

RESOLUTION NO. 2023-28

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF  
HUNTINGTON BEACH ADOPTING A REVISED GENERAL FUND  
RESERVE POLICY

WHEREAS the City Council of the City of Huntington Beach is charged with the responsibility of establishing municipal policies to guide the various functions of the City, and where necessary, establishing procedures by which functions are performed; and

The City Council desires to adopt a revised General Fund Reserve Policy as set forth in Exhibit A; Exhibit A is attached and incorporated by reference; and

NOW, THEREFORE, the City Council of the City of Huntington Beach does resolve as follows:

SECTION 1: That all of the above recitals are true and correct.

SECTION 2: That attached as Exhibit A and incorporated by reference is Council Policy for General Fund Reserves.

SECTION 3: The City Manager, the Chief Financial Officer, the City Clerk and other appropriate officials of the City are hereby authorized and directed to take any actions and execute and deliver any and all documents as are necessary to accomplish the provisions and directives of this Resolution.

SECTION 4: This Resolution shall take effect upon its adoption by this City Council.

PASSED AND ADOPTED by the City Council of the City of Huntington Beach at a regular meeting thereof held on the \_\_\_\_\_ day of \_\_\_\_\_, 2023.

\_\_\_\_\_  
Mayor

REVIEWED AND APPROVED:

\_\_\_\_\_  
City Manager

APPROVED AS TO FORM:

  
\_\_\_\_\_  
City Attorney *llw*

INITIATED AND APPROVED:

  
\_\_\_\_\_  
Acting Chief Financial Officer



## Exhibit A

# City of Huntington Beach

## Fund Balance Policy

### GENERAL FUND BALANCE

The General Fund is the main operating fund that pays for general services provided by the City, such as public safety, parks, and public works. The General Fund accounts for all general revenues of the City and for expenditures related to the rendering of the City's general services. The General Fund is considered to have a high level of risk to operations due to its dependence on revenue streams that are susceptible to economic downturns and revenue reduction impacts from outside agency actions. In addition, the General Fund is the main funding source when responding to unexpected events or emergencies. Consideration of potential risk and other drivers influence the targeted minimum level of total Economic Uncertainties Fund Balance that should be maintained. The Government Finance Officers Association (GFOA) recommends a minimum of two months of operating expenditures be set aside for unforeseen events. The City desires to maintain a prudent level of reserves based on the revenue impacts described above and the City's desire to maintain strong bond ratings to minimize borrowing costs.

- ❑ There is an established Economic Uncertainties Reserve commitment in the General Fund. The monetary goal of this commitment is equal to the value of two months of the General Fund expenditure adopted budget amount.
- ❑ Appropriations from the Economic Uncertainties Reserve commitment can only be made by with a 6/7<sup>th</sup> vote of the City Council. Generally, appropriations and access to these funds will be reserved for emergency situations. Examples of such emergencies include, but are not limited to:
  - An unplanned, major event such as a catastrophic disaster requiring expenditures over 5% of the General Fund adopted budget
  - Budgeted revenue in excess of \$1 million taken by another government entity
  - Drop in projected/actual revenue of more than 5% of the General Fund adopted revenue budget
- ❑ The Economic Uncertainties Reserve will not be accessed to fund new programs or personnel.
- ❑ Should the Economic Uncertainties Reserve commitment be used and its level falls below the minimum amount of two months of General Fund expenditures adopted budget, the Chief Financial Officer will bring forward a proposed plan to City Council to replenish the fund within three fiscal years as soon as practicable .
- ❑ In addition to the Economic Uncertainties Reserve, there are three permanent reserves established generally for the purposes described below. Appropriations from these reserves can only be made by formal City Council action. These permanent reserves are:
  - Equipment Replacement Reserve for the acquisition of rolling stock, other movable assets, pumps, engines, and any equipment needed to sustain City infrastructure. Planned appropriations from this fund are identified during the annual budget process. The replenishment of this Reserve is outlined below.
  - Capital Improvement Reserve for the construction or improvement of City infrastructure. Planned appropriations from this fund are identified during the annual budget process in concert with the Capital Improvement Plan or during the fiscal year as needed. The replenishment of this Reserve is outlined below.
  - Litigation Reserve for unforeseen litigation losses exceeding the amount budgeted in the current year. The monetary goal for this Reserve is generally set



## Exhibit A

### City of Huntington Beach

### Fund Balance Policy

at the City's self-insured limit. This fund will be replenished each year through the annual budget process or during the fiscal year as needed.

- The initial allocation of audited available unassigned fund balance will go towards reducing the City's unfunded liabilities (per the Unfunded Accrued Liability Pension Funding Policy), long-term debt obligations and improving City infrastructure. The allocation of the remaining audited General Fund unassigned fund balance, if any, (or increases in the Economic Uncertainties Reserve) will be done as follows if, and until, the Economic Uncertainties Reserve commitment is fully funded (i.e., two months of General Fund expenditures):
  - 50% to Economic Uncertainties Reserve commitment
  - 25% for Infrastructure Fund
  - 25% to Capital Improvement Reserve (CIR) commitment
- Once the Economic Uncertainties Reserve commitment attains full funding, unassigned fund balance will be divided as follows:
  - 50% for Infrastructure Fund
  - 25% to Capital Improvement Reserve (CIR) commitment
  - 25% to Equipment Replacement commitment
- Any unassigned revenues received during the fiscal year will be added to the fund balance of the General Fund.
- A minimum of 25% of unrestricted one-time General Fund revenues would be transferred to the City's Section 115 Trust.

#### **FUND BALANCE CLASSIFICATION**

- The City's fund balance is made up of the following components:
  - Nonspendable fund balance includes amounts that are not in spendable form and typically includes inventories, prepaid items, and other items that, by definition cannot be appropriated.
  - The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
  - The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has authority to establish, modify, or rescind a fund balance commitment by formal action.
  - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. The City Manager or designee has the authority to establish, modify, or rescind a fund balance assignment.
  - Unassigned fund balance is the residual classification for the City's funds and includes all spendable amounts not contained in the other classifications.
- When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, the City's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.