

CITY OF ALBANY
REPORT ON CITY'S FINANCIAL RESERVES
JUNE 30, 2005

Summary

At June 30, 2005, the City of Albany held the following reserves:

General Fund Reserves	\$3,360,334
Equipment Reserves	975,412
Pension Override Tax Fund	1,588,835

The general fund reserves may be considered the rainy-day reserve. Measuring the adequacy of these reserves is an inexact science, but at 25.1% of general fund operating expenses, the City's reserves are in line with other cities, and exceed the minimum level recommended by the Government Finance Officers Association.

Equipment reserves are maintained to provide for the replacement of long-lived assets without debt financing. The purpose of these reserves is not to provide security for rainy-days, but in cases of extreme emergency, they could be diverted to pay current expenses.

The Pension Override Tax Fund balance arose with the full funding of the Police and Fire Pension and Relief Fund, and suspension of contributions to the fund. This reserve is restricted in use to payment of expenses of police and fire pension plans. A portion of this reserve will be maintained in the Pension Override Tax Fund, in case it should be necessary to resume contributions to the Police and Fire Pension and Relief Fund. City staff has recommended that the balance of this reserve, not required to pay current pension contributions, be used to pay the unfunded liability of the PERS Police and Fire Pension Plans.

A schedule of City reserves by fund and account, and a summary of a survey of reserves maintained by California cities are attached to this report.

Definition

"Reserves" is not a formally defined accounting term and, therefore, reporting and comparing reserves between entities is subject to "apples and oranges" errors. The term reserves is frequently used to describe resources belonging to an entity that are available for expenditure in the future, but are not presently appropriated or designated for expenditure. While reserves are generally thought of in terms of assets (cash, receivables, investments) they are most frequently measured on the equity side of the balance sheet.

Because governmental accounting is primarily cash (or near cash) basis accounting, measurement of reserves in terms of equity balances approximates cash reserves. In governmental fund accounting, the equity of an entity is referred to as “fund balance.” In the general fund, a portion of the fund balance may be reserved for specific purposes, and when such a reservation is made, it is the unreserved portion of the fund balance that becomes “reserves,” in the sense of funds being available for unforeseen needs. In *capital funds* or *special revenue funds* a portion of the fund balance may be designated as a reserve for specific purposes, and these funds are potentially available for transfer to the general fund, if approved by the governing body.

In August of 2005, the Government Finance Officers Association (GFOA) launched an effort to gather information on reserves with the following request:

The GFOA is seeking information on how governments determine the optimal level of their rainy-day funds/unreserved fund balance. Many governments have a policy or practice to maintain a rain-day fund equal to a specific percentage of revenues or expenditures.

For this report on the City of Albany’s reserves, we have defined as general fund reserves those portions of the fund balance that are either (1) designated as reserved for general purposes, (2) unreserved and undesignated, or (3) if designated could be redesignated without breaking legal restrictions or jeopardizing current operations.

Reserves Balances

General fund reserves of \$3,360,334 are equal to 25.1% of the budgeted General Fund expenditures for fiscal year 2004-05. This 25% ratio is in line with the level of reserves maintained by other California Cities – see accompanying survey. The City is somewhat at risk of a sudden loss of significant revenue because of the high percentage of the City’s annual revenue generated by Golden Gate Fields, Albany Ford and Target Stores. However, the current general fund reserves are sufficient to maintain the City operations for at least three years, should any one of these major revenue generators be totally lost.

Another major reason for maintenance of general fund reserves is to provide necessary resources in the case of an emergency, such as a natural disaster. While it is not possible to know the potential cost of a natural disaster, the existing level of reserves would likely be adequate to sustain the City through the early days of a major natural disaster, until State and Federal resources became available.

Another reason for maintaining general fund reserves is to ensure the ability of the City to take advantage of financial opportunities that might require immediate financial resources to complete a transaction. An example would be the need to close escrow on the purchase of property that is being sold by a seller in distress.

The City currently has six equipment reserve accounts with balances totaling \$975,412. These account are maintained in recognition that long-lived assets such a buildings, vehicles, computer software, communications equipment, etc. ware out or become

obsolete over time and unless their replacement is to be funded by debt, replacement funds must be accumulated over time. While equipment reserves are designated for specific purposes, these funds could be transferred to the General Fund in case of an emergency.

