

# Memo

**To:** Roseville Finance Commission  
**From:** Patrick Trudgeon, City Manager  
**Date:** January 14, 2020  
**Re:** Item #6: Discussion on Establishing a Cash Reserve Fund Policy

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## Background

At the September 19, 2019 City Council joint meeting with the Finance Commission, the Council asked the Commission to create a policy regarding the mechanisms around the sweeping excess cash reserves from selected funds to a separate Cash Reserve Fund. As a reminder, here are the funds that are subject to the Cash Reserve Fund policy and suggested reserve levels.

Operating Funds	Target Low	Target High
General (unrestricted)	35%	45%
Parks and Recreation	25%	25%*
Communications	10%	30%
Information Technology	10%	15%
License Center	10%	15%

\*The target low and high for the Parks and Recreation is currently being considered changed to 15% to 25%.

At the November 12, 2019 meeting, staff presented potential language to include in the City's current Operating Reserve Policy. The new language describes the new Cash Reserve Fund and lists the funds that are subject to having excess reserves removed and placed into the Cash Reserve Fund. The policy also states that excess reserves above the maximum reserve level for that fund (less funds needed for capital expenditures and funds received as donations) shall be placed into the Cash Reserve Fund. The transfer of funds would then be reported to the Finance Commission and City Council. Under the policy, any expenditures from the Cash Reserve Fund must be authorized by the City Council.

The Finance Commission had some clarifying language changes regarding the timing of determining the amount of excess funds and the use of utilizing reserves which are highlighted in yellow in the policy.

The revised Operating Fund Cash Reserve Policy is included as *Attachment A* and is now ready for consideration of a recommendation to the City Council.

## Operating Fund Reserve Policy

### 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 35-45% 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 to equal 25% of the annual recreation budget. This reserve will provide a cash flow cushion and reduce the inter-fund borrowing expense to the Recreation Fund. Because of more frequent cash inflows, a 25% 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
- The Communications Fund has greater cash flow variability than in prior years and therefore warrants a higher reserve level than previously established. It is expected to operate with balances of 10-30% of the annual operating budget
- The License Center and Information Technology funds have consistently demonstrated strong cash flows which allows for a lower overall reserve level and are expected to operate with balances of 10-15% of the annual operating budget

- All other operational funds are expected to operate with positive reserve balances of 10-25% of the annual operating budget. Each operational fund shall be reviewed on an annual basis to assure the fund balance is in line with the fund's objectives
- 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 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.

### 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

On March 1 of each year, 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. This information should be then be presented to the Finance Commission and City Council for their information.

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