

<b>Policy Number:</b>	GB-Finance-1	<b>Effective Date:</b>	12/18/2018
<b>Approved By:</b>	Governing Body	<b>Sunset Date:</b>	None
<b>Approval Date:</b>	12/18/2018	<b>Prepared By:</b>	Finance Dept.
<b>Repeals/Replaces:</b>	Resolution 2017-100		
<b>Statutory Authority:</b>	N/A		
<b>Cross References:</b>	None		
<b>Policy Purpose:</b>	To establish prudent reserve amounts in City funds in order to meet cash flow requirements, provide contingencies for revenue and expenditure volatility, fund capital asset replacement, and comply with relevant debt covenants.		

### **1. Introduction.**

Reserve funds allow the City to mitigate risks and provide a contingency plan if revenues are less than projected amounts. The appropriate amount of reserves for each City fund vary due to differences in cash flow, revenue volatility, and expenditure volatility.

Reserve funds are generally the difference between current assets (such as cash on hand, investments of operating funds, and interest receivable) and current liabilities (such as accrued payroll costs and pending accounts payable).

The City Manager and Chief Financial Officer have overall responsibility for enforcement of the reserve funds policy.

### **2. Ethics, Integrity & City Values.**

Section 1-6-H-1 *et seq.* of the City Code establishes a Code of Ethics for all City employees. This Code of Ethics is reinforced through the City's Personnel Policies/Procedures and the City's values.

All City employees involved with reserve amount calculations and reporting shall act in an honest and professional manner in accordance with the City's values, Code of Ethics, and Personnel Policies/Procedures.

### **3. Applicability of Policy to City Funds.**

The City maintains a number of funds for accounting purposes in order to comply with state statutes and generally accepted accounting principles (GAAP). The reserve policy specifically applies to the following City funds:

- General Fund
- Debt Service Fund

- Special Alcohol Fund
- Tourism and Convention Fund
- Stormwater Management Fund
- Rec Center Fund
- Health Plan Fund
- Risk Management Fund
- Workers' Compensation Fund

**4. Reserve Calculation Factors.**

The City should consider a variety of factors when calculating prudent reserve amount targets, including the following items:

- Funds needed to meet cash flow requirements
- Funds to provide contingencies for revenue volatility
- Funds to provide contingencies for expenditure volatility (including emergency expenditures due to natural disasters and other unpredictable events)
- Accumulation of funds for capital asset replacement
- Debt covenants requiring minimum reserve amounts
- Accumulation of funds to prepay outstanding debt

The Chief Financial Officer may determine additional factors to consider due to changes in economic conditions, changes in state statute, and other relevant issues.

**5. General Fund Reserve Target.**

The General Fund is the primary operating fund of the City and accounts for the majority of operating revenues and expenditures. The General Fund reserve target amount is 30% to 35% of budgeted annual General Fund revenues. The basis for the General Fund reserve target is the total sum of the following reserve factor calculations:

<b>Reserve Factors</b>	<b>Policy Calculations</b>
Meet Cash Flow Requirements	Maintain minimum reserve equal to 1/13 of the current year budgeted payroll in the General Fund (the equivalent of two payrolls, including fringe benefit costs)
Provide contingencies for revenue volatility	Maintain minimum reserve equal to 10% of current year budgeted City & County sales tax revenue in the General Fund
Provide contingencies for revenue volatility	Maintain minimum reserve equal to 40% of current year budgeted City & County compensating use tax revenue in the General Fund