The pension override tax reserve of \$1,588,835 arose when the Police and Fire Pension and Relief Fund reached a fully funded status and contributions to the Fund were suspended. These reserves are only used for police and fire pension expenses, and do not provide reinforcement of the general fund reserves. A portion of this reserve will be maintained in the Police and Fire Pension and Relief Fund, in case it should be necessary to resume contributions to the Pension Fund. Currently, use of these reserves is being contemplated for payment of the unfunded liability (side funds) of the PERS police and fire pension plans.

Adequacy of Reserves

There is no universally accepted criterion for determining the amount of reserves a city should maintain. The most frequently used criterion is a percentage of general fund operating expenses; however, one size does not fit all. A larger operating budget would usually require a smaller percentage of reserves than would a smaller operating budget, because the larger budget is less likely to be adversely impacted by a single economic event. The consistency of major revenue sources is a factor affecting the desired level of reserves. Revenue sources such as sales taxes and property transfer taxes are subject to greater fluctuation than property taxes and business license fees, so Cities with differing percentage of revenues from these sources would require different reserves percentages.

The GFOA makes the following recommendation:

The adequacy of *unreserved fund balances* in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, it is recommended, *at a minimum*, that general-purpose local government, regardless of size, maintain *unreserved fund balance* in their general fund of either 1) no less than 5 to 15 percent of regular general fund operating revenues, or 2) no less than one to two months of regular general fund operating expenditures.

Attachments

City of Albany
Reserves
As of June 30, 2005

Fund	Account Description	Amount
100	General Fund Reserves	\$3,360,334
820	General Equipment Reserves - Recreation	\$168,084
825	Police Equipment Reserves	266,143
830	Fire Equipment Reserves	159,873
834	EMS Equipment Reserves	72,662
836	Fire Operating Equipment Reserves	8,651
849	Equipment Replacement Reserve	300,000
	Total Equipment Reserves	975,412
103	Pension Override Tax Fund	1,588,835
	Total Reserves	\$5,924,581

**General Fund Reserves Survey
Conducted Fiscal Year 2001-02**

City	Population	GF Budget	GF Reserves	Reserves % of Budget
Albany *	16,700	13,385,583	3,360,334	25.1%
Anahiem	328,014	177,323,479	18,735,298	10.6%
Calistoga	5,239	4,532,000	1,359,000	30.0%
Carson	93,487	54,535,396	10,350,000	19.0%
Chico	64,600	26,529,722	2,373,690	8.9%
Chula Vista	185,000	100,800,000	23,600,000	23.4%
Corona	NA	70,053,829	10,066,858	14.4%
Costa Mesa	110,932	74,123,900	14,125,000	19.1%
Cupertino	50,540	25,908,000	2,500,000	9.6%
Danville	42,854	14,058,745	4,090,688	29.1%
El Cerrito	23,551	15,035,644	1,927,060	12.8%
Fairfield	98,800	48,300,000	10,800,000	22.4%
Fremont	208,000	110,000,000	18,000,000	16.4%
Grand Terrace	NA	2,968,018	925,558	31.2%
Laguna Beach	24,150	26,539,330	3,397,433	12.8%
Lancaster	122,402	34,743,702	2,300,000	6.6%
Livermore	75,221	54,900,000	8,600,000	15.7%
Long Beach	473,600	345,619,796	35,446,442	10.3%
Marina	21,014	6,906,980	1,653,570	23.9%
Moreno Valley	146,000	42,200,000	6,300,000	14.9%
Murrieta	46,833	14,842,771	5,194,970	35.0%
Oceanside	160,753	27,484,777	15,300,000	55.7%
Oxnard	177,900	61,994,000	17,000,000	27.4%
Palm Springs	43,819	44,489,047	8,083,309	18.2%
Palmdale	121,413	38,575,240	1,083,280	2.8%
Palos Verdes Estates	13,572	6,592,000	3,296,000	50.0%
Pleasant Hill	33,000	11,846,904	10,807,725	91.2%
Rancho Palos Verdes	41,154	10,532,656	4,876,144	46.3%
San Carlos	28,000	21,300,000	2,500,000	11.7%
San Clemente	52,455	34,871,740	2,301,640	6.6%
San Ramon Valley Fire Dist.	114,000	26,936,701	1,456,000	5.4%
Santa Clarita	155,000	50,000,000	1,106,920	2.2%
Santa Cruz	55,000	47,313,912	6,300,127	13.3%
Santee	53,693	19,983,880	7,138,006	35.7%
Tracy	61,175	31,656,530	7,866,800	24.9%
Ukiah	15,649	8,244,164	947,052	11.5%
Averages:				
Mean				22.1%
Median				18.6%

*Information for Albany is as of June 30, 2005