

Article GB04-A RESERVE FUNDS POLICY.

Sections:

- GB04-A-1 OBJECTIVES.
- GB04-A-2 SCOPE.
- GB04-A-3 DEFINITIONS.
- GB04-A-4 PROVISIONS.
- GB04-A-5 PROCEDURES.
- GB04-A-6 RESPONSIBILITY FOR ENFORCEMENT.
- GB04-A-7 REFERENCES.

Section GB04-A-1 OBJECTIVES.

It is the policy of the Governing Body to maintain prudent reserve amounts in City funds in order to maintain working capital, fund capital asset replacement, and fund debt retirement. The appropriate amount of reserves for a given fund varies by entity due to differences in cash flow, revenue and expenditure volatility, services provided, and statutory considerations.

Section GB04-A-2 SCOPE.

The calculation of prudent reserve targets shall include consideration of the following factors:

- A. Maintain Working Capital:
 - 1. Maintain reserves to meet cash flow requirements.
 - 2. Maintain reserves to provide contingencies for unpredictable revenue sources.
 - 3. Maintain reserves to provide contingencies for unpredictable expenditures and emergencies (such as natural disasters).
- B. Fund Capital Asset Replacement and Debt Retirement:
 - 1. Accumulate reserves to provide funding for capital asset replacement.
 - 2. Maintain reserves to meet debt reserve covenants/requirements.
 - 3. Accumulate reserves to prepay outstanding debt.
- C. This Policy shall apply to the following City funds:
 - 1. General Fund.
 - 2. Debt Service Fund.
 - 3. Health Plan Fund.
 - 4. Risk Management Fund.
 - 5. Workers' Compensation Fund.
 - 6. Stormwater Management Fund.
 - 7. Tourism and Convention Fund.

8. Special Alcohol Fund.

Section GB04-A-3 DEFINITIONS.

The following words when used in connection with this Policy shall have the meanings ascribed to them herein:

DEBT SERVICE FUND: Accounts for the payment of principal and interest on the City’s general obligation bonds, with exception of Stormwater bonds (which are accounted for in the Stormwater Management Fund).

GENERAL FUND: The primary operating fund of the City that accounts for the majority of City operating revenues and expenditures.

HEALTH PLAN FUND: Accounts for the City’s self-insured health plan for employees, retirees, and individuals eligible for coverage.

RESERVES: The difference between the current assets and the current liabilities of a City fund.

RISK MANAGEMENT FUND: Accounts for funds transferred from the General Fund, which are reserved for the purpose of paying claims and related costs arising from legal action and settlement.

SPECIAL ALCOHOL FUND: Accounts for monies provided by state liquor taxation on private clubs and expended for the purchase, establishment, maintenance, or expansion of services or programs for alcoholism prevention and education.

TOURISM AND CONVENTION FUND: Accounts for monies derived from the transient guest tax levied on the gross rental receipts paid by guests for lodging, which are used for promotion of tourism, conventions, and economic development.

STORMWATER MANAGEMENT FUND: Accounts for the City’s Rain to Recreation program, which provides a systematic, economical, and environmentally sensitive means for managing stormwater.

WORKERS’ COMPENSATION FUND: Accounts for the City’s self-insured worker’s compensation plan for employees.

Section GB04-A-4 PROVISIONS.

- A. General Fund: The General Fund reserve target amount shall be calculated according to the following guidelines:

Reserve Category	Policy Calculations
Meet Cash Flow Requirements (maintain working capital)	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 unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 10% of current year budgeted City sales tax revenue in the General Fund
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 10% of current year budgeted County sales tax revenue in the General Fund
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 40% of current year budgeted compensating use tax revenue in the General Fund
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 5% of the current year budgeted electric franchise tax revenue in the General Fund

Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 15% of current year budgeted motor vehicle tax revenue in the General Fund
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 20% of current year budgeted court fine revenue in the General Fund
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 40% of current year budgeted gas franchise tax revenue in the General Fund
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 50% of current year budgeted building permit revenue in the General Fund
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 10% of current year budgeted property tax revenue in the General Fund
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain reserve for potential special assessment tax delinquencies (amount equal to scheduled payments for one fiscal year)
Provide contingencies for unpredictable expenditures and emergencies (Maintain working capital)	Maintain reserve for potential refunds of sales and use tax revenues (amount equal to potential refunds for one fiscal year)
Provide contingencies for unpredictable expenditures and emergencies (maintain working capital)	Maintain minimum reserve equal to 5% of current year budgeted General Fund expenditures

The total dollar amount of the reserve target for the General Fund (which is the sum of the calculations listed in the preceding table) will vary each year according to the policy calculations. As a general guideline, the policy calculations are expected to generate a total reserve amount that ranges between 30% and 35% of budgeted annual General Fund revenues.

