



Cash Reserves Balance and Replenishment Policy **Fund Balance** **Reserve Policy**

Introduction:

The City of Salida (the City or Salida) uses an accounting structure consisting of ~~five~~ eight funds for different aspects of its operations, each with varying needs and risks that influence the amount of cash needed for responsible fiscal management. The purpose of this policy is to define the level of ~~cash available reserves~~ to be held in each fund. It is essential that governments have a level of savings sufficient for operating cash flow, to provide a backup for revenue shortfalls, to mitigate against uncontrollable costs and a variety of other current and future risks, and to help ensure stable rates for taxpayers and ratepayers. Fund balance levels are a crucial consideration in long-term financial planning. This policy also recognizes that, while reserves provide the City Council with the ability to respond to and safeguard from uncertainty and risk, excessive reserves could be used for additional services or even result in the reduction of taxes or fees. The types of holdings, uses allowed for reserves, and the replenishment strategy are addressed in the policy, as well.

Included in the total fund balance are amounts that are either Nonspendable, Restricted, Committed, Assigned, or Unassigned. These classifications, as defined in GASB Statement 54, comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints for the specific purposes that amounts can be spent in the governmental funds. This policy establishes appropriate levels of reserves ~~on a cash basis for each fund within the City's operations, recognizing the timing differences between fund balance and cash reserves and for the categories of reserves that are available to the City for unrestricted spending in the budget (Committed, Assigned and Unassigned categories).~~ †The unique needs and differing situations for the various funds are considered.

Scope:

This policy applies to all City funds used for accounting purposes – General Fund, ~~Lodging Tax Fund, Capital Improvement Fund, Streets Fund, Economic Development Fund,~~ Conservation Trust Fund (CTF), ~~SteamPlant Event Center (SteamPlant) Fund~~ and the Water System and Wastewater System (the latter two legally comprising the Water Activity Enterprise Fund, but managed as two separate funds).

Background:

As a reference, the Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months (17%) of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances. Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time.

In determining the appropriate level of ~~cash reserve~~ balances for the City, the most important factors were deemed to be the normal operating cash flow cycle, risks of revenue shortfalls, and planned capital spending for each fund. Certainly, the governing body and financial officer should take into consideration planned spending and economic factors in managing reserves at any point in time; however, these factors will change from time to time.

- The primary revenue sources for the General Fund, Lodging Tax Fund, Capital Improvement Fund, Street Fund and Water System and Wastewater System are monthly, with significant seasonality. The revenue source for the CTF is quarterly lottery distributions from the

state (received in March, June, September, December) and does not vary with different seasons. ~~The SteamPlant's revenue stream is event dependent with fairly low seasonal fluctuations.~~

- Sales tax is the most significant revenue source in the General Fund and is disbursed through the state on or about the 10th of the second month following the month such revenue was generated. (For example, collections for the month of January are received by March 10th.) This revenue source is highly subject to fluctuation based on economic conditions. In addition, sales tax is highly dependent on ~~one business located in the City limits~~ the retail business sector. Over 30% of the annual revenue is generated during the summer season (June, July, August), and monthly revenue in the “off season” can be 40% less than during the summer.
- Water and Wastewater bills are due on the 20th of the month following the month services are provided to customers. Revenue is greater during the summer months when customers are irrigating outdoors and using more water. In addition, part-time residents and visitors in summer months drive greater water usage (and revenue) during the summer. In addition to seasonality, revenue is influenced by the amount and timing of rain.
- Operating expenditures are somewhat influenced by seasonality in ~~the General~~ all funds that have operating expense, with expenses generally peaking in July. Fund but not in the Water System or Wastewater System. In the SteamPlant Fund, operating expenditures have some variability correlated to the timing of events. No funds have extremely volatile operating expenditures.
- Capital expenditures are one-time in nature and, therefore, timing is less routine. Although a less predictable cycle exists for timing of expenditures from one year to the next, seasonality does influence infrastructure projects particularly in ~~the General Fund~~ the Streets and Utility Funds. (For example, asphalt plants are closed during the winter months making paving projects infeasible.) Also, the reimbursement cycle for any grant funded capital projects should be considered.
- Risks of natural disasters include fires, floods and major snow events and would, most likely, have the greatest impact on the general and streets fund due to emergency response duties and public infrastructure that could be damaged.
- When the City is planning to issue debt in the relatively near future, credit rating agency guidelines should also be considered in the level of reserves being held.

