



# Governmental Fund Reserve Policy

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## **I. Authority**

The Fort Worth City Council is responsible for legislation, policy formulation, and setting the overall direction of the government. This includes the approval of financial policies that establish and direct the operations of the City of Fort Worth (“City”). 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 Financial Management Services Department (“FMS”). This policy shall be administered on behalf of the City Manager by the Chief Financial Officer/Director of FMS (“CFO”).

## **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. In addition, this policy is intended to document the appropriate reserve level to protect the City’s creditworthiness and provide adequate cash flow based upon the traditional operating cycle. The Government Finance Officers Association’s (GFOA) best practice for reserves recommend, at a minimum, that general-purpose governments, regardless of size, maintain an unassigned fund balance of no less than two months of regular operating revenues or operating expenses. 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, Special Revenue Funds, and General 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, all Special Revenue Funds, and the General Debt Service Fund 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 Glossary for Financial Management Policy Statements.

## **V. Related Documents and References**

- A. Operating and Capital Budget Policy
- B. Long-Term Financial Planning Policy



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C. Capital Asset Investment and Management Policy

D. Debt Management Policy

### VI. Policy

#### **General Fund**

- A. Reserve Levels: The City will maintain an Unassigned Fund Balance in the General Fund equivalent to a minimum of two months (16.67 %); with a goal of three months (25%), of the next fiscal year budgeted operating expenditures.
- 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, has authorized the City Manager or his/her designee and the CFO 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 are 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 CFO. Subsequent appropriations of fund balance would continue to require City Council approval.
- D. Spending Priorities: When expenditures are incurred for the purposes for which both restricted and unrestricted fund balance are 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, and the City will consider committed funds to be spent before assigned funds, and will consider assigned funds to be spent before unassigned funds.

#### **Special Revenue Funds**

Reserve Levels: The City will maintain a combined Restricted and Assigned Fund Balances in Special Revenue Funds equivalent to two months (16.67%) of the next fiscal year budgeted operating expenditures.

Capital transfers will be excluded from the operating expenses when calculating the reserve requirement for special revenue funds.



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### **VII. General Debt Service Fund**

Reserve Levels: The City will maintain a level of restricted fund balance in each governmental Debt Service Fund equivalent to three months (25%) of the highest projected debt service (principal and interest) over the succeeding debt service schedule. Amounts used in this calculation shall not include any amounts allocated for other purposes by the City Council.

### **VIII. 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 fiscal year-end financial information becomes available. During the fiscal year, the Financial Management Services and FWLab departments shall closely monitor the City's revenues and expenditures to ensure reserves are not used beyond any planned usage.
- B. If the target level of reserves is not met at fiscal year-end, a written restoration plan is required to be submitted to FMS by January 31<sup>st</sup> and will be incorporated into the Reserve Requirement Supplement. The City Manager's Office (CMO), in coordination with FMS and FWLab, is required to develop the restoration plan for the General Fund. For all other funds, the responsible department must work with the FWLab in developing the restoration plan. Generally, departments should seek to replenish their fund balance within one to three years. Specifically, factors influencing the replenishment time horizon include:
  - 1. The budgetary reasons behind the fund balance targets;
  - 2. Recovering from an extreme event;
  - 3. Political continuity;
  - 4. Financial planning time horizons;
  - 5. Long-term forecasts and economic conditions; and
  - 6. External financing expectations.
- C. Funding the reserve: Funding of reserve targets will generally come from excess revenues over expenditures or one-time revenues, non-recurring revenues, and budget surplus. Year-end surpluses are an appropriate source for replenishing fund balance.
- 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.

### **IX. Conditions for Use of Reserves**



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### **General Fund and Special Revenue Funds**

It is the intent of the City to limit the use of General Fund and Special Revenue 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.

### **Debt Service Funds**

The City limits the use of debt service reserves to address to the repayment of debt outstanding.

## **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 and Special Revenue Funds**

- A. 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;
- B. Appropriated to move to the General Debt Service Fund to lower the amount of bonds;
- C. Appropriated pay-as-you-go contributions needed to fund capital projects in the City's Capital Improvement Plan;
- D. 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
- E. 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 FWLab.
- F. The reserve requirement does not apply to special revenue funds that were created under Federal and State Law and/or Texas Local Government Code for managing the revenue used to pay for costs associated with construction and debt-financing activities.

### **General Debt Service Funds**



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Use to repay any outstanding debt or obligations.

### **XI. Authority over Reserves**

The City Council may authorize the use of reserves. FMS and FWLab departments will report at least on an annual basis 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 CFO/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. Basis**

Budgetary basis is used for calculating the reserve level for Governmental Funds Reserve.