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

1. For one-time expenditures such as capital purchases, studies, and payments to reduce outstanding debt.
 2. For capital projects through transfers to the Capital Improvement Fund and other City funds.
 3. For increasing reserve amounts to appropriate levels in other City funds.
 4. To offset the impact of economic downturns on a short-term basis (1 to 2 fiscal years).
- B. Debt Service Fund: The City will maintain a reserve in the City's Debt Service Fund between 10% and 20% of the annual principal and interest amounts due from the Debt Service Fund on outstanding bonds and temporary notes.
- Any Debt Service Fund reserve amounts in excess of 20% can only be used to reduce the amount of outstanding debt or to reduce the debt service property tax levy.
- C. Health Plan Fund: The City will establish and maintain a reserve, including funding for plan run-out, within the City's Health Plan Fund. The amount of the reserve shall be determined annually by the Governing Body as part of the annual budget process. The reserve amount for any given year shall not be less than that amount which is determined to provide a reserve level

of high minimum funding and the reserve goal for each year shall be that amount which is determined to provide a reserve level of “secure funding.” The City Administrator and/or his designee shall develop and adopt criteria and procedures, recognized in the health care insurance industry, for determining the high minimum funding level and the secure funding level, but they shall consider the following:

1. The City’s average monthly claims and administrative costs.
2. Trending factors for claims and costs.
3. Trending factors for utilization of the fund.
4. Exposure to catastrophic or other cost factors.
5. The ability of the fund to be and remain viable through various experiences.

All funds, including reserve amounts, contained in the Health Plan Fund shall be used exclusively for the purpose of that fund, and excess funds, whether considered reserves or otherwise, shall not be transferred to any other fund nor used for any other purpose but may be spent down within the fund to reduce future contributions either by the City or the employees benefiting from the fund.

D. Risk Management Fund: The City will establish and maintain a reserve within the City’s Risk Management Fund. The minimum amount of the reserve shall be two (2) times the amount of the City’s aggregate stop loss (the total amount the City is expected to fund internally during the policy year for any number of claims on any liability line, except employment practices liability to which no stop loss applies) plus any pending claims reserves.

E. Workers’ Compensation Fund: The City will establish and maintain a reserve within the City’s Workers’ Compensation Fund. The reserve amount for any given year shall not be less than the 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 (TPA) expenses.

All funds, including reserve amounts, contained in the Workers’ Compensation Fund shall be used exclusively for the purpose of that fund, and excess funds, whether considered reserves or otherwise, shall not be transferred to any other fund nor used for any other purpose but may be spent down within the fund to reduce future contributions by the City.

F. Stormwater Management Fund: The Stormwater Fund reserve target amount shall be calculated according to the following guidelines:

Reserve Category	Policy Calculation
Meet Cash Flow Requirements <i>(minimum working capital)</i>	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 unpredictable revenue sources <i>(maintain working capital)</i>	Maintain minimum reserve equal to 100% of current year budgeted Stormwater capital charge revenue
Provide contingencies for unpredictable revenue sources <i>(maintain working capital)</i>	Maintain reserve for potential special assessment tax delinquencies equal to one year of scheduled payments.
Provide contingencies for unpredictable expenditures and emergencies <i>(maintain working capital)</i>	Maintain minimum reserve equal to 5% of current year budgeted Stormwater Fund expenditures, excluding debt service expenditures
Meet debt service covenants/requirements <i>(fund capital asset replacement and debt retirement)</i>	Maintain minimum reserve equal to 5% of current year budgeted Stormwater Fund debt service expenditures (principal and interest amounts due on outstanding bonds and temporary notes)

The total dollar amount of the reserve target for the Stormwater Fund (which is the sum of the calculations listed in the preceding table) will vary each year according to the policy calculations. As a general guideline, the policy calculations are expected to generate a total reserve amount that ranges between 10% and 20% of budgeted annual Stormwater Fund revenues.

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

1. For one-time Stormwater expenditures such as capital purchases, studies, and payments to reduce outstanding Stormwater debt.
 2. For Stormwater capital projects.
 3. To maintain or reduce the Stormwater service charge rate.
 4. To offset the impact of economic downturns on a short-term basis (1 to 2 fiscal years).
- G. Other Budgeted Funds: The City will maintain a minimum reserve between 5% and 10% of budgeted annual revenues for the following funds:
1. Tourism and Convention Fund
 2. Special Alcohol Fund

Section GB04-A-5 PROCEDURES.

- A. Staff shall monitor the reserve amounts for the funds listed in this Policy on a quarterly basis.
- B. If the reserve amount for any of these funds falls below the minimum target amount, the City Administrator shall submit a recommended plan to the Governing Body (within 90 days of notification from the Finance Director) to rebuild the reserve amount for the given fund or funds to the minimum target amount.

Section GB04-A-6 RESPONSIBILITY FOR ENFORCEMENT.

The City Administrator shall be responsible to the Governing Body for enforcement of this Policy. The

Finance Director shall assist in the implementation of this Policy

Section GB04-A-7 REFERENCES.

No reference.