

RESOLUTION NO. 2012/018

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MONROE, WASHINGTON, ADOPTING FISCAL POLICIES RELATING TO THE ESTABLISHMENT OF CITY FINANCIAL RESERVE REQUIREMENTS.

WHEREAS, THE City Council of the City of Monroe finds that the establishment of reserve requirements are an important element of a fiscally sound financial policy; and

WHEREAS, monetary reserves accommodate unexpected operational changes, adverse impacts from State legislation or changes in the economic environment, stabilize the annual budget, and facilitate the orderly adjustment on the City's operations from termination of revenue sources through actions of other governmental bodies; and

WHEREAS, City staff have worked with the City Council Finance & Human Resources Committee; NOW, THEREFORE

IT IS HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF MONROE AS FOLLOWS:

Section 1. Adoption of Reserve Policy. The Reserve Fund Policy attached as Exhibit A to this resolution is hereby adopted as the official financial reserve requirement policy for the City of Monroe.

Section 2. Effective Date. This resolution shall take effect immediately upon passage; PROVIDED, that the provisions set forth in Exhibit A shall take effect as applicable funds become available to the City, but in no event later than December 31, 2012.

PASSED BY THE MONROE CITY COUNCIL AT A REGULAR MEETING THEREOF ON THE 10th DAY OF JULY, 2012.

CITY OF MONROE, WASHINGTON



Robert G. Zimmerman, Mayor

EFFECTIVE: See Section 2

APPROVED AS TO FORM:



J. Zachary Lell, City Attorney

ATTEST/AUTHENTICATED:



Eadye Martinson, Deputy City Clerk

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EXHIBIT A



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Finance

Reserve Fund Policy

PURPOSE:

Establish recommended minimum reserve levels. Reserve should be adequate to moderate the impact of temporary fluctuations in the economy, manage risk and enhance external agencies' evaluation of the City's financial strength.

DEFINITIONS:

Fund Balance: difference between funds' current assets and liabilities.

- Fund Balance Reserved: legally set aside for a specific purpose. Some examples include:
 - Petty Cash (General)
 - Paths & Trails (Street) RCW 47.30.030/050
 - Contributions
- Fund Balance Unreserved Designated: self imposed limitation by the City.
 - Replacement (Internal Service)
 - Risk Management
 - Personnel Liabilities
 - Contingency Fund RCW 35A.33.145/146
 - Real Estate Excise Tax Funds RCW 82.46.010/035
 - Police Drug and Seized Asset Fund
 - Continuing Appropriation, Project, Grants – established as needed.
- Fund Balance Unreserved Available: may be appropriated as necessary.

Beginning Fund Balance: accumulated funding from prior years available for use in the current year.

Ending Fund Balance: the excess of beginning fund balance plus current revenues minus current expenditures.

POLICY:

1. Allowable uses of designated, reserved or restricted fund reserves are limited to:
 - a. One-time
 - i. Non-budgeted required expenditures,
 - ii. Non-budgeted expenditures that present a unique opportunity,
 - iii. Revenue shortfalls of a non-recurring nature, such as an economic recession lasting not more than two years,
 - b. Temporary response
 - i. Termination of revenue sources from other governmental bodies,
 - ii. Emergency financing,
 - iii. Adverse changes in the economy,
 - iv. Utility rate stabilization,
 - c. Planned
 - i. Maintenance or replacement of facilities and equipment,
 - ii. Additions to assets of the City,
 - iii. Expenditures for insurance and other significant items,
 - iv. Security provisions of debt agreements,
 - v. Appropriation of revenues to next budget year beginning fund balance.
2. Reserves shall not be used as a continuing supplement to the operating budget.
3. City Council shall approve all expenditures of designated, reserved or restricted reserves by ordinance or resolution.
4. During a declared emergency the Mayor may approve expenditures of available reserves. Per the City of Monroe's Comprehensive Emergency Management Plan, the Proclamation of Emergency shall at the earliest practicable time be presented to the City Council for ratification and confirmation, modification, or rejection, and if rejected, shall be void.
5. Reserves shall be replenished at a rate that does not impair established programs or create undue hardship.
6. The Finance Director shall administer the policy:
 - a. Develop and implement procedures for administering this policy,
 - b. Ensure compliance with policy and state law.

TARGETED RESERVE BALANCES:

001 - General Fund

This fund is used for all basic governmental services and operations.

