

General Fund and General Debt Service Funds Reserve Policy



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 ~~and Assistant City Managers are~~ 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 Financial Management Services. This policy shall be administered on behalf of the City Manager ~~and the Assistant City Managers~~ 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 expenditures / ~~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. Reserves 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 General Fund and Debt Service Funds Reserves, how the Reserves will be funded, and the conditions under which the Reserves may be used.

III. Applicability and Scope:

This policy shall apply to the General Fund ~~and~~ the General Debt Service Fund, ~~and~~ all other governmental and proprietary Debt Service Funds under the budgetary and fiscal control of the City Manager and the City Council.

This policy is applicable to ~~g~~Governmental ~~and proprietary F~~unds, and is intended to supplement, not supersede, provisions of the City governing the issuance of bonds or other obligations secured in whole or in part by revenues held in or credited to a ~~g~~Governmental ~~or proprietary~~ Fund.

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

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V. Related Documents and References:

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

VI. Policy:

General Fund

- A. Reserve Levels - The City will maintain a minimum Unassigned Fund Balance in the General Fund equivalent to ten percent (10%) of regular ongoing operating expenditures, with a goal of two months (16.67%) of regular ongoing operating expenditures. Regular ongoing operating expenditures shall not include the portion of funds transferred from the General Fund to the Capital Project Fund to support pay-go capital projects.
- B. Committed Fund Balance - The City Council maintains the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is an item placed on the City Council's agenda and approved at a City Council meeting. The action must either approve or rescind, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
- C. Assigned Fund Balance - The City Council, through adoption of this policy, have authorized the City Manager or his/her designee and the Chief Financial Officer / Director of Finance to jointly designate or commit assigned fund balances without further City Council approval. It should be noted that this authority only gives the ability to designate future "intended" uses of fund balance that is in excess of nonspendable, restricted, and committed amounts, and the minimum required reserve. It does not vest additional spending authority in the City Manager or his/her designee or Chief Financial Officer / Director of Finance. Subsequent appropriations of fund balance would continue to require City Council approval.

Spending Priorities - When expenditures are incurred for the purposes for which both restricted and unrestricted fund balance is available, the City will consider restricted funds to be spent before unrestricted funds. Further, if there is an expenditure incurred for purposes for which committed, assigned, or unassigned fund balance classifications could be used, the City will consider committed

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funds to be spent before assigned funds, and will consider assigned funds to be spent before unassigned funds.

For the purposes of this policy, current fiscal year's actual expenditures will exclude significant Non-Recurring Items.

Governmental Debt Service Fund

- D. Reserve Levels – The City will maintain a minimum level of Restricted, Committed, and Assigned Fund Balance in ~~each governmental the General~~ Debt Service Fund ~~between equal to~~ two (16.67%) to three (25%) months of the highest projected debt service over the succeeding debt service forecast. Amounts used in this calculation shall not include any amounts allocated for other purposes by the City Council.

While reserves for the General Fund and the ~~General~~ Debt Service Fund are calculated separately, the resulting individual Reserve requirements will be combined into one figure to be compared with the total General Fund and Debt Service Fund's fund balance.

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Proprietary Debt Service Fund

- E. Reserve Levels – The City will maintain a minimum level of Restricted Net Position in proprietary Debt Service Funds between two (16.67%) to three (25%) months of the highest projected debt service over the succeeding debt service forecast. Amounts used in this calculation shall not include any amounts allocated for other purposes by the City Council.

VII. Monitoring Performance

- F. 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 fiscal year-end financial information becomes available. During the course of the fiscal year the Department of Financial Management Services and the Performance and Budget Office e-shall closely monitor the City's revenues and expenditures / expenses to ensure Reserves are not used beyond any planned usage.

- E.G. 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 Financial Management Services and the Performance and Budget

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Office based on the requirements outlined in this policy.

F.H. Funding the Reserve – Funding of Reserve targets will generally come from excess revenues over expenditures / expenses or one-time revenues.

G.I. 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 expenditures / 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 and major revenue collection cycle.

IX. Conditions for Use of Reserves

General Fund

It is the intent of the City to limit the use of General Fund Reserves to address unanticipated, Non-Recurring needs. Reserves shall not be applied to recurring annual operating expenditures. 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.

Governmental and Proprietary Debt Service Funds

It is the intent of the City to limit the use of Debt Service Reserves to address the repayment of any outstanding debt.

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:

General Fund

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.

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Priority will be given to those items that relieve budget or financial operating pressure in future periods.

2. Appropriated to lower the amount of bonds or increase the pay-as-you-go contributions needed to fund capital projects in the City's Capital Improvement Plan;
3. One-time expenditures 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
4. Start-up expenditures 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 expenditures as prepared by the Department of Finance.

Governmental and Proprietary Debt Service Funds

1. Use to re-pay any outstanding debt or obligations.

XI. Authority over Reserves

The City Council may authorize the use of Reserves. The Department of Financial Management Services and the Performance and Budget Office 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.

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XV. **Process Flow Map:**
Not Applicable.

XVI. **Forms:**
Not Applicable

XVII. **Appendices:**
Not Applicable.