

Memo

To: Roseville Finance Commission
From: Michelle Pietrick, Finance Director
Date: April 13, 2021
Re: Item #6: Review 2020 year-end cash reserve levels

Background

At the March 22, 2021 City Council meeting the 2020 year-end cash reserves report was presented which showed 2 funds below the low target level and 1 fund over the high target level. The City's Operating Fund Reserve 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 Council approved the follows transfers to and from the cash reserve fund.

From Information Technology	\$193,990
To Parks & Recreation	(\$235,798)
To License Center	(\$354,958)
Net Transfers from the Cash Reserve Fund	(\$396,766)

The Cash Reserve Fund had a balance of \$266,054 after these transfers were approved.

The General Fund, exclusive of the cash reserve fund ended the year at a 44% 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.

Fund Reserve Levels

Parks & Recreation – Finance Commission had recommended a range of 15-25% and the Parks & Rec Commission recommended the target remain at 25%. The Council has not formally reviewed and acted on the recommendations from the Commissions so they have asked that this be brought back as a formal request with analysis.

Staff had requested allowing the IT fund to retain the extra 6% in case there were unforeseeable costs associated with the creation of the standalone Metro-Inet entity. The Council followed policy and transferred the excess cash reserve from IT.

The License Center fund showed a deficit reserve of -10%. The Council did approve a transfer from the excess cash reserve fund to bring the License Center fund to the minimum reserve level.

Requested Commission Action

For information purposes only. Finance Commission is asked to discuss and confirm the recommended cash reserve levels for the Parks & Recreation fund.

Prepared by: Michelle Pietrick, Finance Director
Attachments: A: Operating Fund Cash Reserve Policy updated 4/27/2020
B: 2020 Year-end Fund Balance Reserves

Operating Fund Reserve Policy

Revised April 27, 2020

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
- 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.

Operating Fund Reserve Policy

Revised April 27, 2020

- 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 April 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. The funds transferred to the Cash Reserve Fund shall be tracked on an annual basis and reported to the Finance Commission and City Council.

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

City of Roseville

Cash Reserve Levels: Unrestricted Operating Funds

12/31/20 Cash Reserves Updated 3/12/2021

Cash Reserve Levels: *Unrestricted* Operating Funds

<u>Operating Fund</u>	12/31/2020	Less	12/31/2020	12/31/2020	12/31/2020	12/31/2020	2021	Target	Target	12/31/2020	12/31/2020
	Cash	From	<i>Available</i> Cash	Reserve	Amount	Amount	Operating Budget	Low	High	Low Target Reserve	High Target Reserve
	<u>Reserves</u>	<u>Donations</u>	<u>Reserves</u>	<u>Level</u>	<u>Target %</u>	<u>Target %</u>				<u>Level</u>	<u>Level</u>
(1) General: Primary	\$ 7,982,338	\$ (60,445)	\$ 7,921,893	44%	\$ -	\$ -	\$ 18,022,285	35%	45%	\$ 6,307,800	\$ 8,110,028
(2) General: Cash Reserve Fund	762,820	-	762,820								
Parks & Recreation	1,377,964	(311,654)	1,066,310	20%	-	235,798	5,208,430	25%	25%	1,302,108	1,302,108
(3) Communications	125,072	-	125,072	28%	-	-	452,161	10%	30%	45,216	135,648
(5) Information Technology	695,366	-	695,366	21%	193,990	-	3,342,506	10%	15%	334,251	501,376
(4) License Center	(175,683)	-	(175,683)	-10%	-	354,958	1,792,750	10%	15%	179,275	268,913
					\$ 193,990	\$ 590,756					

- (1) Unrestricted cash only
- (2) See separate analysis
- (3) The Communications Fund capital outlay was moved in 2020 to the facilities replacement fund.
- (4) This fund is in a deficit situation that needs action
- (5) Excludes capital outlay - accounted for in a separate fund

Cash Reserve Target Levels

<u>Operating Fund</u>	Target <u>Low</u>	Target <u>High</u>		
General (unrestricted portion)	35%	45%		
Parks & Recreation	25%	25%		
Communications	10%	30%	Target High revised from 25% to 30%	See 9/24/2018 RCA
Information Technology	10%	15%	Target High revised from 25% to 15%	See 9/24/2018 RCA
License Center	10%	15%	Target High revised from 25% to 15%	See 9/24/2018 RCA

Percentages reflect the amount of cash holdings relative to the operating budget

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)
To General Fund	
2019 Interest Revenue	<u>10,084</u>
12/31/2019 Balance	<u>756,497</u>

2020 Interest Revenue	6,323
Authorize use: Equity Consultant	<u>(100,000)</u>
12/31/2020 Balance prior to adjustments	662,820

Council approved transfers:

To License Center-minimum balance	(354,958)
IF IT range isn't changed-trf In	193,990
IFParks & Rec range isn't changed	<u>(235,798)</u>

12/31/2020 Cash Reserve Balance **266,054**