

Enterprise Fund 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 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 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 Enterprise Funds 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 Enterprise Fund Reserve, how the Reserve will be funded, and the conditions under which the Reserves may be used. This policy is intended to supplement, but not supersede, provisions of ordinances of the City governing the issuance or incurrence of bonds or other obligations secured in whole or in part by revenues or credited to an Enterprise Fund.

III. Applicability and Scope:

This policy shall apply to all Enterprise Funds under the budgetary and fiscal control of the City Manager and the City Council.

~~This policy is applicable to Enterprise Funds, 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 an Enterprise 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

VI. Policy:

Reserve Levels -The City will maintain the following minimum reserve levels in each Enterprise Fund, consistent with State law and the terms of ordinances pursuant to which obligations have been issued or incurred that are secured in whole or in part by revenues held in or credited to an Enterprise Fund:

A. Water and Sewer Fund

1. A goal of a minimum level of Working Capital in Enterprise Funds equivalent to three (25%) months of regular, on-going Operating Expenses (including operating transfers out). This calculation shall not include Non-Recurring Items and shall be performed against the operating fund only.
2. A goal of a minimum level of Working Capital in Enterprise Funds equivalent to three (25%) months of the amount being paid in Debt Service payments for the subsequent fiscal year. This calculation shall be performed against the operating fund only.
3. A minimum Reserve of 10062 Days Cash on Hand with a goal of 2150 Days Cash on Hand. This calculation shall be performed against the operating fund only.
4. The City's goal is that no Enterprise Fund shall have a negative Unrestricted Net Position. This calculation shall be performed by using all of the funds for respective reporting group.
- 3-5. In addition, the City acknowledges that initially, not all funds will meet the minimum requirement for Working Capital and/or Days Cash on Hand outlined in this policy. A fund will be considered compliant with this policy as long as the financial position shows continuous improvement each fiscal year.

B. All other Enterprise Funds

1. A goal of a minimum level of Working Capital in Enterprise Funds equivalent to three (25%) months of regular, on-going

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~~Operating Expenses (including operating transfers out). This calculation shall not include Non-Recurring Items.~~

- ~~2. A goal of a minimum level of Working Capital in Enterprise Funds equivalent to three (25%) months of the amount being paid in Debt Service payments for the subsequent fiscal year.~~
- ~~3. A minimum Reserve of 62 Days Cash on Hand with a goal of 150 Days Cash on Hand.~~

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~~4. The City's goal is that no Enterprise Fund shall have a negative Unrestricted Net Position.~~

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~~5. In addition, the City acknowledges that initially, not all funds will meet the minimum requirement for Working Capital and/or Days Cash on Hand outlined in this policy. A fund will be considered compliant with this policy as long as the financial position shows continuous improvement each fiscal year.~~

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VII. Monitoring Performance

- A. For purposes of this calculation, Working Capital will include long-term investments that can be liquidated within five business days. 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 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 Financial Management Services and the Performance and Budget Office based on the requirements outlined in this policy.
- C. Funding the Reserve- Funding of 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.

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.~~

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The Reserve is intended to support this effort and counterbalance the tax and major revenue-collection cycle.

IX. Conditions for Use of Reserves

It is the intent of the City to limit use of Enterprise 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. 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 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
4. 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 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.

XV. **Process Flow Map:**

Not Applicable.

XVI. **Forms:**

Not Applicable.

XVII. **Appendices:**

Not Applicable.