

ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: September 20, 2021
Item No.: 7.a

Department Approval



City Manager Approval



Item Description: Receive Finance Commission recommendations on the 2022 City Manager recommended budget, tax levy, 2022-2041 CIP and Revised Operating Fund Reserve Policy

BACKGROUND

The Finance Commission reviewed the 2022-2041 Capital Improvement Plan and the 2022 City Manager recommended budget & tax levy at their meetings over the past few months. The Commission's findings and recommendations are highlighted below.

2022 City Manager Recommended Budget & Tax Levy

After reviewing the 2022 City Manager Recommended Budget & Tax Levy at their August and September meetings, the Finance Commission unanimously recommends approving the 2022 Budget & Tax levy as proposed. A member of the Finance Commission will provide information about the discussion.

2022-2041 Capital Improvement Plan and Funding Strategies

The Finance Commission had a discussion on the 2021-2040 Capital Improvement Plan (CIP) at their June July meetings. The Finance Commission unanimously approved the 2022-2041 CIP with the funding strategies outlined as previously submitted to the City Council. A member of the Finance Commission will provide information about the discussion.

Revised Operating Fund Reserve Policy

The Finance Commission had discussions on cash reserve levels and the Operating Fund Reserve policy at their July and August meetings. The initial discussion started with their prior recommendation of a reserve range for the Recreation Fund. The commission decided to review the entire Operating Fund Reserve Policy and is recommending the following changes.

- General Fund reserve of 35-45% is recommended to change to 35-50%
- Recreation Fund reserve range recommended is 15-25% from the flat 25%
- Enterprise Funds recommending a minimum cash reserve level of 25% of the operating budget
- Wording changes to the Communications, License Center and Information Technology funds, no change in reserve levels

Attachment A is the redlined version of the Operating Fund Reserve Policy with the changes recommended by staff and the Finance Commission.

A member of the Finance Commission will be in attendance at the meeting to present their findings and recommendations.

34 **POLICY OBJECTIVE**

35 See above.

36 **FINANCIAL IMPACTS**

37 Not applicable.

38 **STAFF RECOMMENDATION**

39 Staff recommends approving the revised Operating Fund Reserve Policy.

40 **REQUESTED COUNCIL ACTION**

41 The Council is asked to receive the findings and recommendations on the 2022 Budget, tax levy and
42 2022-20141 CIP from the Finance Commission. The Council is asked to approve the revised Operating
43 Fund Reserve Policy.

44

Prepared by: Michelle Pietrick, Finance Director
Attachments: Revised Operating Fund Reserve Policy

Operating Fund Reserve Policy

~~Revised April 27, 2020~~ Revised August 25, 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-~~45~~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 ~~to equal of 15-25%~~ 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 and reduce the inter-fund borrowing expense to the Recreation Fund. Because of more frequent cash inflows during the year, a 15-25% 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. 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 ~~s~~ greater cash flow variability ~~than~~ in prior years and now receives a small amount of property tax levy support and therefore warrants a higher reserve level than previously established. It is expected to operate with reserve balances of 10-30% of the annual operating budget.
- The License Center ~~and Information Technology~~ funds ~~have~~s consistently demonstrated strong cash flows which allow ~~eds~~ for a lower overall reserve level. Based on the experiences of 2020,

Operating Fund Reserve Policy

~~Revised April 27, 2020~~ Revised August 25, 2021

~~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% and are expected to operate with balances of 10-15% of the annual operating budget.~~

- ~~▪ 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. 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.~~
- 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:

Operating Fund Reserve Policy

~~Revised April 27, 2020~~ Revised August 25, 2021

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

As part of the annual audit~~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 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.