

# *City of Albany*

## CAPITAL RESERVE FUND POLICY



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## **SECTION 1: PURPOSE**

The purpose of this policy is to establish adequate financial reserves for non-operating and non-infrastructure expenses. Reserves may be used for the repair and replacement of City assets such as vehicles, equipment, and buildings, as well as planned program enhancements and other long-range plans and one-time projects. In addition, each fund will have a designated minimum funding level in case of unplanned needs. These funds are reserved specifically for capital or long-range planning needs and are not to be used for general operating purchases. Capital Reserves are assigned funds that are not part of the City's unreserved fund balance as dictated in the City's General Fund Reserve Policy.

## **SECTION 2: TYPE OF RESERVES**

The following Reserve Funds are established by this Policy:

- Climate Action and Adaptation Reserve Fund – For implementation of Climate Action and Adaptation Plan action items and other environmental sustainability programs that may be authorized by Council.
- Community Development Reserve Funds – For the professional services costs associated with the preparation of land use, transportation, hazard mitigation, housing, infrastructure, and environmental related planning studies and plans that are required to be updated periodically as well as the repair and replacement of equipment utilized by the Department
- Emergency Medical Services (EMS) Reserve Fund – For the repair and replacement of EMS vehicles and equipment, as well as planned program improvements
- Fire Department Reserve Fund – For the repair and replacement of Fire Department vehicles and equipment, as well as planned program improvements
- General City Building Reserve Fund – For the general repair and maintenance of City buildings and facilities.
- IT Equipment Reserve Fund – For replacement and upgrades of the City's Information Technology equipment, infrastructure, and security upgrades identified in the IT Strategic Plan
- KALB Equipment Reserve Fund – For repair, replacement, and upgrades of equipment and infrastructure to support KALB operations and programming
- Pension Reserve Fund – To assist with funding increasing pension costs associated with the City's CalPERS plans
- Police Department Reserve Fund – For the repair and replacement of Police vehicles and equipment, as well as planned program and safety improvements
- Public Works Reserve Fund – For the repair and replacement of Public Works vehicles and equipment, as well as planned program improvements
- Recreation Reserve Fund – For the repair and replacement of Recreation vehicles and equipment, as well as planned program and facility improvements

## **SECTION 3: RESERVE FUNDING LEVELS**

Reserve funding levels are directly tied to planned capital needs, with an estimated allowance for emergency repairs and replacements. In conjunction with the adoption of the operating budget, Staff will provide Council with a report including an asset replacement schedule. The report will include estimated repair and replacement costs for a five-year period as well as the annual reserve funding amounts required to meet these obligations.

To ensure funds are available in the case of a maintenance emergency, reserve fund levels may only fall below the amounts indicated below with approval by the City Council:

<b>Reserve Fund</b>	<b>Minimum Funding Level</b>
Climate Action and Adaptation Reserve Fund	No minimum level
Community Development Reserve Funds	\$50,000
Emergency Medical Services (EMS) Reserve Fund	\$100,000
Fire Department Reserve Fund	\$100,000
General City Building Reserve Fund	\$250,000
IT Equipment Reserve Fund	\$50,000
KALB Equipment Reserve Fund	\$50,000
Pension Reserve Fund	No minimum level
Police Department Reserve Fund	\$100,000
Public Works Reserve Fund	\$100,000
Recreation Reserve Fund	\$100,000

All general fund revenues allocated to Reserve Funds may be reallocated at any time by a majority vote of the City Council.

#### **SECTION 4: FUNDING OF RESERVES**

Reserves may be funded in numerous ways, including, but not limited to:

- Council appropriation during adoption of the annual operating budget;
- Proceeds from the sale of City assets;
- Council appropriation of unreserved General Fund balances in excess of the City’s General Fund Reserve Policy; and
- Interest on the portion of City investments associated with each reserve fund.

Special funding sources include:

- Climate Action and Adaptation Reserve Fund
  - At the end of each fiscal year, and in coordination with the presentation of the City’s annual audit, the portion of the increase in Utility Users’ Taxes associated with Measure DD, passed in November, 2020 that was not already spent on environmental sustainability programs within the operating budget, assuming a General Fund surplus exists to be allocated. This funding source is a general fund allocation to be held as unrestricted, assigned fund balance.
- Community Development Reserve Funds
  - City General Plan fees applied to permits. These revenues are collected specifically for this purpose and shall be held as restricted, assigned fund balance.
- EMS Reserve Fund
  - Emergency Medical Services, Advanced Life Support, and Fire Protection Tax. These funds are raised through a special tax and shall be held as restricted, assigned fund balance.
  - The portion of mutual aid reimbursements associated with the use of City equipment. This funding source is a general fund allocation to be held as unrestricted, assigned fund balance.