<b>Reserve Factors</b>	<b>Policy Calculations</b>
Provide contingencies for revenue volatility	Maintain minimum reserve equal to 5% of the current year budgeted electric franchise tax revenue in the General Fund
Provide contingencies for revenue volatility	Maintain minimum reserve equal to 15% of current year budgeted motor vehicle tax revenue in the General Fund
Provide contingencies for revenue volatility	Maintain minimum reserve equal to 20% of current year budgeted court fine revenue in the General Fund
Provide contingencies for revenue volatility	Maintain minimum reserve equal to 40% of current year budgeted gas franchise tax revenue in the General Fund
Provide contingencies for revenue volatility	Maintain minimum reserve equal to 50% of current year budgeted building permit revenue in the General Fund
Provide contingencies for revenue volatility	Maintain minimum reserve equal to 10% of current year budgeted property tax revenue in the General Fund
Provide contingencies for revenue volatility	Maintain reserve for potential special assessment tax delinquencies (amount equal to scheduled payments for one fiscal year)
Provide contingencies for expenditure volatility	Maintain reserve for potential refunds of sales and use tax revenues (amount equal to potential refunds for one fiscal year)
Provide contingencies for expenditure volatility	Maintain minimum reserve equal to 5% of current year budgeted General Fund expenditures

General Fund reserve amounts in excess of 35% of the budgeted annual General Fund revenues are one-time funds and shall be used only for the following purposes:

- For one-time expenditures, including capital outlays, studies, and payments to reduce outstanding City debt
- For capital projects through transfers to the Capital Improvement Fund and other City funds
- To increase reserve amounts in other City funds as needed
- To offset the impact of economic downturns on a short-term (one or two fiscal years) basis

For purposes of this policy, the General Fund reserve amount is defined as the unassigned fund balance. Unassigned fund balance includes all spendable amounts not

contained in other fund balance classifications (assigned, committed, restricted) within the General Fund.

**6. Debt Service Fund Reserve Target.**

The Debt Service Fund accounts for the majority of principal and interest payments on the City’s general obligation bonds (Stormwater bonds and a few other bond issues are paid from other City funds) and related revenues. The Debt Service Fund reserve target amount is 10% to 20% of the budgeted annual principal and interest amounts due on general obligation debt paid from the Debt Service Fund. Debt Service Fund reserve amounts in excess of 20% of the budgeted annual Debt Service Fund principal and interest payments can only be used to pay debt service (including the early retirement of outstanding debt) or to reduce the property tax levy for the Debt Service Fund.

**7. Special Alcohol Fund/Tourism & Convention Fund Reserve Targets.**

The Special Alcohol Fund accounts for funds received from the state liquor tax on gross receipts from the sale of alcoholic liquor by clubs, caterers, and drinking establishments. These funds must be used for the purchase, establishment, maintenance or expansion of services or programs for alcoholism prevention and education.

The Tourism and Convention Fund accounts for funds received from the transient guest tax levied on the gross rental receipts paid by guests for lodging. These funds must be used for the promotion of tourism, conventions, and economic development.

The reserve target for both the Special Alcohol Fund and the Tourism and Convention Fund is 5% to 10% of budgeted annual revenues in each fund.

Reserve amounts in excess of 10% of budgeted annual revenues are one-time funds and shall be used only for the purposes stated above (for each fund) per state statute.

**8. Stormwater Management Fund.**

The Stormwater Management Fund accounts for user fees and other revenues received for stormwater programs and expenditures for stormwater programs. The Stormwater Fund reserve target amount is 10% to 20% of budgeted annual Stormwater Fund revenues. The basis for the Stormwater Fund reserve target is the total sum of the following reserve factor calculations:

<b>Reserve Factors</b>	<b>Policy Calculations</b>
Meet Cash Flow Requirements	Maintain minimum reserve equal to 1/13 of the current year budgeted payroll in the Stormwater Fund (the equivalent of two payrolls, including fringe benefit costs)
Provide contingencies for revenue volatility	Maintain minimum reserve equal to 100% of current year budgeted Stormwater capital charge revenue

<b>Reserve Factors</b>	<b>Policy Calculations</b>
Provide contingencies for revenue volatility	Maintain reserve for potential special assessment tax delinquencies (amount equal to scheduled payments for one fiscal year)
Provide contingencies for expenditure volatility	Maintain minimum reserve equal to 5% of current year budgeted Stormwater operating & debt service expenditures (excluding special assessment debt)

