

CITY OF SALINAS

FINANCIAL POLICIES

Exhibit C

Adopted by the Salinas City Council on December 10, 1991, Resolution Number 14343 (N.C.S.) and amended on June 21, 1994, Resolution Number 15193 (N.C.S.). The Financial Policies shall be reviewed at least annually and updated as necessary.

The following policies have been established to ensure the City's assets are safeguarded, financial statements are in conformity with generally accepted accounting principles, and finances are managed with responsible stewardship.

II. RESERVE POLICIES

The purpose of this policy is to ensure the City is able to withstand financial emergencies, such as those which may result from natural disasters, economic downturns, or unanticipated expenditures of a non-recurring nature, and to accumulate funds for large-scale purchases.

The City will endeavor to accumulate and maintain reserves in the categories and at the minimum target levels described below.

For the purposes of this policy, the following definitions shall apply.

- "General funds" in the plural, lower case form shall mean, collectively, the General Fund, Measure E Fund, and Measure G Fund.
 - "Operating expenditures and non-capital transfers" shall be defined as all expenditures and transfers to other funds, except those of a capital nature and/or intended to fund those of a capital nature.
- A. **GENERAL FUNDS UNASSIGNED FUND BALANCES:** an amount in each of the general funds equal to twelve percent (12%) of a single year's budgeted operating expenditures and non-capital transfers of the respective funds. The unassigned fund balances of the general funds are determined annually as part of the preparation of the City's financial statements. Amounts in excess of the minimum target level may be used to increase or replenish other reserves with priority given to the General Funds Economic Contingency, General Fund Facilities Maintenance, and General Funds Infrastructure Reserves; to set aside resources for specific one-time uses; as a funding source for one-time expenditures included in the annual budget; or for needs that arise subsequent to budget adoption.
- B. **GENERAL FUNDS ECONOMIC CONTINGENCY RESERVES:** an amount in each of the general funds equal to twelve percent (12%) of a single year's budgeted operating expenditures and non-capital transfers of the respective funds. These reserves are intended to be used only in the event of a catastrophic event or significant downturn in the economy that cannot be mitigated with other funding sources. Formal City Council action is required to increase the balances of these reserves or to authorize the use of any portions thereof.
- C. **GENERAL FUND FACILITIES MAINTENANCE RESERVE:** an amount equal to three times the annual amount(s) appropriated in the General Fund for the performance of major maintenance and repairs upon the City's building assets. For the purposes of this policy, "building assets" shall be defined as all permanent or non-permanent structures constructed or installed to provide a workplace for City employees or to house City assets and/or operations. This reserve is to be used for extraordinary emergency maintenance and repair costs that cannot be met with the annual appropriated amount and for which no other funding source is immediately available. Formal City Council action is required to increase the balance of this reserve or to authorize the use of any portion thereof.
- D. **GENERAL FUNDS INFRASTRUCTURE MAINTENANCE RESERVES:** an amount in each of the general funds equal to five times the annual amount(s) appropriated in the respective funds for the performance of major maintenance and repairs upon the City's infrastructure assets. For the purposes of this policy, "infrastructure assets" shall be defined as the basic permanent physical systems of the City necessary for the transportation of people; generation, storage, or

transmission of power; or transmission of communications, exclusive of the other assets defined in the Reserve Policies. This reserve is to be used for extraordinary emergency maintenance and repair costs that cannot be met with the annual appropriated amount and for which no other funding source is immediately available. Formal City Council action is required to increase the balances of these reserves or to authorize the use of any portions thereof.

