

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
MESQUITE, TEXAS, ADOPTING A GENERAL FUND
RESERVE POLICY; AND DECLARING AN EFFECTIVE DATE
THEREOF.

WHEREAS, the City Council of the City of Mesquite, Texas ("City Council") recognizes that effective cash management is essential to good fiscal management; and

WHEREAS, the City Council realizes the need to adopt a General Fund Reserve Policy for the City of Mesquite, Texas.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MESQUITE, TEXAS:

SECTION 1. That the City Council has reviewed the General Fund Reserve Policy, attached hereto as Exhibit "A" and made a part hereof for all purposes, and hereby approves and adopts said policy as the official General Fund Reserve Policy of the City of Mesquite, Texas.

SECTION 2. That this resolution and the aforementioned General Fund Reserve Policy shall take effect immediately from and after the passage of this resolution.

DULY RESOLVED by the City Council of the City of Mesquite, Texas, on the 7th day of January 2019.

Stan Pickett
Mayor

ATTEST:

Sonja Land
City Secretary

APPROVED:



David L. Paschall
City Attorney



Financial Policy
General Fund Reserve

City of Mesquite
Finance Department

Effective Date: _____

OVERVIEW

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 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 Reserve, how the Reserve will be funded, and the conditions under which the Reserve may be used.

POLICY

General Fund

Reserve Level - The City will maintain a minimum Unassigned Fund Balance in the General Fund equivalent to sixty days of working capital to be calculated as 60 days of General Fund budgeted revenues with an initial goal of 70 days of General Fund budgeted revenues and a long-term goal of 90 days.

The City acknowledges that initially, the General Fund may not meet the minimum requirements for working capital days in this policy. The General Fund will be considered compliant with this policy as long as the financial position shows continuous improvement each fiscal year.

Non-Spendable Fund Balance – Non-spendable fund balance represents amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted Fund Balance – Restricted fund balance represents amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

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.

Assigned Fund Balance – The City Council, through adoption of this policy, authorizes the City Manager and 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 non-spendable, restricted, and committed amounts, and the minimum required reserve. It does not vest

additional spending authority in the City Manager or 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 funds to be spent before assigned funds, and will consider assigned funds to be spent before unassigned funds.

Monitoring Performance

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

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

If, based on staff's analysis and forecasting, the target level of Reserve 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 level will be developed by collaboration among affected departments and the Finance Department based on the requirements outlined in this policy.

Funding the Reserve

Funding of the Reserve target will generally come from excess revenues over expenditures or one-time revenues. Reserve increases may be intentionally planned through the annual budget process as well.

Pooled Cash

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, 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.

Conditions for Use of Reserves

There are two categories of use for reserve funds:

Emergency - available to address one-time emergencies and unanticipated expenditure requirements or to offset unanticipated revenue fluctuations occurring within a fiscal year

Countercyclical - available to either maintain current General Fund services and programs or transition expenditure growth to match slower revenue growth during the recession.

Prior to the use of Reserves, the Finance Department will prepare and distribute a report to City Council addressing the requirements for use of the Reserve and the amount of funds requested. The report shall be presented to the City Council prior to the meeting at which the City Council makes a decision on use of Reserves.

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.

The City Council will begin to restore Reserves used under this policy within 24 months after their first use.

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. Appropriate 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. Appropriate to 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. Appropriate to 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 Finance Department.

Authority over Reserves

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