Stormwater Fund reserve amounts in excess of 20% of the budgeted annual Stormwater Fund revenues are one-time funds and shall be used only for the following purposes:

- For one-time Stormwater expenditures, including capital outlays, studies, and payments to reduce outstanding Stormwater debt
- For Stormwater capital projects
- To maintain or reduce the Stormwater service charge (user fee) rate
- To offset the impact of economic downturns on a short-term (one or two fiscal years) basis

**9. Rec Center Fund.**

The Rec Center Fund accounts for user fees and other revenues received for Rec Center programs and expenditures for Rec Center programs. The Rec Center Fund reserve target amount is 10% to 20% of budgeted annual Rec Center Fund revenues. The basis for the Rec Center Fund reserve target is the total sum of the following reserve factor calculations:

<b>Reserve Factors</b>	<b>Policy Calculations</b>
Meet Cash Flow Requirements	Maintain minimum reserve equal to 1/13 of the current year budgeted payroll in the Rec Center Fund (the equivalent of two payrolls, including fringe benefit costs)
Provide contingencies for expenditure volatility	Maintain minimum reserve equal to 5% of current year budgeted Rec Center operating expenditures
Accumulate funds for capital asset replacement	Maintain capital replacement reserve of \$250,000

Rec Center Fund reserve amounts in excess of 20% of the budgeted annual Rec Center revenues are one-time funds and can only be used to pay Rec Center operating and capital costs.

## **10. Health Plan Fund**

The Health Plan Fund accounts for revenues and expenditures for the City's self-insured health plan for employees, retirees, and their eligible dependents. The Health Plan Fund reserve target amount shall be an amount which is determined to provide a secure funding level for the health plan. The City Manager, Human Resources Director, and Chief Financial Officer shall work with the City's benefits broker to develop criteria and procedures to determine a secure funding level. The criteria and procedures should consider the following factors:

- The City's average monthly health plan claims and administrative costs
- Historical and future trending factors for health plan utilization, claims, and administrative costs
- Health plan exposure to potential catastrophic events and other cost factors
- Ability of the health plan to remain financially viable in future years

The City Manager, Human Resources Director, Chief Financial Officer, and the City's benefits broker shall determine the secure funding level amount on an annual basis. Health Plan Fund reserve amounts in excess of the secure funding level are one-time funds and can only be used to pay Health Plan Fund costs or reduce future contributions to the fund by either the City or employees.

## **11. Risk Management Fund**

The Risk Management Fund accounts for the payment of claims and related costs arising from legal action/settlement and transfers from the General Fund used to pay these costs and claims. The Risk Management Fund reserve target amount shall be equal to five (5) times the City's standard deductible for property and casualty insurance, or the greater of the two if they are different, plus any pending claims reserves, plus \$500,000. Risk Management Fund reserve amounts in excess of the target amount are one-time funds and can only be used to pay future Risk Management Fund costs or can be transferred back to the General Fund.

## **12. Workers' Compensation Fund**

The Workers' Compensation Fund accounts for revenues and expenditures for the City's self-insured workers' compensation plan for employees. The Workers' Compensation Fund reserve target amount shall be one (1) year of expected claims, judgments, and other expenses (including operational costs), plus the City's open reserves for Incurred But Not Reported (IBNR) claims, current excess insurance premium, estimated State assessments, and third party administrator costs. Workers' Compensation Fund reserve amounts in excess of the target amount are one-time funds and can only be used to pay future Workers' Compensation Fund costs or to reduce future contributions to the fund by the City.

### **13. Reserve Reporting and Monitoring**

The Finance Department shall calculate and monitor reserve amounts for funds listed in this policy on a quarterly basis. If the reserve amount for any of the funds listed in this policy falls below the reserve target amount (as calculated on a quarterly basis), the City Manager and Chief Financial Officer shall develop a recommended plan to rebuild the actual reserve amount(s) to the reserve target amount(s) and notify the Governing Body (notification to the Governing Body should occur within 90 days of the Finance Department determining the actual reserve amount is below the target reserve amount).