- E. **VEHICLE REPLACEMENT RESERVE:** an amount equal to between the accumulated depreciation and estimated replacement value of the vehicle assets accounted for in the Vehicle Replacement Fund (an internal service fund). For the purposes of this policy, "vehicle" shall be defined as a self-propelled vehicle with propulsion provided by an engine or motor which must be operated by one or more persons to perform the function(s) for which it is designed, or an apparatus specifically designed to be attached to and/or towed by a self-propelled vehicle for transportation.
- F. **WORKERS' COMPENSATION SELF-INSURANCE RESERVE:** assets in the Workers' Compensation Self-Insurance Fund equal to the net present value of estimated outstanding Workers' Compensation Program claim losses at the eighty percent (80%) confidence level of adequacy as calculated by the City's actuary.
- G. **GENERAL LIABILITY SELF-INSURANCE RESERVE:** assets in the General Liability Self-Insurance Fund equal to the net present value of estimated outstanding Liability Program claim losses at the eighty percent (80%) confidence level of adequacy as calculated by the City's actuary.
- H. **IRREVOCABLE SUPPLEMENTAL PENSION TRUST RESERVE:** an amount equal to the total net liability of the City's pension plans. The assets of this reserve shall be held in an irrevocable Section 115 pension trust and may be used only for payment of pension-related costs upon direction of the City Council. The balance of this reserve shall not be subject to the "Replenishment of Reserves" guidelines, and formal City Council action is required to increase the balance of this reserve or to authorize the use of any portion thereof.
- I. **OTHER POST-EMPLOYMENT BENEFITS RESERVE:** an amount equal to the total net liability of the City's other post-employment benefits (OPEB) plans. The assets of this reserve may be used only for payment of OPEB-related costs upon direction of the City Council. The balance of this reserve shall not be subject to the "Replenishment of Reserves" guidelines, and formal City Council action is required to increase the balance of this reserve or to authorize the use of any portion thereof.
- J. **DEBT SERVICE RESERVES:** in each fund from which debt service is paid, the greater of an amount equal to the total reserves required by the applicable debt indentures or one year's debt service requirement of all long-term City obligations, excluding inter-fund loans. The balances of these reserves may be augmented by proceeds of debt if permitted by the corresponding debt indentures.
- K. The City will endeavor to maintain reserves in the Enterprise Funds equal to twenty-five percent of the budgets.
 - 1. The City will endeavor to maintain a reserve in the Sewer Enterprise Fund equal to the larger of twenty-five percent of debt service on the 1998 Sewer System Revenue Bonds or twenty-five percent of the sewer operating budget. This reserve will be in addition to the debt service reserve required in the bond documents.
- L. Airport Enterprise Fund Reserves
 - 1. The Airport will endeavor to maintain an Operating Reserve equal to 25% of its operating expenditures.
 - 2. The Airport will endeavor to maintain a Capital Reserve equal to the proceeds from the sale of surplus airport property to a real estate developer, Cabot, Cabot & Forbes (CC&F). It is imperative that the Airport maintains this Working Capital Fund because FAA grants

operate on a reimbursement basis. In addition, this fund should only be designated for unbudgeted, unplanned and unforeseen capital improvement related contingencies.

- M. The City will endeavor to maintain reserves in the Maintenance Districts equal to fifty percent of the budgets.
- N. Reserve requirements and balances will be reviewed annually and may be adjusted, as necessary to meet specifically identified future expenditures requiring the accumulation of funds.
- O. Available General Fund, Measure E Fund, and Measure G Fund year-end balances shall be allocated to reserves, as applicable, until all minimum target reserve levels are achieved.

Replenishment of Reserves

If a reserve balance falls below its minimum target level, the City shall strive to restore it to the minimum target level through budgetary or other means. Unless otherwise noted in this policy, the following guidelines will be used to restore a reserve.

- If a reserve is drawn down to 75-99% of its minimum target level, it shall be restored to 100% over a 1- to 3-year period.
- If a reserve is drawn down to 50-74% of its minimum target level, it shall be restored to 100% over a 3- to 5-year period.
- If a reserve is drawn down below 50% of its minimum target level, it shall be restored to 100% over a 5- to 7-year period.

These guidelines may be suspended, in whole or part, if financial or economic circumstances are determined by the City Manager to prevent meeting any or all of the timelines.