Policy:

The following fund balance / reserve levels are established for the unique needs and differing situations of each of the various funds.

~~Cash Reserve Levels~~

Fund	Reserve Policy Description	Allowable use
General	Minimum available fund balance of 25% of previous year's operating expenditures. Amount may be modified by council upon analysis of trends and forecast along with any likely or known factors that would reduce the City's revenue.	No restrictions

Tabor Emergency Reserve	The Tabor emergency reserve is defined by statute and is 3% of fiscal year spending excluding bonded debt service across all non-enterprise funds.	Can be spent on any declared emergency excluding economic conditions, revenue shortfalls, or salary or fringe benefit increases.
Lodging Tax Fund	No minimum reserve is required. These funds can be spent for allowable purposes to a zero balance annually. Spending it typically a transfer to the General Fund.	Can be transferred to the general fund to support capital improvements and operations for parks and recreation and arts facilities in the City.
Capital Improvement Fund	No minimum reserve is required. Long range capital plans should be considered and reserves should be built up as necessary when possible to fund future needs.	Can be spent on acquiring or constructing any improvement or for acquiring land or equipment as well as costs associated with issuing bonds.
Streets	Minimum available fund balance of 25% of previous year's operating expenditures. Amount may be modified by council upon analysis of trends and forecast along with any likely or known factors that would reduce the City's revenue. It is possible that this fund balance could grow as funds are saved up for large maintenance projects.	Must be spent on Street Fund related activities
Economic Development	Minimum available fund balance of 25% of previous year's operating expenditures.	Can be spent on City Council approved Economic Development purposes
Conservation Trust	No minimum reserve is required. These funds can be spent for allowable purposes to a zero balance annually but funds can also be kept in reserve to grow to a sufficient level for larger one time project needs.	For acquisition, development, and maintenance of new conservation sites or for capital improvements or maintenance for recreational purposes on any public site.

Water & Wastewater	A minimum available fund balance of 25% of previous year's operating expenditures should be maintained for operating. For capital, reserves should accumulate for future debt service payments and in anticipation of future capital needs.	All activities of the water and wastewater systems
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Type of Fund	Balance	Allowable Use
General Fund:		
Unassigned	Maintain a balance of 10-20% of annual operating expenditures, including operating transfers to the Steam Plant Fund. Economic trends and forecasts should be considered along with any likely or known factors that would reduce the City's revenue.	No restrictions
Capital	In general, there is no minimum reserve requirement. These funds can be spent to a zero balance annually. However, the balance should never be less than the	Capital expenditures as defined in the Salida Municipal Code and / or

