CITY OF VACAVILLE

GENERAL FUND RESERVE POLICY

City of Vacaville

City Manager's Office

650 Merchant Street

Vacaville, CA 95688

Adopted May 24, 2011
Amended: March 22, 2022
April 14, 2026

General Fund Reserve Policy

Adopted:

May 24, 2011	Resolution No. 2011-061; Resolution of the City Council of The City of Vacaville Adopting General Fund Reserve Policy

Amendments:

March 22, 2022	Resolution No. 2022-028 Adopting Updates to the General Fund Reserve Policy
April 14, 2026	Resolution No. 2026-068 Adopting Updates to the General Fund Reserve Policy

RESOLUTION NO. 2026-068

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VACAVILLE ADOPTING UPDATES TO THE GENERAL FUND RESERVE POLICY

WHEREAS, the City of Vacaville (City) desires to maintain current and comprehensive financial policies; and

WHEREAS, the City adopted a formal General Fund Reserve Policy on May 24, 2011; and

WHEREAS, the City updated the Policy on March 22, 2022, to incorporate changes in the guidance of reporting fund balance and reserves since the adoption of the policy; and

WHEREAS, a framework for prioritizing the allocation of excess revenues in fiscal years where the City has met its reserve, based on community and Council feedback, is proposed for inclusion in the Policy;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Vacaville that the General Fund Reserve Policy be updated to incorporate these policy recommendations.

I HEREBY CERTIFY that the foregoing resolution was introduced and passed at a regular meeting of the City Council of the City of Vacaville, held on the 14th day of April 2026, by the following vote:

AYES: Councilmembers Stockton, Ritchie, Chapman, Fremouw, Wylie, Vice Mayor Silva, and Mayor Carli

NOES: None

ABSENT: None

ATTEST:

Michelle A. Thornbrugh, City Clerk

General Fund Reserve Policy

Purpose

The City of Vacaville establishes its General Fund Reserve Policy in order to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unforeseen one-time expenditures. The reserve can also serve as additional insurance against disasters and emergencies.

Background

The General Fund is the main operating fund that pays for general services provided by the City, such as public safety, parks and recreation, and administration services. Additionally, the General Fund is the main funding source when responding to unexpected events or emergencies. According to the Government Finance Officers Association (GFOA), an internationally recognized group of public finance officials throughout the United States and Canada, it is essential that governments maintain adequate levels of General Fund reserve/fund balance to mitigate current and future economic risks to protect taxpayers and employees from unexpected changes in financial conditions. For simplicity, the General Fund Reserve can be thought of as the savings account of the General Fund. GFOA recommends, at a minimum, governments maintain a reserve balance in their General Fund equal to no less than two months (approximately 16%) of General Fund operating expenditures. The proposed General Fund Reserve Policy establishes maintaining a General Fund reserve in the range of two months (16%) to three months (25%) of General Fund operating expenditures with the target being 20%. This policy also defines the conditions under which these reserves can be used and describes how the City's expenditure levels will be adjusted to match any new economic realities that cause the use of reserves to bridge any budget gaps.

Fund Balance Classifications

Subsequent to the adoption of the City's General Fund Reserve Policy in 2011, the Governmental Accounting Standards Board (GASB), which is the independent organization authorized to establish accounting and financial reporting standards for U.S. state and local governments, issued guidance defining five specific classifications of fund balance. The five classifications are intended to identify whether the specific components of fund balance are available for appropriation and therefore *spendable* and the extent to which fund balance is constrained by special restrictions, if any. The five classifications, which are also reported in the City's annual financial statements are:

Classifications	Nature of Restriction	Category
Non-spendable	Cannot be readily converted to cash	Restricted fund balance
Restricted	Externally imposed restrictions	
Committed	City Council imposed commitment (highest level)	Unrestricted fund balance
Assigned	City Council/City Manager assigned purpose/intent	
Unassigned	Residual balance not classified above	

The first two classifications listed above are not specifically addressed in this policy due to the nature of their restrictions. An example of *Non-spendable* fund balance is inventory or long-term loans. *Restricted fund balance* is either limited by law or constrained by grantors and/or

laws and regulations of other governments. This General Fund Reserve Policy is focused on the last three classifications; *Committed*, *Assigned*, and *Unassigned*; which are the *unrestricted* portions of the General Fund reserve/fund balance that Council can appropriate without restriction. These three classifications are further defined in the following section.