- **Fund Type** – General Fund only
- **Monroe Policy** – 17% of budgeted operating expenditures, with a maximum of 25% of budgeted operating expenditures. This target reserve balance shall be met before any reserve is set aside in the Contingency Fund.
- **Why the policy is set to this amount** – This is the equivalent of two months of operating expenditures. While the rule of thumb for personal finances is to have three month's salary in savings, since property tax revenue is virtually guaranteed through RCW, less than three month's is needed for governmental operations.
- **Can funds from here be used for other purposes?** Yes, provided the used is approved by the city council.

002 - Contingency Fund

This fund is used for one-time only (non-operational) fiscal opportunities for the city, at the City Council's discretion.

- **Fund Type** – General Fund only
- **Monroe Policy** – minimum of 8% of operating expenditures of the General Fund. This reserve shall not be funded until the ending fund balance requirement of the General Fund is met.
- **Why the policy is set to this amount** - per RCW 35A.33.145, shall not exceed 37.5 cents per thousand dollars of assessed valuation of property within the city. Maintained to meet unusual or catastrophic uninsured loss, or to take advantage of unforeseen opportunities.
- **Can funds from here be used for other purposes?** Yes. RCW 35A.33.145 requires (i) an ordinance or resolution passed by a majority of the whole Council, (ii) containing a statement explaining the reason for the release/transfer, and (iii) where applicable, specifying identity of the recipient fund.

622 - Risk Management Fund

This fund is used to cover claims against the city that are not covered by the city's liability insurance policy.

- **Fund Type** – General Fund only
- **Monroe Policy** – minimum amount equal to 1% of the current year's General Fund expenditure budget, with a maximum of 2% of the current year's General Fund expenditure budget.
- **Why the policy is set to this amount** – most cases are covered by insurance, very few would fall in this category. There is a \$1,000 deductible for each claim, and if the city had a large amount of claims, those deductible can come from this reserve.

- **Can funds from here be used for other purposes?** No.

621 - Employee Sick Leave Reserve

This fund is used to cover payouts of accrued sick leave amounts to employees leaving employment with the city.

- **Fund Type** – Both General Fund and Utilities based on employees
- **Monroe Policy** – add an amount equal to 1% of the current year's General Fund revenue budget annually, until the City's liability is fully funded.
- **Why the policy is set to this amount** – the level of this reserve is based on a review of the past ten years' worth of payouts.
- **Can funds from here be used for other purposes?** No.

510 - Info Technology Services Fund

This fund is used for all operations, equipment replacements, upgrades and acquisitions for anything related to information technology. It includes all computers, servers, printers, photocopiers, and phone systems among other items.

- **Fund Type** – Both General Fund and Utilities based on equipment usage ratio
- **Monroe Policy** – amount equal to the greater of next year's 'Info & Tech Replacement Plan' and the average of the next 3 years. This reserve shall not be funded until the General Fund reserve balance is met.
- **Why the policy is set to this amount** – One of the concerns of this account was that purchases would keep getting deferred into "next year" and eventually the city would be left with an unrealistic amount when it all came due. By taking the greater of the next year amount and the average of the next three years, funds should always be put aside ahead of time and not wait until the last minute.
- **Can funds from here be used for other purposes?** No.

520 - Equipment & Fleet Management Fund

This fund is used for all operations, replacements and acquisitions of all city vehicles and major equipment.

- **Fund Type** – Both General Fund and Utilities based on equipment and fleet usage ratio
- **Monroe Policy** – amount equal to the greater of next year's 'Equipment & Fleet Replacement Plan' and the average of the next 6 years. This reserve shall not be funded until the General Fund reserve balance is met.

- **Why the policy is set to this amount** - One of the concerns of this account was that purchases would keep getting deferred into "next year" and eventually the city would be left with an unrealistic amount when it all came due. By taking the greater of the next year amount and the average of the next six years, funds should always be put aside ahead of time and not wait until the last minute.
- **Can funds from here be used for other purposes?** No.

530 - Facilities Management Fund

This fund is used for operations, repairs and improvements to all city owned buildings.

- **Fund Type** – Both General Fund and Utilities based on square footage
- **Monroe Policy** – amount equal to the greater of next year's 'Facilities Replacement Plan' and the average of the next 6 years. This reserve shall not be funded until the General Fund reserve balance is met.
- **Why the policy is set to this amount** - One of the concerns of this account was that purchases would keep getting deferred into "next year" and eventually the city would be left with an unrealistic amount when it all came due. By taking the greater of the next year amount and the average of the next six years, funds should always be put aside ahead of time and not wait until the last minute.
- **Can funds from here be used for other purposes?** No.