	total of cash collected but not yet spent that are restricted for a specific purpose (i.e. bond proceeds, grants, donations) and long-range capital plans should be considered. A minimum balance of \$500,000 is targeted to ensure critical projects have funding to proceed.	generally accepted accounting policies.
Fees in Lieu of Open Space	In general, no minimum reserve is required. These funds can be spent to a zero balance annually. However, funds should never be less than the total of cash collected but not yet spent for allowable purposes.	Acquisition or improvement of parks, trails or open space.
Contingency	15% of the operating budget pursuant to SMC 4.3-50(a)(3).	Can be utilized by the city council to cover unbudgeted, unforeseen reductions in revenue collections or unusual expenditures outside the
TABOR Emergency	3% of fiscal year spending, excluding bonded debt service.	scope of normal operations. Defined by TABOR as any emergency excluding economic conditions, revenue shortfalls, or salary and fringe benefit increases.
Conservation Trust Fund	In general, no minimum reserve is required. These funds can be spent for allowable purposes to a zero balance annually.	Parks, recreation and open space purposes.
Proprietary Funds— Water and Wastewater Systems	For Operations, maintain a balance of 25-35% of annual operating expenditures. For Capital, reserves should accumulate for future debt service payments and in anticipation of future capital needs, but Capital Reserves may be spent to a zero balance annually if deemed appropriate. A minimum balance of \$400,000 or 50% of the average 10 year capital improvement plan requirement is targeted in each fund to ensure critical projects have funding to proceed. Separate accounts are not required for different components of the reserve balance. Note that a portion of operating revenues may be used for Capital on an annual basis as current customers have an obligation for future capital improvements and replacements.	All activities of the water and wastewater systems including, but not limited to, collection, treatment, measurement, monitoring, distribution and discharge of water / wastewater and related administration.
Steam Plant Event Center	In general, no minimum reserve requirements. Annual operating expenditures should be included in the calculation of the amount of unrestricted General Fund reserves.	Activities of the theater and event center.

Allowable holdings

Cash or cash equivalents comprise the majority of fund balance.

Investments in financial instruments allowable under Colorado statutes are acceptable for reserves when there is a high likelihood no use of such investments will be needed until after the maturity date.

Allowable Use of ~~Cash~~ Reserves

Justification for dropping below target levels. As described in the introduction of this policy, reserves are established for a variety of reasons as a safeguard from certain types of financial risks and to provide stability for our constituents. Therefore, the occurrence of one or more of the factors from which the reserves are intended to insulate the City would justify their use. Reserves should not be used to fund normal operations.

Unrestricted funds could be used for operating needs should one or more of the situations described in this policy occur:

- Unexpected revenue shortfall
- One-time expenditures outside the scope of normal on-going operations
- Unusual operating cash flow needs, such as pending collection of a large grant receivable (ie. timing difference between ~~accrual based and cash based accounting~~use of fund and collection of revenue)

Budgeted operating expenditures should not exceed the current revenue sources. Should such a shortfall occur due to unexpected circumstances, changes in the operating cost structure shall be implemented no later than in the next annual budget or, if the event triggering the shortfall occurs after the proposed annual budget has been presented to the City Council, in the subsequent annual budget.

~~Time frame for using reserves. Generally, the spending of reserves to balances less than target levels should be contained as much as possible as additional and ongoing cash needs are monitored.~~

~~Adjustments to other expenditures. Staff shall review all planned expenditures to identify potential cost savings and purchases that can be deferred without serious adverse implications.~~

Replenishment

Should the cash reserves balances fall below the required level, the following guidance shall be followed to replenish the balance. As a financial management priority, it shall be the City's intent to replenish fund balances as soon as economic conditions allow, generally within one to three years.

Any non-recurring revenues or budget surpluses may be used to replenish reserves. ~~In the General Fund, sales taxes may be committed by the council during the annual budget process.~~ In addition, operating expenditures should be controlled and capital projects may need to be deferred to replenish reserves.

Definitions:

Capital Assets. Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in the operations and that have initial useful lives extending beyond a single reporting period.

~~Cash Equivalents. Short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.~~

Fund Balance. Difference between assets and liabilities reported in a governmental fund. Serves as a measure of the financial resources available in a government fund.

GASB. Governmental Accounting Standards Board.

~~Reserved fund balance. Portion of a governmental fund's net assets that is not available for appropriation.~~

TABOR. Taxpayer's Bill of Rights, which was approved by voters in November 1992 and enacted to reduce government growth by limiting spending, revenues and debt through an amendment to the State Constitution Article X, Section 20.

~~Unrestricted Fund Balance. Resources without a constraint on spending or for which the constraint on spending is imposed by the government itself.~~

Approvals:

Date	Name	Signature
09/18/2015	Jan Schmidt, Finance Director	/s/ Jan Schmidt
09/18/2015	Dara MacDonald, City Administrator	/s/ Dara MacDonald

Revision History:

Version	Date Revised	Reason for Change