In accordance with the GASB guidance, the City's accounting policies define the order in which the fund balance classifications are spent. The City reduces restricted amounts first when expenditure is incurred for purposes for which both *restricted* and *unrestricted* fund balance is available. Similarly, the City reduces *Committed* amounts first, followed by *Assigned* amounts, and then *Unassigned* amounts when expenditures are incurred for purposes for which *unrestricted* fund balance can be used.

Unrestricted Fund Balance Classifications:

- *Committed* – resources which are subject to limitations the government imposes upon itself at its highest level of decision making (City Council ordinance) and that remain binding unless removed in the same manner.

- *Assigned* – resources which a government has a stated intended use as established by the City Council or a body or official to which the City Council has delegated the authority to assign amounts for specific purposes. Examples include funding set aside for capital improvement and technology projects and funding designated for Measure M projects and initiatives.

- *Unassigned* – the residual balance of resources not classified in one of the other four classifications. The portion of the General Fund fund balance not designated for any purpose.

General Fund Reserve Level

Within the *Unassigned* General Fund fund balance classification, the City hereby establishes the following minimum General Fund reserve targets:

- The City shall strive to maintain a General Fund operating reserve in the range of two months (16%) to three months (25%) of General Fund operating expenditures, with the target being 20% of General Fund expenditures. These funds are set aside to address potential needs in the following areas:

    - A *Reserve for Economic Uncertainty* – funds designated to mitigate periodic revenue shortfalls due to downturn in economic cycles, thus avoiding the need for service-level reductions within the fiscal year.
    - An *Emergency Reserve* – funds designated to mitigate costs of unforeseeable emergencies and natural disasters.

- The appropriate level of General Fund reserves shall be reviewed annually as part of the budget adoption process.

Use of Reserve Funds

Reserve for Economic Uncertainty

For use to mitigate annual revenue shortfalls (actual revenues less than projected revenues) due to a slowdown in general economic conditions as well as reductions in revenues caused by actions of the State or Federal governments. Should any unanticipated reductions in revenue be deemed to be recurring, adjustments will be made in the following budget year so as to reflect the revised revenue expectations.

Emergency Reserves

For use to mitigate costs associated with unforeseen emergencies, including natural disasters. Should unforeseen and unavoidable events occur that require expenditure of City resources beyond the level provided for in the annual budget, the City Manager shall have the authority to approve the appropriation of Reserve Funds. The City Manager shall then present to the City Council – no later than its next regularly scheduled meeting – a resolution confirming the nature of the emergency and formally authorizing the appropriation of reserve funds. If the reserve level falls below 16%, the City Council may restore funds over a one-to-three-year period through establishment of a reserve recovery plan adopted by the City Council.

Excess Fund Balance

Identification of Surplus

At the end of each fiscal year, the Finance Department will report on the audited year-end budgetary fiscal results. A surplus exists when actual revenues exceed expenditures and encumbrances, and the General Fund Reserve meets or exceeds the policy target.

Allocation of Excess General Fund Revenues

In fiscal years where the City meets its General Fund Reserve Policy level and ends the year with surplus General Fund revenues, the surplus shall be allocated using the following prioritization framework developed through community engagement and Council direction.

- **Infrastructure** 35%
  Examples: streets and pavement improvements, public safety training facilities, parks and facility upgrades
- **Community Programs/Services** 30%
  Examples: community benefit projects, master plan implementation, expanded staffing and programming
- **Internal Service Funds** 20%
  Examples: fleet replacement, technology infrastructure, worker's compensation and general liability reserves
- **Unfunded Liabilities** 15%
  Examples: Additional contributions to long-term benefit obligations (pension and retiree medical/OPEB) to save on interest costs

Permitted Uses of Excess Fund Balance

Subject to the priority framework above, allowable uses include:

- Reestablishing services or service levels, staffing, and/or concessions previously made by employees;
- Transfer to the General Fund Capital Improvement Program (CIP) Fund for appropriation for general capital needs and/or deferred maintenance projects for which there is no other source of funding;
- Transfer to the City's Internal Service Funds to build and/or replenish reserves for general liability and workers compensation claims, vehicle, equipment, and technology replacement, and retiree benefit reserves;
- Debt repayment acceleration;
- Additional discretionary payments towards the City's unfunded liabilities and/or contributions towards a pension or other post-employment benefit trust;
- Re-appropriation within the subsequent year's operating budget to provide for one-time, non-recurring needs.

Use of General Fund excess balance shall not be used for new recurring expenses.

Other Funds

In conjunction with approving the General Fund Reserve Policy, the City Council expresses its intent to evaluate other Special Revenue, Enterprise and Internal Service funds to establish the appropriateness of developing formal fund-specific reserve policies.