

Council Agenda Report

Date: August 22, 2016

Prepared by: Ginger Heatwole, Finance Director

Submitted by: Sandra Tripp-Jones, City Manager *STJ*

SUBJECT: Reserve Policy

Recommendation: That Council receive the draft Reserve Policy and schedule a work session on Sept. 19, 2016 to discuss the Reserve Policy.

Discussion: As part of the Council Goal Setting session in Spring of 2016, Council prioritized five areas to address, one being to strengthen the financial health of the City. A key implementation policy strengthening the financial health of the City is adopting fiscal policies. Fiscal policies guide council and management in making business and financial decisions. During the year, the City Manager and Finance Director will be bringing a number of fiscal policies to the Council for their consideration. The first of these is the Reserve Policy.

The objective of the reserve policies is to provide adequate working capital for cash flow and to maintain services during economic downturns and during natural disasters that interrupt normal City revenues, i.e., for contingency purposes. Additional reserves are maintained for unanticipated capital needs and for major capital replacements that require more funds than can reasonably be budgeted in an annual budget cycle, while maintaining reasonable tax rates.

Below are our projected reserves at 6/30/16. These are provided to see what unrestricted reserves are currently available to apply to the recommended reserves for each fund.

<u>General Fund</u>	<u>Amount</u>
Non spendable	172,733
Restricted	151,925
Committed	32,242
Assigned	957,496
Unassigned	1,906,920
<u>Sewer Fund</u>	<u>Amount</u>
Restricted	1,361,557
Unrestricted	467,302
<u>Marina Fund</u>	<u>Amount</u>
Restricted	3,107,895
Unrestricted	(14,983)
<u>MUC Fund</u>	<u>Amount</u>
Restricted	1,604,702
Unrestricted	525,747

Because a Reserve Policy is such a comprehensive and important policy, the City Manager would like to schedule a work session when the Council can address questions about the draft Reserve Policy and discuss the “big picture” concepts that guide a Reserve Policy.

The Finance Committee Chair and staff members reviewed a draft of the Reserves policy on August 11, 2016.

Approved by:

**City of Cambridge
Draft Reserve Policy
August 2016**

Reserves: The objective of the reserve policies is to provide adequate working capital for cash flow and to maintain services during economic downturns and during natural disasters that interrupt normal City revenues, i.e., for contingency purposes. Additional reserves are maintained for unanticipated capital needs and for major capital replacements that require more funds than can reasonably be budgeted in an annual budget cycle, while maintaining reasonable tax rates.

Use of Fund Balances. Available fund balances shall not be used for ongoing operating expenditures, unless a determination has been made that available balances are in excess of these reserve guidelines and that plans have been established to address any future operating budget shortfalls. Emphasis shall be placed on one-time uses that achieve future operating cost reductions. Fund balance is the cumulative years' excess or deficit of all revenues and expense. In the case of proprietary funds, this is termed unrestricted net assets. For the purposes of the budget document, revenue and expense activity includes bond proceeds and debt service.

General Fund.

Within 3 years (FY2019) the City shall maintain the following reserve threshold:

- a) A minimum unallocated General Fund balance of 10% of the following year's revenue budget amount to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs.
- b) An additional 5% working capital to provide sufficient cash flow.
- c) A minimum capital reserve for unanticipated capital expenses of \$333,000.

Within 10 years (FY2027), the City shall maintain the following reserve threshold:

- a) A minimum unallocated General Fund balance of 25% of the following year's revenue budget amount to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs. The 25% is 3 months of operating expenses that will pay help expenditures if a natural disaster or economic disaster occurs.
- b) A minimum capital reserve for unanticipated capital expenses of \$1,000,000.

Enterprise Funds.

Municipal Utilities Commission

Within 3 years (FY2019) the City shall maintain the following reserve threshold:

- a) A minimum unallocated Municipal Utilities Commission Fund balance of 10% of the following year's revenue budget amount to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs.

- b) A minimum capital reserve for unanticipated capital expenses of \$75,000.
- c) A minimum capital reserve of \$225,000 for future acquisitions and replacements of capital facilities.

Within 10 years (FY2027), the City shall maintain the following reserve threshold:

- a) A minimum unallocated Municipal Utilities Commission Fund balance of 25% of the following year's revenue budget amount to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs. The 25% is 3 months of operating expenses that will pay help expenditures if a natural disaster or economic disaster occurs.
- b) A minimum capital reserve for unanticipated capital expenses of \$250,000.
- c) A minimum capital reserve of \$750,000 for future acquisitions and replacement of large capital items and facilities.

Sewer Fund

Within 3 years (FY2019) the City shall maintain the following reserve threshold:

- a) A minimum unallocated Sewer Fund balance of 10% of the following year's revenue budget amount to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs.
- b) A minimum capital reserve for unanticipated capital expenses of \$225,000.
- c) A minimum capital reserve of \$750,000 for future acquisitions and replacement of large capital items and facilities.

Within 10 years (FY2027), the City shall maintain the following reserve threshold:

- a) A minimum unallocated Sewer Fund balance of 25% of the following year's revenue budget amount to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs. The 25% is 3 months of operating expenses that will pay help expenditures if a natural disaster or economic disaster occurs.
- b) A minimum capital reserve for unanticipated capital expenses of \$750,000.
- c) A minimum capital reserve of \$2500,000 for future acquisitions and replacement of large capital items and facilities.

Marina Fund

Within 3 years (FY2019) the City shall maintain the following reserve threshold:

- a) A minimum unallocated Marina Fund balance of 10% of the following year's revenue budget amount to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs.
- b) A minimum capital reserve for unanticipated capital expenses of \$75,000.
- c) A minimum capital reserve for future acquisitions of \$450,000 for the replacement of large capital items.

Within 10 years (FY2027), the City shall maintain the following reserve threshold:

- a) A minimum unallocated Marina Fund balance of 25% of the following year's revenue budget amount to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs. The 25% is 3

months of operating expenses that will pay help expenditures if a natural disaster or economic disaster occurs.

- b) A minimum capital reserve for unanticipated capital expenses of \$250,00.
- c) A minimum capital reserve for future acquisitions and replacements of \$1,500,000 for the replacement of large capital items.

Internal Service Funds. The appropriate balance shall be maintained to ensure adequate maintenance reserves, cash flow balancing requirements and legal restrictions.

o Self-Insurance Fund shall maintain a cash balance equal to 75% of estimated cost of a potential catastrophic event. Net assets within the fund should not fall below zero.

Using and Replenishing Reserves:

City Council Action will be required to appropriate from reserves in order to expend reserved funds.

When reserves are appropriated and the amount drops below policy thresholds, the City will strive to replenish these funds to the established policy levels within five (5) years. Year-end revenues over expenditures will be the first source of replenishment. The City Manager and City Council will consider replenishment as part of budget development and adoption as well.