307 - Capital Improvement Projects Fund

This fund is used for tracking capital construction projects for municipal facilities or infrastructures that are not parks or street related.

- **Fund Type** – Portion of fuel tax revenue from Street Fund
- **Monroe Policy** – 0.42% fuel tax collected from previous year is added each year to the reserve.
- **Why the policy is set to this amount** – per RCW 47.30.030/050, amount credited to the reserve each year shall be at least 0.42 percent of the total amount of funds received from the motor vehicle fuel tax. These funds must be used for capital expenses for paths or trails. Must be expended within ten years of receipt. Use determined by the Parks Director in accordance with the City's budget.
- **Can funds from here be used for other purposes?** No.

411 - Water Fund

This fund is used for all operations of the water utility.

- **Fund Type** - Utilities

- **Monroe Policy** – 45 days operating expense, 12% of budgeted operating expense.
- **Why the policy is set to this amount** – this represents 45 days of operating expenses. Most emergencies would be covered by insurance or FEMA. Rates can be adjusted at any time per city council action to meet the needs of operations and comply with debt requirements. This reserve would most likely be used as interim funding until insurance or permanent funding was in place.
- **Can funds from here be used for other purposes?** No.

412 – Water CIP Fund

This fund is used to track capital construction projects for the water utility.

- **Fund Type** - Utilities
- **Monroe Policy** – minimum of 1% of net fixed assets.
- **Why the policy is set for this amount** – this amount is for unforeseen contingencies on capital construction projects. Most costs are known for construction projects before they are started. All construction project budgets carry a small percentage for contingencies. This reserve would cover any needs in excess of the budgeted contingency, and is not anticipated to be used.
- **Can funds from here be used for other purposes?** No.
- **Restricted for debt** – as determined by lending agreements, frequently 1.25 coverage ratio on revenue bonds.

421 - Sewer Fund

This fund is used for all operations of the sewer utility, both collection and treatment.

- **Fund Type** – Utilities
- **Monroe Policy** – 45 days operating expense, 12% of budgeted operating expense.
- **Why the policy is set to this amount** – this represents 45 days of operating expenses. Most emergencies would be covered by insurance or FEMA. Rates can be adjusted at any time per city council action to meet the needs of operations and comply with debt requirements. This reserve would most likely be used as interim funding until insurance or permanent funding was in place.
- **Can funds from here be used for other purposes?** No.

422 – Sewer CIP Fund

This fund is used to track capital construction projects for the sewer utility.

- **Fund Type** - Utilities

- **Monroe Policy** – minimum of 1% of net fixed assets.
- **Why the policy is set for this amount** – this amount is for unforeseen contingencies on capital construction projects. Most costs are known for construction projects before they are started. All construction project budgets carry a small percentage for contingencies. This reserve would cover any needs in excess of the budgeted contingency, and is not anticipated to be used.
- **Can funds from here be used for other purposes?** No.
- **Restricted for debt** – as determined by lending agreements, frequently 1.25 coverage ratio on revenue bonds.

431 - Stormwater Fund

This fund is used for all operation of the stormwater utility.

- **Fund Type** – Utilities
- **Monroe Policy** – 45 days operating expense, 12% of budgeted operating expense.
- **Why the policy is set to this amount** – this represents 45 days of operating expenses. Most emergencies would be covered by insurance or FEMA. Rates can be adjusted at any time per city council action to meet the needs of operations and comply with debt requirements. This reserve would most likely be used as interim funding until insurance or permanent funding was in place.
- **Can funds from here be used for other purposes?** No.

432 – Stormwater CIP Fund

This fund is used to track capital construction projects for the stormwater utility.

- **Fund Type** - Utilities
- **Monroe Policy** – minimum of 1% of net fixed assets
- **Why the policy is set for this amount** – this amount is for unforeseen contingencies on capital construction projects. Most costs are known for construction projects before they are started. All construction project budgets carry a small percentage for contingencies. This reserve would cover any needs in excess of the budgeted contingency, and is not anticipated to be used.
- **Can funds from here be used for other purposes?** No.
- **Restricted for debt** – as determined by lending agreements, frequently 1.25 coverage ratio on revenue bonds.

Consistency with State Law and Budget

- This policy is intended to be construed in a manner consistent with applicable provisions of State law and the City's adopted budget. In

the event of any irreconcilable conflict between any provision of this policy and either State law or the City's budget, the provision of State law or the City's budget shall control.