- Fire Department Reserve Fund
  - The portion of mutual aid reimbursements associated with the use of City equipment. This funding source is a general fund allocation to be held as unrestricted, assigned fund balance.
- Recreation Reserve Fund
  - Reserve Fund Fees associated with facility rentals and set by the Master Fee Schedule. These revenues are collected specifically for this purpose and shall be held as restricted, assigned fund balance.

## **SECTION 5: CONDITIONS FOR USE OF RESERVES**

Capital Reserve balances are to be used as specified above and approved by the City Council. Reserve funds may also be used to repair or replace items deemed necessary for continued public health and safety.

Council appropriation of reserve funds is required and City purchasing procedures must be followed when using reserve funds. In conjunction with the review of the asset replacement schedule, the City Manager will request appropriation of required funding for routine repair and replacement. Unplanned expenditures will be brought to Council for appropriation on an as needed basis.

In the event of an emergency, per Albany Municipal Code § 2-27.5, purchases of equipment, materials, supplies, or services determined by the City Manager to be necessary to meet an emergency which threatens the public health, safety or welfare, may be made without prior Council approval, however the purchase should be presented to Council at the next scheduled City Council meeting.

## **SECTION 6: REVIEW**

This policy shall be reviewed by the Finance Director each year and at least every 5 years by the City Council.

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### 1.1.3 – INVESTMENT POLICY

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While an investment policy is not required, it is an integral part of protecting the assets of a local agency. California State Government Code § 53646(a)(2) states that the treasurer of a local agency may annually render to the Council an investment policy that the Council shall consider at a public meeting. The State considers that a public vote on the policy signifies that the Council shares fiduciary responsibility with the treasurer, and provides transparency and disclosure. Both the Association of Public Treasurers of the United States & Canada and the Government Finance Officers Association recommend that investment policies be reviewed annually. City staff review the policy annually and bring changes to Council as necessary due to State law or changes in fiscal administration.

#### **BACKGROUND**

The City's Investment Policy last came to Council in June 2019. Until recently, no significant changes in laws effecting the City's investments or fiscal administration had been made. With the hiring of an Investment Manager, sometimes referred to as an Investment Advisor, and the implementation of an investment strategy to capitalize on the significant cash reserves maintained by the City, a comprehensive review of the policy was completed by both the Investment Manager and City staff.

#### **DISCUSSION & ANALYSIS**

Due to the length of time since the last review, and the anticipated changes in administration, several changes are being requested at this time. The most significant changes surround the transition of the City Treasurer position from elected to appointed, as well as the implementation of an Investment Manager. References to the Finance Director have been removed as the Treasurer role has transitioned to that position and the City Manager remains as final approval for investment making decisions. Delegation of investment decision making and execution, in coordination with the approved Investment Policy and general investment strategy outlined by City staff, is being incorporated into the Policy to allow the Investment Manager the ability to make trades in a timely manner.

The addition of two investment types are being added to the Authorized Investments list: Negotiable Certificates of Deposit, and Asset-Backed Securities. Both investments are allowed by State law and the percentage of the portfolio invested in each is restricted by the policy. Negotiable Certificates of Deposit may not exceed 30% of the portfolio while Asset-Backed Securities may not exceed 20%.

The maturities section in the policy is being updated to remove specific percentages and allow the greatest flexibility, while still ensuring the City maintains sufficient cash for short term obligations. An exception to the general 5-year maximum maturity period is being added when approval is granted by Council at least three months prior to any purchase. An example of when this length of investment may be utilized would be in the case of debt service funds held in reserve as dictated by the debt service agreement.

A glossary has also been added to assist in transparency and general ease of use. Several terms specific to both investment management and government investing are defined in the new Section 6 of the Policy.

### **FINANCIAL IMPACT**

In partnering with an Investment Management staff hope to be able to increase the City's investment income. While interest rates have increased across the board, raising the rate paid by organizations such as the Local Agency Investment Fund (LAIF) and CalTrust, these returns are not typical and leveraging the expertise of a manager generally allows for higher returns over time.

### **NEXT STEPS**

Each year, with the help of the City's Investment Manager, staff will review the investment policy and determine if any changes are needed. If no changes are required, the policy will come to Council at least every two years with the Biennial Budget Package. The Investment Manager will present an update on the City's investments each quarter to the Financial Advisory Committee, and at least once a year to the City Council.