City of Fort Worth
Department of Finance
Internal Service Fund Reserve Policy
Non-Insurance Funds

I. Authority:

The Fort Worth City Council is responsible for legislation, policy formulation, and overall direction setting of the government. This includes the approval of financial policies which establish and direct the operations of the City of Fort Worth. The City Manager is responsible for carrying out the policy directives of the City Council and managing the day to day operations of the executive departments, including the Department of Finance. This policy shall be administered on behalf of the City Manager by the Chief Financial Officer/ Director of Finance.

II. Purpose:

The City desires to maintain a prudent level of financial resources to guard its stakeholders against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenses. In addition, this policy is intended to document the appropriate Reserve level to protect the City's credit worthiness and provide adequate cash flow based upon the traditional operating cycle. The Internal Service Fund Reserves (for non-insurance funds) are accumulated and maintained to provide stability and flexibility to respond to unexpected adversity and/ or opportunities and to minimize the costs associated with short-term cash borrowing.

This policy establishes the amounts the City will strive to maintain in its Non-Insurance Internal Service Fund Reserve, how the Reserve will be funded, and the conditions under which the Reserves may be used.

III. Applicability and Scope:

This policy shall apply to all Non-Insurance Internal Service Funds under the budgetary and fiscal control of the City Manager and the City Council.

IV. Glossary - See definitions related to this policy provided in the appendix

V. Related Documents and References:

A. Operating and Capital Budget Policy
B. Long-Term Financial Planning Policy
C. Capital Asset Investment and Management Policy

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VI. Policy:

Reserve Levels- The City will maintain the following minimum reserve levels in all Non-Insurance Internal Service Insurance Funds:

1. A minimum level of Working Capital in Non-Insurance Internal Service Funds equivalent to three percent (3%) of regular, on-going operating expenses (including transfers out). This calculation does not include non-recurring items.

2. In addition, no Internal Service Fund shall have a negative Unrestricted Net Position.

VII. Monitoring Performance

A. The City will measure its compliance with this policy on an annual basis as of September 30th each year or as soon as practical after final year-end account information becomes available. During the course of the fiscal year the Department of Finance shall closely monitor the City's revenues and expenses to ensure Reserves are not used beyond any planned usage.

B. If, based on staff's analysis and forecasting, the target level of Reserves is not met at fiscal year-end or is not likely to be met at any point within a five-year time horizon, then during the annual budget process a plan to replenish the Reserve levels will be developed by collaboration among affected departments and the Department of Finance based on the requirements outlined in this policy.

C. Funding the Reserve- Funding of internal service Reserve targets will generally come from excess revenues over expenses or one-time revenues.

D. Periodic Review of the Targets – At a minimum, during the annual financial planning/budget process staff shall review the current and five-year projected Reserves to ensure that they are appropriate given the economic and financial risk factors the City is subject to.

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VIII. Pooled Cash

Cash Balance- In order to provide liquidity adequate to meet the needs and demands of providing government services including unanticipated reductions in revenues or unplanned increases in expenses, Cash Balances will be maintained and managed through the Pooled Cash method in such a way as to minimize short-term borrowing. This reduces overall cost to taxpayers by minimizing interest expense. The Reserve is intended to support this effort and counterbalance the tax collection cycle.

IX. Conditions for Use of Reserves

It is the intent of the City to limit use of internal service Working Capital Reserves to address unanticipated, Non-Recurring needs. Reserves shall not be applied to recurring annual operating expenses. Reserves may, however, be used to allow time for the City to restructure its operations in a deliberate manner (as might be required in an economic downturn), but such use will only take place in the context of an adopted long-term plan.

X. Excess of Reserves

In the event Reserves exceed the minimum balance requirements, at the end of each fiscal year, any excess Reserves may be used in the following ways:

1. Fund accrued liabilities, including but not limited to debt service, pension, and other post-employment benefits as directed and approved within the long-term financial plan and the annual budget ordinance. Priority will be given to those items that relieve budget or financial operating pressure in future periods;

2. One-time expenses that do not increase recurring operating costs that cannot be funded through current revenues. Emphasis will be placed on one-time uses that reduce future operating costs; or

3. Start-up expenses for new programs, provided that such action is approved by the City Council and is considered in the context of multi-year projections of revenue and expenses as prepared by the Department of Finance.

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XI. **Authority over Reserves**

The City Council may authorize the use of Reserves. The Department of Finance will regularly report both current and projected Reserve levels to the City Manager and City Council.

XII. Quality Control and Quality Assurance:

It is the responsibility of the Chief Financial Officer/Director of Finance to ensure the presence of procedures that provide sufficient guidance to affected City personnel to fulfill the intent of this policy.

These policies will be reviewed at least annually and updated on an as-needed basis.

XIII. Metrics:
To be developed and managed accordingly.

XIV. Records:
There are no records associated with this policy.

XV. Process Flow Map:
Not Applicable.

XVI. Forms:
Not Applicable.

XVII. Appendices:
Not Applicable.

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