reserve**

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~~A. The Disaster Recovery component may be used when a state of emergency has been proclaimed in accordance with the City Charter.~~

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~~B. The Countercyclical may be used when there is an economic recession or depression, and the Director of Finance has reported a reduction in revenue of three percent or more for two consecutive quarters or has forecasted a reduction of three percent or more.~~

~~C. A majority vote of the City Council will be required to use any portion of the Emergency Reserve.~~

~~The full 25% Emergency Reserve target balance shall be available for use in the event of a natural disaster or other emergency.~~

~~Use of the Emergency Reserve for expenses related to economic recession/depression or unexpected decline in revenue and/or unexpected large one-time expenditure shall be limited to 10% of General Fund operating expenditures.~~

#### **VI. Replenishment of the Emergency Reserve**

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~~City Council shall approve a plan for replenishment at the same time the use of the Emergency Reserve is approved. If feasible, the Emergency Reserve shall be restored the year immediately following use. The maximum number of years to restore the Emergency Reserve is three years.~~

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~~In the event that the use Emergency Reserve would result in a balance below the 25% target, City Council shall approve a plan for replenishment at the same time that the use of the Reserve is approved. If feasible, the Reserve shall be restored the year immediately following the use of the Reserve. Full replenishment should take no longer than three years following the use of the Reserve.~~

## **Mechanics**

~~In order to maintain separate control and accountability over the Emergency Reserve, the City shall account for the Reserve in a separate fund (Fund 110). Appropriate approval by the Auditor of State to establish this fund will be required.~~

~~Use of the Emergency Reserve, if approved by City Council, shall be accomplished by transferring funds into the appropriate City Fund for that purpose (e.g. General Fund). Replenishment of the Emergency Reserve shall be accomplished by fund transfer from the appropriate City Fund.~~

## **VII. Unreserved Fund Balance**

~~The Government Finance Officers Association (GFOA) recommends maintaining a minimum unreserved fund balance in the General Fund of not less than two months of General Fund operating expenditures or revenues to mitigate short term unexpected expenditure increases and/or reductions in revenue. Short-term is defined as one-year or less. General Fund operating expenditures will be used by the City to calculate the two-month minimum balance.~~

~~General Fund Unreserved Fund Balance in excess of the minimum may be used along with estimated revenue for basic operational appropriations of the City or other lawful purposes of the City.~~

~~The Director of Finance shall report to Council anticipated ending unreserved fund balance for the following year during the budget process.~~

~~Council, upon passing the annual Appropriation Ordinance shall authorize the use of excess unreserved fund balance along with estimated revenue for the following year.~~

## **VIII. Periodic Review of Targets Reporting and Review Provisions**

~~As a part of the annual appropriations process, the Director of Finance shall provide a report to City Council on the balance of the Emergency Reserve and its components along with anticipated unreserved fund balance. If an Emergency Reserve replenishment plan is in place, the Director of Finance shall also report on the status of any uses of that fund in the past year and the status of the any ongoing replenishment plans in place. Should the balance of the Emergency Reserve be below the 25% target due to conditions not related to the use of the Reserve, the appropriations shall include provisions to bring the Reserve to the target funding level.~~

~~The City's General Fund, Fund Balance Policy Emergency Reserve Policy shall be adopted by Ordinance of the City Council. City Council shall review and reaffirm this policy every five years, at a minimum.~~

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