

  
**REQUEST FOR COUNCIL ACTION**

Date: March 13, 2023  
Item No.: 7.a

Department Approval

*Michelle Dietrick*

City Manager Approval

*Sam J. Truog*

Item Description: Receive the 2022 Cash Reserve Fund Report and consider transfers to other funds

**BACKGROUND**

At the April 27, 2020 City Council meeting, the Operating Fund Reserve Policy was updated to reflect the new Cash Reserve Fund Policy (*Attachment A*). The policy states that excess reserves above the maximum reserve level for that specific fund (less funds needed for capital expenditures and funds received as donations) shall be placed into the Cash Reserve Fund.

**Identifying Excess Cash Reserves**

*Attachment B* shows the cash reserve levels along with the targets for each fund. In accordance with the cash reserve policy, the following amounts have been identified to be in excess of the high target reserve level for each fund. Therefore these amounts should be transferred to the cash reserve fund.

**Parks & Recreation** fund    \$20,317 above the high target range of 30%.

**Parks and Recreation** fund achieved higher than anticipated reserves as a result of higher participation in various programs than were anticipated during the budget preparation

**License Center** fund ended the year with a reserve level of 11% which is within the reserve levels for this fund of 10%-15%.

**General** Fund, exclusive of the cash reserve fund ended the year at a 36% cash reserve level which is a good financial sign. When the City's Comprehensive Annual Financial Report is prepared, the Cash Reserve Fund is rolled up with this fund, so the audit report will show a higher reserve level.

**Communications** fund ended the year with a 5% cash reserve level which is less than the minimum reserve of 10%. The fund experienced unanticipated unemployment expenses which caused the expenditures to exceed the budget. In keeping with past practice, the amount of \$31,436 should be transferred from the excess cash reserve fund to achieve the minimum reserve level.

**Information Technology** fund ended the year with a .39% cash reserve level, which is below the minimum of 10%. This is a result of the change in market value adjustment at year end which was a negative impact of \$101,916 to this fund. The information technology function has changed, it is now a contractual service. This fund will be closed out during the 2024 budget process into the Administration Division of the General Fund. As a result of this change, we do not recommend a transfer from the excess cash reserve fund.

35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64

Information about other city fund balances will be included as part of the audit presentation in June.

**Financial Sustainability Impacts**

As noted last year, the COVID-19 pandemic demonstrated why the City has reserves and the impacts that can occur from unforeseen events. The fund balance policies are set up to address such unforeseen situations. Based on reserve fund policies and operational needs, staff recommends that the following amounts should be transferred to and from the cash reserve fund, for a net of \$11,119:

- \$20,317 from Parks & Recreation fund to the cash reserve fund
- (31,436) from the cash reserve fund to the Communications fund.

Net transfers (\$11,119)

**POLICY OBJECTIVE**

It is recommended that the City adhere to its established fund reserve policies both in the movement of excess cash reserves and in the maintenance of minimum balances

**BUDGET IMPLICATIONS**

See above.

**RACIAL EQUITY IMPACT SUMMARY**

There is no direct equity impact to the fund transfers recommended in this staff report.

**STAFF RECOMMENDATION**

Staff recommends the City Council receive the 2022 Cash Reserve Fund report showing the transfer of in of \$20,317 and the transfer out of \$31,436 for a net transfer of \$11,119 from the Cash Reserve Fund and make a motion authorizing those transfers.

**REQUESTED COUNCIL ACTION**

Motion to receive the 2022 Cash Reserve Fund report showing the transfer of \$20,317 from the Parks & Recreation fund to the Cash Reserve Fund and a transfer of \$31,436 to the Communications fund from the Cash Reserve Fund.

Prepared by: Michelle Pietrick, Finance Director  
Attachments: A: Operating Fund Reserve Policy  
B: Cash Reserve Fund Levels as of 12/31/22

# Operating Fund Reserve Policy

Revised September 20, 2021

## Purpose

- To provide a cushion against unexpected revenue and income interruptions
- To provide working capital by ensuring sufficient cash flow to meet the City's needs throughout the year
- To provide funds to address unexpected or unplanned events

## Policy

- The City will maintain a general fund reserve of 35-50% of the general fund's total annual operating budget. This ensures that the City has adequate funds on hand to provide for operations between bi-annual property tax collection periods. Any surplus beyond the required general fund reserve may be transferred to another reserve fund with a funding shortfall.
- The City will strive to create a reserve in the Recreation Fund of 20-30% of the annual recreation budget. This reserve will provide a cash flow cushion to cover operations between bi-annual property tax collections and the fluctuation in charges for services revenues during the year. Because of more frequent cash inflows during the year, a 20-30% reserve will be adequate to support the daily cash needs of the fund.
- The Community Development Fund is supported solely by building permit fees and charges. Because the economic environment has a major effect on this Fund, a fund balance of 25-50 % of the annual budget is a reasonable target. It is expected that as economic downturns take place, this reserve will provide for a transition period during which the Council will be able to assess and to better match operations with the economic need.
- City enterprise funds shall have operating cash reserves sufficient to provide for monthly cash flow, and for a reasonable level of equipment and infrastructure replacement. Major reconstruction or system upgrades, may need to be funded from enterprise revenue bonds. Annual utility rate reviews will be made in regard to projected operating expenses and capital improvements. The Council will, on an annual basis, establish rates in accordance to operating cost recovery and the projected capital improvements. Based on consulting other cities, a minimum cash reserve level of 25% of the operating budget is a target that the City of Roseville will strive to maintain, though major capital projects may cause periodic deviations from this reserve level.
- The Communications Fund had greater cash flow variability in prior years and now receives a small amount of property tax levy support It is expected to operate with reserve balances of 10-30% of the annual operating budget.
- The License Center fund has consistently demonstrated strong cash flows which allowed for a lower overall reserve level. Based on the experiences of 2020, these fund reserves may need to be increased in the future. At this time the License Center fund will operate with balances of 10-15%of the annual operating budget.

