

RESOLUTION NO. 2025 - _____

**A RESOLUTION OF THE CITY COUNCIL OF
THE CITY OF MERCED, CALIFORNIA,
REVISING THE GENERAL FUND RESERVE
POLICY**

WHEREAS, the City has determined that it is fiscally prudent, stable and sustainable to maintain a General Fund Reserve Policy, and

WHEREAS, on November 16, 2020, the City of Merced adopted a General Fund Reserve Policy setting the overall General Fund Reserve Policy contribution level to Thirty Five Percent (35%); and

WHEREAS, the City has now determined that it is fiscally prudent, stable and sustainable to revise the overall General Fund Reserve Policy contribution level.

**THE CITY COUNCIL OF THE CITY OF MERCED DOES HEREBY
RESOLVE AS FOLLOWS:**

SECTION 1. That a certain document entitled, “General Fund Reserve Policy” is hereby revised to reduce the overall General Fund Reserve Policy contribution to thirty percent (30%). See Exhibit A attached hereto.

SECTION 2. That the City Manager and Finance Officer are hereby authorized and directed to comply with the General Fund Reserve Policy effective immediately.

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ATTEST:
D. SCOTT MCBRIDE, CITY CLERK

BY: _____
Assistant/Deputy City Clerk

(SEAL)

APPROVED AS TO FORM:
CRAIG J. CORNWELL, CITY ATTORNEY

Craig Cornwell 6/10/2025
City Attorney Date

CITY OF MERCED

GENERAL FUND RESERVE POLICY

I. Purpose

The City of Merced (the City) is committed to prudent fiscal practices and maintaining adequate General Fund reserves to ensure consistent, uninterrupted municipal services and facilities in the wake of potential risk events, such as major economic downturn or natural disaster (e.g., wildfires, storms or earthquakes). Additionally, the City is committed to maintaining an adequate reserve to protect its credit quality and reduces the City's cost of borrowing, as adequate reserves represent a significant factor in a rating agency's evaluation of the City's credit worthiness.

II. General Fund Reserve

The City engaged the Government Finance Officers Association (GFOA) to evaluate the City's specific risk exposures and to help size an appropriate General Fund reserve.

The GFOA risk analysis model focused on the following four areas:

- Predictability of revenues and volatility of expenditures (less predictability and more volatility necessitate higher reserve levels)
- Perceived exposure to significant one-time outlays (disaster, immediate capital needs and state budget cuts)
- Potential drain upon the General Fund resources from other funds or availability of resources in other funds (deficits in other funds may require a higher level of unrestricted general fund balance)
- Liquidity (having cash available to cover liabilities)

The GFOA findings guided the following policy provisions.

A. Overall General Fund Reserve

The City of Merced will maintain a minimum General Fund reserve equivalent to 30% of budgeted annual General Fund operating expenditures.

B. Reserve Classification

The 30% General Fund reserve will be sub-divided into the following two (2) classifications. Each classification will be established as a percentage of budgeted annual General Fund operating expenditures.

- **25% Reserve Set-aside.** This portion of the reserve is to be set aside in a separate fund.
- **5% Reserve for Contingency.** This portion of the reserve shall remain in the General Fund as a contingency but will be identified as committed.

C. Reserve Administration

The following is provided for appropriate and timely administration of the City's General Fund reserve.

- The 25% of the General Fund operating budget will be set aside in a separate General Fund Reserve.
- The City's overall General Fund Reserve amount (i.e., 30%) will be reported and adjusted annually with budget adoption.
- Any funds in excess of the City's 30% General Fund minimum will be identified at the close of each fiscal year for potential programming at the City Council's discretion.
- If, based on the Finance Officer's forecasting and analysis, a 30% General Fund reserve minimum is not being met or will likely not be met within a five-year horizon, the Finance Officer will work with the City Manager to develop a plan to achieve the 30% minimum reserve balance. The plan will be presented to the City Council for consideration and adoption as soon as practicable.

III. Conditions for Use of Reserves

The following is provided to govern the appropriate use and replenishment of the City's General Fund reserve.

A. Use of Reserves

- It is the intent of the City to limit use of General Fund reserves to address unanticipated, non-recurring needs. Reserves shall not normally be applied to recurring annual operating expenditures.

- With Council authorization, General Fund reserves may be used to allow time for the City to restructure its operations in a deliberate manner (e.g., to address a severe economic downturn), but such use will only occur in the context of an adopted long-term plan to achieve a sustainable budget (operating revenues exceed or equal operating expenditures).

B. Authority to use Reserves

- The use of General Fund reserves which causes the General Fund reserve to fall below the minimum reserve will require a motion adopted by five affirmative votes.
- Upon City Council declaration of an emergency or other action to appropriate these funds, the use of reserves by the City Manager shall be consistent with the purposes and provisions contained within this policy and the City of Merced's general Financial Policy.
- Any use of General Fund or General Fund Reserve that would cause the City's General Fund contingency or set aside to drop below 35% of budgeted annual General Fund operating expenditures shall be permitted only on a specific, case-by-case basis as authorized by the City Council.

C. Replenishment of Reserves

- In the event City Council authorizes use of the General Fund reserve below the minimum, the Finance Officer and City Manager shall propose a plan for the replenishment of the reserves to the City Council. The proposed plan shall be provided by the City Council within 90 days or as soon as practicable.
- The City will strive to replenish the General Fund reserve within one year of use but will fully replenish the reserve within five years of use.
- The City will seek reimbursement from the Federal Emergency Management Agency to replenish reserves used in connection with a declared emergency. Application for reimbursement will be made as soon as practicable following the declared emergency, consistent with all federal guidelines.

D. Risk Mitigation Strategy to Supplement General Fund Reserve

- The City will procure appropriate insurance coverages to protect and preserve its General Fund reserve should an unanticipated risk event occur. The City's

insurance program may include coverage for catastrophic events (e.g., wildfires, storms or earthquakes).

- When necessary and appropriate, the City should consider borrowing from other City funds (i.e., inter-fund loans) or access the debt markets rather than draw upon General Fund reserves. Any action to incur debt will be consistent with the City's Debt Policy and Continuing Disclosure Policy.