

**COUNCIL POLICY NO. C-10**

**TITLE:** BUILDING AND SAFETY FUND BALANCE/RESERVE POLICY

**POLICY:** See attachment.

**REFERENCE:** Finance Committee Report dated 4/15/2019, Agenda Item No. 4 (a)

## **FUND BALANCE/RESERVE POLICY FOR THE BUILDING AND SAFETY FUND**

### **Purpose**

This policy establishes the components and uses of the fund balance for the Building and Safety Fund (“the Fund”). Sound financial management practices include establishing designated and undesignated fund balances sufficient to provide resources for events and service needs that were unanticipated during budget development; cover cash flow needs during a fiscal year; and provide a source of funds to sustain services during a temporary slowing in revenue and/or a source of bridge funding to allow transition to sustainable service levels.

### **Scope**

This policy applies to the Fund.

### **Definitions**

Capital Asset Reserve – A reserve established to accumulate resources annually that will be used to replace capital assets and to provide for major customer service enhancements, and where procurement will be budgeted in the Fund in a future year.

Contingency Account – A budgetary account used to appropriate resources that can be used to address events or service needs that were unanticipated during budget development. With City Council adoption of a transfer resolution, funds are transferred from the Contingency Account to an operating program.

Debt Service Reserve – A reserve established as a requirement of a bond covenant, or covenant in another debt instrument.

Fund Balance – On a budgetary basis the Fund Balance is the sum of the Contingency Account, Service Stabilization Reserve, Capital Asset Reserve and Debt Service Reserve. In the Comprehensive Annual Financial Report it is identified in the schedule titled Statement of Revenues, Expenditures and Changes in Fund Balance.

Service Stabilization Reserve – A reserve established to provide resources in the event of a material decrease in projected revenue during a given fiscal year, which will impact the upcoming fiscal year. The Service Stabilization Reserve allows the continuation of services for a finite period until additional resources are identified or a transition to a sustainable service level is completed. If the Service Stabilization Reserve is used to balance a City Manager budget proposal, the City Manager must include a plan for identifying additional resources or the transition to a sustainable service level. The Budget Committee will review a City Manager’s plan during the review of the City Manager’s Recommended Budget.

### **Related Financial Policies**

- Stable Financial Environment
- Balanced Budget
- General Fund Balance Reserve Policy

## Policy Statement

The Fund Balance for the Building and Safety Fund is the sum of the following:

- Service Stabilization Reserve
- Contingency Account
- Capital Asset Reserve
- Debt Service Reserve

For the purposes of preparing the budget, the Fund Balance shall consist of:

- The Service Stabilization Reserve, which shall equal twelve months of budgeted operating expenditures.
- The Contingency Account, which shall not exceed 10% of budgeted expenditures.
- The Capital Asset Reserve, if any, which shall be recommended by the City Manager, who will, during the annual budget process, provide to the City Council a schedule of capital assets to be funded by the reserve.
- The Debt Service Reserve, if any, as required by any bond covenants or covenants in other debt instruments that require a reserve, which is unavailable for purposes other than debt service.

The Service Stabilization Reserve, Contingency Account and Capital Asset Reserve can be used in the following circumstances:

1. Service Stabilization Reserves can be used by the City Manager to offset an unanticipated loss of revenue within a fiscal year or to balance a budget proposal in the event anticipated revenues may be insufficient to meet the expenditures necessary to maintain current services. Utilization of the Service Stabilization Reserve must be within the context of a multi-year financial plan designed to bring services to a sustainable level through additional resources, service reductions or a combination of such actions.
2. Contingency can be used with City Council adoption of a transfer resolution to meet expenditure requirements resulting from events or service needs not anticipated during budget development.
3. Capital Asset Reserve can be used for planned capital expenditures only with the express written consent of the City Manager. After the City Manager's approval, funds from the Reserve may be included in a transfer resolution for Council approval during a given fiscal year or included in a succeeding year's budget proposal.