

# Committed, Unassigned Fund Balance, and Use of One Time Funds Policy

## Purpose

To establish assigned and unassigned fund balance and one-time use policies.

## Scope

The General Fund and Capital Funds.

## Policy

To maintain sufficient committed and unassigned fund balance (General Fund only) in each fund for the ability to meet the following economic uncertainties:

**Economic Uncertainty Reserve** – \$1824,000,000 and represents two months of General Fund (GF) expenditures excluding transfers out plus a two year drop in total general fund revenue of 13% or approximately 1.5 months, excluding the use of reserves. Transfers out are primarily used to fund Capital Projects and do not represent on-going expenditures. This assignment will change from year to year based on budgeted general fund expenditures and revenues.

- Mitigate short-term economic downturns and volatility in revenues (2 years or less)
- Sustain city services in the event of an emergency
- Meet requirements for debt reserves
- Meet operating cash flow requirements as a result of delay in the receipt of taxes, grant proceeds and other operating revenues

Sales Tax Repayment Reserve – \$56,500,000 and represents the funds committed for potential sales tax repayments. The result of the California Department of Tax and Fee Administration (CDTFA) audit of a City taxpayer is expected to have significant financial implications for the City's operations. To prepare for a potential adverse CDTFA decision and the uncertain outcome of the anticipated legal challenge, the City established a General Fund Sales Tax Repayment Reserve. The purpose of this reserve is to set aside funds for potential sales tax repayments to the CDTFA. An initial allocation of \$56.5 million corresponds to sales tax revenue received between April 2021 and June 2023 that the City may need to repay to the CDTFA. All or part of the funds will be transferred to General Fund Unassigned if the City's efforts to contest CDTFA's decision are ultimately successful, in whole or in part.

This reserve can be augmented when additional disputed sales tax revenue is received.

**PERS** – \$19,088,859 and represents the funds restricted for the City's pension obligations. In response to the increasing retirement costs based on actuarial forecasts, the City created a secondary pension trust to help stabilize the impact of pension cost volatility on the City's operating budget. To fund this secondary trust, the City made an initial contribution. After that, the annual contributions are determined based on the difference between CalPERS' current discount rate and a more conservative rate determined by the City. This difference will then be transferred to the pension trust and used exclusively for the benefit of members in the plan.

The primary goal of establishing this secondary trust is to ensure that the City can continue to provide its employees with the retirement benefits they have earned while maintaining fiscal responsibility. By using a more conservative rate for calculating contributions, the City can better anticipate and manage pension costs and mitigate potential negative impacts on the City's budget.

Funds in this trust are technically “restricted” under Governmental Accounting Standards Board (GASB) Statement No. 54 in that the funds are legally restricted to be used for retirement costs; however, the timing for which these funds may be used is only at the discretion of City Council.

~~**Capital Projects Reserve** – \$10,000,000 and represents the amount of General Fund resources readily available to fund future capital projects in the City's Capital Improvement Program (CIP). The City's Capital Projects Funds has a \$5,000,000 reserve threshold; however, establishing a secondary reserve in the City's General Fund will enable more efficient and accurate short and long-term capital budgeting and planning.~~

**Sustainability Reserve** – Cupertino's Sustainability Division oversees the City's Climate Action Plan (CAP), which defines strategies to reduce greenhouse gas emissions, and provides residents, businesses and schools with programs and services focused on energy efficiency, renewable energy, water conservation, alternative transportation and other sustainable actions. The City receives rebates for projects that successfully meet the eligibility requirements such as energy or water efficiency. If the rebates were not initially budgeted, they are categorized as committed fund balance in the General Fund. The purpose of this reserve is to help support future sustainability projects/programs.

**Unassigned** – \$500,000 and represents 1% of the total general fund operating budget. This assignment may change from year to year based on budgeted general fund expenditures.

- Absorb unanticipated operating needs that arise during the fiscal year that were not anticipated during the budget process

- Absorb unexpected claims or litigation settlements

**Capital Improvement** – \$5,000,000 and represents average dollars spent for capital projects in the last three fiscal years. This assignment may change from year to year based on actuals dollars spent on capital projects and anticipated future capital project needs.

- Meet future capital project needs so as to minimize future debt obligations

The City shall not use fund balances/reserves in lieu of revenues to pay for ongoing expenses except as specifically provided in the City’s reserve policy.

The chart below summarizes reserve policy levels as described above:

Funding Priority	Reserve	Reserve Level <sup>1</sup>	Escalator <sup>2</sup>	Description
<b>GENERAL FUND</b>				
1	Economic Uncertainty Reserve	\$ <del>1824</del> ,000,000	GF Budgeted Operating Expenditures <sup>3</sup> GF Budgeted Revenue <sup>4</sup>	For economic downturns and major revenue changes.
<del>2</del>	<del>Sales Tax Repayment Reserve</del>	<del>\$56,500,000</del>	<del>Receipt of additional sales tax revenue in dispute</del>	<del>For potential sales tax repayments to the CDTFA.</del>
<del>3</del>	PERS	\$19,088,859	Budgeted Citywide Retirement Costs	For pension costs.
<del>3</del>	<del>Capital Projects Reserve</del>	<del>\$10,000,000</del>	<del>None</del>	<del>For future capital projects funding.</del>
4	Sustainability Reserve	\$127,891	GF Budget Revenue <sup>4</sup>	For future sustainability projects/programs.

5	Unassigned	\$500,000	Budgeted GF Operating Expenditures <sup>3</sup>	For mid-year budget adjustments and redeployment into the five year budget.
<b>CAPITAL PROJECTS FUNDS</b>				
6	Capital Improvement	\$5,000,000	None	Reserves set aside for future capital projects.

<sup>1</sup> As of June 30, 2023

<sup>2</sup> Rounded to the nearest hundred thousand

<sup>3</sup> Excludes Transfers Out

<sup>4</sup> Excludes the use of reserves

**Changes to Committed Fund Balance** – All reserves listed in this policy, with the exception of the PERS restricted reserve, are classified as Committed Fund Balance under GASB Statement No. 54. Committed fund balance is comprised of amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. Changes to committed fund balances must be approved by City Council. This policy will be reviewed annually as part of the budget process.

**Replenishment process** – Should the City need to utilize any of the committed fund balances listed in this policy, a recommendation will be brought to City Council for approval and a plan to replenish the committed balance will be developed in conjunction with its use.

**Excess** – Funding of these reserves will come generally from one-time revenues, annual net income, and transfers from other reserves that exceed policy levels. They will be funded in the following priority order with any remaining funds to be placed in the Capital Reserve:

- 1) Economic Uncertainty Reserve

2) Sales Tax Repayment Reserve

32) PERS

3) ~~Capital Projects Reserve~~

4) Sustainability Reserve

5) Unassigned

Revised October 10, ~~July~~ 2023