

## RESERVE POLICY

In concert with the City's other financial policies, the City's Reserve Policy serves as an important tool to guide the use of City resources in meeting the City's financial commitments and provides a framework for addressing unexpected future events in a fiscally prudent manner. It is the intent of the City to provide a stable financial environment for which its citizens can depend on a consistent and quality level of service and for planned future expenditures. The purpose of the Reserve Policy is to assist the City to remain a financially stable organization by maintaining appropriate reserves. Adequate reserves mitigate the effects of significant economic downturns, unanticipated reductions in revenue, help address unexpected emergencies such as weather-related events and other natural disasters, catastrophic events, and can be used to pay some legal judgments and settlements against the organization.

### **GENERAL FUND RESERVE POLICY**

The General Fund is the main operating fund that pays for general services provided by the City. The General Fund accounts for all general revenues of the City and for expenditures related to the rendering of the City's general services. The General Fund is considered to have a high level of risk to operations due the following factors:

- Dependence on revenue streams that are inherently volatile and susceptible to economic downturns, revenue reduction impacts, and/or are limited in their ability to grow.
- The General Fund is the main funding source when responding to unexpected events or emergencies.
- The General Fund is one of the main sources of liquidity for the City.
- The General Fund supports many other funds of the City.

Consideration of potential risks and other drivers influence the targeted minimum level of the Reserve Balance that should be maintained. The Government Finance Officers Association (GFOA) recommends no less than two months of operating expenditures be held in reserve in the General Fund unrestricted budgetary fund balance.

The City desires to maintain a prudent level of reserves based on the City's risk profile, revenue considerations described above, liquidity needs, and the City's desire to maintain strong bond ratings to minimize borrowing costs. The City's General Fund Reserves shall be comprised of the following sub - funds:

- **A General Fund Reserve Sub-Fund** – the minimum level for this fund shall be 16.7% of General Fund expenditures. Use of this reserve requires super majority plus one vote of the City Council. No more than one third of the fund balance available in the sub-fund shall be expended within any single year. Should the reserve level fall below its required minimum, a plan will be formulated and adopted to replenish the minimum required amount within a two year period. Use of the General Fund Reserve is limited to catastrophic events.

- **An Emergency Reserve Sub - Fund** – a balance may be maintained at a target of 5% of the General Fund expenditures. Use of this reserve requires Super Majority vote of those City Council members present at the meeting for which the proposed use is voted. Use of this fund shall be limited to responding to emergencies, including but not limited to:
  - economic cycles or downturns
  - Unpredicted volatility in revenue sources
  - revenue reductions due to State or Federal actions that impact the current level of services,
  - adverse weather conditions such as snow storms, flooding, wind storms, drought, extreme heat, wild fires, or other weather related phenomena
  - Other emergencies that could not have been readily predicted or foreseen, including catastrophic events
  
- **A Contingency Reserve Sub - Fund:** a balance may be maintained at a target of 5% of the General Fund expenditures. Use of this reserve requires majority vote of City Council members present at the meeting for which the proposed use is voted. When using these funds, focus should be given to projects that have an impact on addressing equity and that support the needs of vulnerable community members. Use of this fund shall be limited to one-time expenditures, including but not limited to:
  - identified deferred maintenance needs that may not otherwise have an identified funding source or are an emergent need to repair or replace,
  - specific capital projects that may otherwise not be accomplished through other funding sources,
  - legal judgments or settlements
  - one-time projects or programs that do not have other dedicated funding,
  - Other such one-time uses as may be determined, and/or other one-time expenditures that could not have been readily predicted or foreseen, including catastrophic and emergency events

### **Funding Level Review**

Reserve levels shall be monitored throughout the year. Adjustments to reserve amounts shall be considered if reserve levels are below the required minimum or target levels, are projected to be below the required minimum or target levels, otherwise significantly change, and/or it would be prudent to increase amounts in reserves based on the outlook of future events. At a minimum, adjustments to reserve levels should be confirmed at the adoption of the biennial budget and all budget amendments. Reserve levels should be reviewed at any time as may be necessary given changes in economic data or other factors.

## **Use and Replenishments of Funds**

### **Use of the General Fund Reserve shall follow the process outlined below:**

If there is a catastrophic emergency that requires the use of General Fund Reserve sub-fund, funds shall first be drawn from the Contingency Reserve Sub-Fund until there are no longer any remaining funds. Next, funds shall be drawn from the Emergency Reserve Sub-Fund until there are no longer any remaining funds available. If additional funding is still required to address the catastrophic event, a supermajority vote plus one of all City council members will be required to use any funds within the General Fund Reserve sub-fund. No more than one third of the required minimum amount shall be expended within any single year.

### **Replenishment or funding of reserves shall follow the process outlined below:**

Any available funds shall first flow to the General Fund Reserve sub-fund to maintain the required minimum level of 16.7%. After the required minimum level of the General Fund Reserve sub-fund has been met, funds may flow to the Emergency Reserve sub-fund to meet the target level of 5%. Once a determination has been made for the appropriate amount in the Emergency Reserve sub-fund, funds may flow to the Contingency Reserve sub-fund to meet the 5% target level. Amounts in excess of the required minimum level or target levels may be held in each respective reserve sub-fund.

The Finance Director may develop procedures in addition to this policy for the use and/or replenishment of the reserves sub-funds.