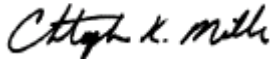



REQUEST FOR COUNCIL ACTION

Date: **9/24/2018**
Item No.: **7.g**

Department Approval



City Manager Approval



Item Description: Consider Adopting a Revised Operating Fund Reserve Policy

BACKGROUND

Earlier this year the City Council, acting as the EDA, expressed an interest in incorporating a cash reserve target level for the EDA’s primary operating fund (i.e. the EDA General Fund) into the broader City Operating Fund Reserve Policy.

Beginning a few years ago, City Staff advocated for a year-end cash reserve target of 35% for the EDA General Fund. The 35% target amount was based on the Fund’s cash flow needs which were primarily funded by the property tax levy – a source received only twice per year.

At the time, it was acknowledged that a reserve level of this amount might be more than what was needed if the Fund’s financial activities were limited to ‘normal’ recurring expenses from month to month. However, a stronger reserve level would be needed if special initiatives or one-time projects were planned for the first six months of the year. Given that the EDA and Council have expressed some interest in expanding the EDA’s activities which may require broader cash-flow flexibility, Staff recommends that the 35% target level remain in place.

In addition, on September 17, 2018 the Council received a recommendation from the Finance Commission to adjust the targeted reserve levels for selected funds to more accurately reflect cash-flow needs throughout the year. The recommended changes included:

- Increase the targeted *high* reserve amount in the Communications Fund from 25% to 30%.
- Decrease the targeted high reserve levels in the Information Technology and License Center funds from 25% to 15%

A revised Operating Fund Reserve Policy in markup fashion is included as an appendix to a resolution to adopt the changes (*Attachment A*).

POLICY OBJECTIVE

The City’s financial policies are consistent with governmental finance best practices as well as previously-adopted Council actions.

FINANCIAL IMPACTS

Not applicable.

32 **STAFF RECOMMENDATION**

33 Not applicable.

34 **REQUESTED COUNCIL ACTION**

35 If desired, motion to approve the attached resolution adopting a revised Operating Fund Reserve Policy.

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Prepared by: Chris Miller, Finance Director

Attachments: A: Resolution Adopting a Revised Operating Fund Reserve Policy

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**EXTRACT OF MINUTES OF MEETING OF THE
CITY COUNCIL OF THE CITY OF ROSEVILLE**

* * * * *

Pursuant to due call and notice thereof, a regular meeting of the City Council of the City of Roseville, County of Ramsey, Minnesota was duly held on the 24th day of September 2018 at 6:00 p.m.

The following members were present:
and the following were absent:

Member introduced the following resolution and moved its adoption:

RESOLUTION _____

**RESOLUTION AMENDING THE OPERATING FUND RESERVE POLICY
FOR THE CITY OF ROSEVILLE**

WHEREAS, the City Council of the City of Roseville, Minnesota desires to establish budget and financial policies that provide for the sustainability of City programs, services and infrastructure; and

WHEREAS, the City Council of the City of Roseville, Minnesota desires to maintain the City’s strong financial condition; and

WHEREAS, the City Council of the City of Roseville, Minnesota desires to provide appropriate fiscal and budgeting controls.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Roseville, Minnesota, that the Operating Fund Reserve Policy included in Appendix A be adopted and remain in effect until such time that a subsequent policy action is taken.

The motion for the adoption of the foregoing resolution was duly seconded by member and upon a vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

WHEREUPON, said resolution was declared duly passed and adopted.

State of Minnesota)
) SS
County of Ramsey)

86 I, undersigned, being the duly qualified City Manager of the City of Roseville, County of Ramsey, State
87 of Minnesota, do hereby certify that I have carefully compared the attached and foregoing extract of
88 minutes of a regular meeting of said City Council held on the 24th day of September, 2018, with the
89 original thereof on file in my office.

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91 WITNESS MY HAND officially as such Manager this 24th day of September, 2018.

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Patrick Trudgeon
City Manager

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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.

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 e.g. License Center, Information Technology, etc. 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.

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- 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.