

**CITY OF STOCKTON, CALIFORNIA
CITY COUNCIL POLICY**

Subject: RESERVE POLICY – MUNICIPAL UTILITIES DEPARTMENT OPERATING FUNDS	Policy No. 700-5	Page No. 1 of 2
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BACKGROUND

Essential components of a prudent fiscal policy for the Municipal Utilities Department include formal provisions for operating reserve funds and the management of utility rate volatility. Documented operating reserve policies and rate stabilization accounts are standard industry practices that address these fiscal management needs.

As part of discussions over the past year with the three rating agencies, Standard & Poor's (S&P), Moody's and Fitch, it was noted that the City currently does not have a documented written reserve policy, or procedures for maintaining Rate Stabilization Accounts in the Water, Wastewater, and Storm Water Enterprise Funds.

Although the City has applied caution and diligence when arriving at budgetary decisions, in light of the above mentioned determinations, a written policy establishing target minimum reserve levels and procedures for establishing rate stabilization accounts, will assist both the Council and Management in managing these important fiscal considerations.

PURPOSE

The purpose of this Policy is to establish a Reserve Policy for the Water, Wastewater, and Storm Water Funds; and to outline procedures to maintain Rate Stabilization Accounts as part of the City's reserve policy.

The reserve policy will mitigate any future revenue fluctuations, where the revenues generated by Water, Wastewater, and Storm Water Funds are interrupted or otherwise insufficient to offset the operating expenditure for those accounts. The Rate Stabilization Accounts will help minimize the impact of potentially significant rate increases necessitated by the need to fund future planned capital improvement projects.

POLICY

To ensure sound fiscal management and preserve City Council discretion in its resource allocation decisions, and to minimize the impact to citizens of potentially significant rate increases, the City establishes the following Reserve Policy for Water, Wastewater, and Storm Water Funds.

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1. Build a six-month reserve of the annual operating budget of the Municipal Utilities Department Water, Wastewater and Storm Water Funds using a three-year trend to project the actual amount.
2. Transfer all revenue exceeding expenses, after the payment of debt service and on-going capital project costs, into the reserve account until the target is met.
3. Establish Rate Stabilization Accounts in the respective funds and transfer all remaining revenue exceeding expenses on an “as needed” basis; such as when an upcoming project is expected to significantly increase rates. The Rate Stabilization Accounts will help distribute any rate increase over a period of time in lieu of a one-time increase.

The recommended target amounts are based on advice from rating agencies and established best practices utilized by other State and local agencies.

PROCEDURE

1. A portion of fund balance is reserved as legally required by Generally Accepted Accounting Principles (GAAP). These funds are not available for appropriation due to legal obligations.
2. Unreserved fund balances available for appropriation can be reserved through Council action or designated by the City Council or City Manager. A designation is defined as a government’s self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds.
3. The City Council shall adopt a policy to establish the level of unreserved fund balance that should be maintained with the target level being six months of annual operating budget for the Municipal Utilities Department Water, Wastewater, and Storm Water Funds.
4. Amounts in the reserve may be contributed to a Rate Stabilization Account as deemed necessary at times of planned capital improvement projects with the potential of creating a significant rate increase.
5. This Reserve Policy and Rate Stabilization Account are to be reviewed annually by the City Council during the budget review and adoption process and adjusted accordingly.