## Operating Fund Reserve Policy

Revised September 20, 2021

- The Information Technology fund will operate with positive reserve balances of 10-15% which will eventually be eliminated once Metro Inet is fully established at which time, the IT function will simply be a division of the General Fund.
- Capital Project funds are identified in the Capital investment policy. Annual property tax levies supply funding for the various projects and fund balances increase over time to pay for equipment and infrastructure projects, the balances then drop and rebuild over time to cover the next projects.
- For the EDA, its General Operating Fund should maintain a reserve level of 35% of the annual budget to ensure that it has sufficient funds to provide for operations in-between property tax collection periods.
- In the event the minimum fund balance drops below prescribed levels, the City shall dedicate new incoming property tax or program revenues (where applicable) in an amount sufficient to bring fund balance levels back into compliance within three fiscal years.
- Unless otherwise directed by the City Council, monies held in individual Funds shall be expended first from restricted fund balances, second from committed fund balances, then from assigned fund balances, before using unassigned fund balance.

### Implementation

All fund reserves shall be reviewed each year at the time of the annual budget preparation and at the annual audit for the purpose of complying with this policy. Budgets shall be prepared on an "All Resources" basis, so that the City Council and Community can readily discern the current and projected management of all reserves.

If aggregate unrestricted reserves in the tax-supported operating funds are outside of targeted goals, the Council is advised to create a plan to get reserves into targeted goal ranges by committing reserve funds, using aggregate excess reserves to reduce the levy, or making appropriate budget or tax levy adjustments. With the creation of the Cash Reserve Fund, certain funds will have their reserves swept if they exceed the high target range, see the next section.

### Cash Reserve Fund

The City has established a Cash Reserve Fund that will take the excess cash reserves from selected funds that are over the maximum reserve levels as defined under this policy, less funds needed for capital expenditures or funds donated to the City. The following funds are subject to the Cash Reserve Fund policy:

- General Fund (unrestricted portion)
- Parks and Recreation Fund
- Communication Fund
- Information Technology Fund
- License Center



# Operating Fund Reserve Policy

Revised September 20, 2021

As part of the annual audit, the excess funds above the maximum reserve level at December 31 of the previous year (less funds needed for capital expenditures and funds donated to these accounts) shall be transferred to the Cash Reserve Fund before the books are closed for that particular year. The funds transferred to the Cash Reserve Fund shall be tracked on an annual basis and reported to the Finance Commission and approved by the City Council by April of the subsequent year.

Any expenditures from the Cash Reserve Fund must be authorized by the City Council.

**City of Roseville**Cash Reserve Levels: Unrestricted Operating Funds

12/31/22 Cash Reserves Updated 1/27/23

**Cash Reserve Levels: *Unrestricted* Operating Funds**

	12/31/2022			12/31/2022 Reserve Level	2023		12/31/2021		12/31/2021		Variance from Low Target	Variance from High Target
	12/31/2022 Cash Reserves	Less From Donations	12/31/2022 <i>Available</i> Cash Reserves		Operating Budget	Target Low	Target High	12/31/2021 <b>Low</b> Target Reserve Level	12/31/2021 <b>High</b> Target Reserve Level			
<b><u>Operating Fund</u></b>												
General: Primary	\$ 7,579,560	\$ (80,708)	\$ 7,498,852	36%	\$ 20,713,235	35%	50%	\$ 7,249,632	\$ 10,356,618	\$ 249,220	\$ (2,857,766)	
(1) General: Cash Reserve Fund	647,312	-	647,312									
Parks & Recreation	2,042,694	(328,085)	1,714,609	30%	5,647,640	20%	30%	1,129,528	1,694,292	585,082	20,317	
Communications	26,103	-	26,103	5%	575,390	10%	30%	57,539	172,617	(31,436)	(146,514)	
(2) Information Technology	3,375	-	3,375	0.39%	857,141	10%	15%	85,714	128,571	(82,339)	(125,196)	
License Center	248,211	-	248,211	11%	2,194,830	10%	15%	219,483	329,225	28,728	(81,014)	

(1) See analysis below

(2) This fund will be folded into the Administration department within the General Fund so no transfer from the cash reserve fund is recommended at this time.

**Cash Reserve Fund 105****2018 Approved Transfers:**

From Parks & Rec	635,000
From IT	170,000
From License Center	81,000
To General Fund	0
12/31/2018 Balance	<u>886,000</u>

**2019 Approved Transfers:**

From Parks & Rec	169,985
From Communications	124,947
From IT	234,924
From License Center	249,140
To General Fund	(918,583)
2019 Interest Revenue	10,084
12/31/2019 Balance	<u>756,497</u>
2020 Interest Revenue	6,323
Authorized use: Equity Consultant	(100,000)

**2020 Approved Transfers:**

To License Center-minimum balance	(354,958)
To Parks & Rec	(235,798)
From IT	193,990
12/31/2020 Balance	<u>266,054</u>
2021 Interest Revenue	1,070

**2021 Approved Transfers:**

From Parks & Rec	79,662
From IT	360,160
12/31/2021 Balance	<u>706,946</u>
2022 Interest Revenue	(59,634)

**2022 Transfers:**

From Parks & Rec	20,317
To Communications	(31,436)
	<u>636,193</u>