

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MESQUITE, TEXAS, ADOPTING AN ENTERPRISE FUNDS 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 an Enterprise Funds 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 Enterprise Funds 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 Enterprise Funds Reserve Policy of the City of Mesquite, Texas.

SECTION 2. That this resolution and the aforementioned Enterprise Funds 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
Enterprise Funds Reserves

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 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 Funds Reserves, how the Reserves 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.

POLICY

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:

Water Sewer Fund

1. A goal of a minimum level of Working Capital equivalent to three months (25%) of regular, on-going Operating Expenses (including operating transfers out). This calculation shall not include Non-Recurring Items.
2. A goal of a minimum level of Working Capital equivalent to three months (25%) of the amount being paid in Debt Service payments for the subsequent fiscal year.
3. A minimum Reserve of 60 Days Cash on Hand with a goal of 120 Days Cash on Hand.

Drainage Utility Fund

1. A goal of a minimum level of Working Capital equivalent to three months (25%) of regular, on-going Operating Expenses (including operating transfers out). This calculation shall not include Non-Recurring Items.
2. A goal of a minimum level of Working Capital equivalent to three months (25%) of the amount being paid in Debt Service payments for the subsequent fiscal year.

3. A minimum Reserve of 60 Days Cash on Hand with a goal of 120 Days Cash on Hand.

All Other Enterprise Funds

1. A goal of a minimum level of Working Capital equivalent to one month (8.33%) of regular, on-going Operating Expenses (including operating transfers out). This calculation shall not include Non-Recurring Items.
2. A goal of a minimum level of Working Capital equivalent to one month (8.33%) of the amount being paid in Debt Service payments for the subsequent fiscal year.
3. A minimum Reserve of 30 Days Cash on Hand with a goal of 90 Days Cash on Hand.

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

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 Reserves to ensure that they are 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 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 Finance Department based on the requirements outlined in this policy.

Funding the Reserves

Funding of Reserve targets 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 Enterprise Fund 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 customers by minimizing interest expense. The Reserve is intended to support this effort and counterbalance possible rate increases needed.

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 Enterprise Fund services or transition expenditure growth to match slower revenue growth during the first 18 to 24 months of a recession.

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

The 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.