

## REPORT TO THE CITY COUNCIL



**DATE:** September 3, 2019

**TITLE:** Placement of a \$3 Million Cap on the Emergency Reserve Fund

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### RECOMMENDATION

**Adopt a Resolution of the City Council placing a \$3 million cap on the Emergency Reserve Fund funded by marijuana tax revenues.**

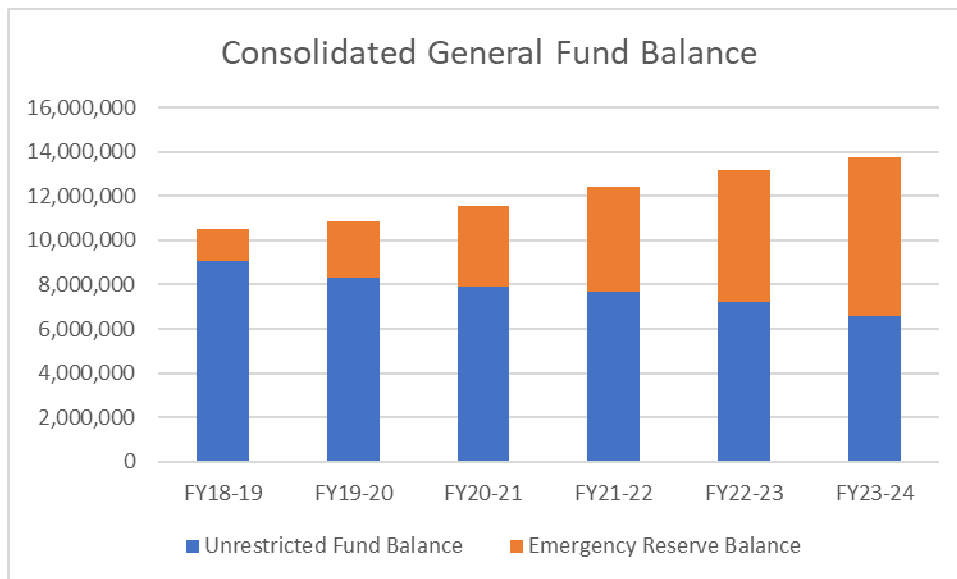
### BACKGROUND

On October 6, 2015, the City Council adopted Resolution 2015-050 (Exhibit 1) which established the Emergency Reserve Fund. The source of funding for this emergency reserve restricted fund (the "Emergency Reserve Fund") is 25% of the annual marijuana tax revenues. The purpose of the Emergency Reserve Fund is to sustain the City's General Fund operations in the case of a fiscal/financial emergency. A fiscal/financial emergency was defined as "if the financial state of the City is in such a condition that the City is or will be unable to pay its general obligations within the next 60 days, and that such a condition jeopardizes the health, safety, or well-being of the residents of the City." Based on the 2018-2019 Fiscal Year Budget, 60 days of General Fund obligations is estimated to be \$3 million. Staff is recommending that the City Council establish a \$3 million cap on the Emergency Reserve Fund.

### DISCUSSION

At the end of the 2018-2019 Fiscal Year, the Emergency Reserve Fund has a balance of \$1,448,685 and is estimated to be at \$2,522,199 at the end of the 2019-2020 Fiscal Year. Due to the increases in cannabis tax revenues, the 25% set-aside of marijuana tax revenues for the Emergency Fund will start reducing the unrestricted General Fund balance. At the end of the 2019-2020 Fiscal Year, the General Fund is estimated to have an excess of revenues over expenditures in the amount of \$365,828 not including the set-aside for the Emergency Reserve Fund. The Emergency Reserve Fund set aside at the end of Fiscal Year 2019-2020 is estimated to be \$1,073,514. That set-aside will require the entire \$365,828 excess of revenues over expenses plus \$707,686 from the unrestricted General Fund reserves. As shown in the charts below, the unrestricted General Fund reserves will be needed to fund the 25% set-aside of marijuana tax revenues to the Emergency Reserve Fund for the next several years.

<b>Consolidated General Fund Balance 5-Year Projection</b>						
	FY2018-19	FY2019-20	FY2020-21	FY2021-22	FY2022-23	FY2023-24
Unrestricted Fund Reserves	\$9,048,933	\$8,341,247	\$7,932,098	\$7,673,926	\$7,235,174	\$6,600,145
Emergency Reserve Fund Balance	1,448,685	2,522,200	3,627,920	4,766,813	5,939,871	7,148,122
Total Consolidated General Fund Balance	\$10,497,618	\$10,863,447	\$11,560,018	\$12,440,738	\$13,175,045	\$13,748,266



If the City does not implement the cap on the Emergency Reserve Fund, the total Consolidated General Fund Balance will continue to grow, but each year it will require putting some of unrestricted reserves available in the General Fund into the Emergency Reserve Fund which are restricted funds. This will reduce the amount of unrestricted reserves and will limit the City's available resources for future projects and programs.

The cap will not reduce or place a limit on the amount of marijuana tax revenues the City receives. It will merely stop the immediate set-aside of 25% of the marijuana tax revenues to the Emergency Reserve Fund when the balance reaches \$3 million. If at any time the Emergency Reserve Fund balance goes below \$3 million, the City will resume the 25% set-aside of marijuana tax revenues until the reserve meets the cap again.

### **FISCAL IMPACT**

The Emergency Reserve Fund for the City will be capped at \$3 million and will be available for fiscal/financial emergencies as approved in Resolution 2015-050. Once the cap is reached, this will allow the City to utilize more of the marijuana tax revenues for projects and programs.

### **EXHIBIT(S)**

- 1) Resolution No. 2015-050
- 2) Resolution Amending Resolution 2015-050 to Establish a \$3 Million Cap on the Emergency Reserve Fund