



Financial Policies Fund Balance & Reserve Policy for General Fund and Street Operations, Special Reserves and Utility Funds

<input type="checkbox"/> ADOPTED BY COUNCIL: JANUARY 25, 2016	EFFECTIVE DATE: JANUARY 25, 2016
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I. **PURPOSE**

The purpose of this policy is to provide a targeted range for fund balance and reserves to help position the City and its functional units to respond to economic fluctuations, prepare for expected and unexpected liabilities, and to take advantage of economic opportunities. This policy is intended to establish an understanding of the proper level and use of those reserves for the City of Sequim.

Adequate levels of fund balance or reserves are essential to protect against temporary revenue shortfalls and helps to ensure stable taxes and fees. It provides resources criteria crucial in long-term financial planning. The value of strong fund balances and reserves needs to be balanced with pressures from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

For the City of Sequim, fund balance equals cash (which includes cash and investments held by the City) as the city reports and budgets financial activity on a cash basis

The City of Sequim follows BARS (the Budgeting, Accounting and Reporting System) promulgated by the State of Washington which includes the prescribed uniform charts of accounts, accounting and budgeting policies, guidance for preparing financial statements and instructions for preparing supplemental year end schedules (Revised Code of Washington Section 43.09.230) for local governments.

Fund Balance and Cash and/or Investments is defined in the BARS Manual as follows:

308.10 RESERVED

The amounts of cash and investments with specific purpose or use restrictions imposed on them by external parties (e.g., enabling legislation, grantors, creditors, etc.) or from formal internal commitments. Internal commitments are specific constraints imposed by the highest level of government (board of commissioners, city council, board of directors, board of supervisors, etc.) through the most formal binding action (ordinance, resolution) that require a similar formal action on the same level to remove them. Limitations resulting from intended use (informal action) by either legislators or managers are not sufficient to classify the resources as reserved. These resources should be reported as unreserved.

308.80 UNRESERVED

The amounts of cash and investments without any limitations on their use and resources with informal limitations placed on them by either legislators or managers.



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The City of Sequim has the following fund structure:

General Fund and Streets Unrestricted Fund (funds available for general government operations)

Capital Funds

Equipment Reserve (funds set aside and available for General Government equipment replacement)

Real Estate Excise Tax (REET) 1 (funds restricted as to use on capital facilities)

Facilities (funds set aside for City Hall and other facility related capital projects)

Enterprise Funds

Water Unrestricted (restricted to Water Operations)

Water Restricted (restricted to Water Capital, Debt Service and Equipment Replacement)

Sewer Unrestricted (restricted to Sewer Operations)

Sewer Restricted (restricted to Sewer Capital, Debt Service and Equipment Replacement)

Special Revenue Funds (restricted by law or City Ordinances, no targeted reserves)

Street Restricted, Lodging Tax Hotel / Motel, Criminal Justice, Police Restricted

Police Asset Seizure, Parks Restricted, Real Estate Excise Tax (REET 2), Gifting & Donations

Internal Service Funds

Unemployment Claims Reserve

Trust, Agency & Permanent Funds (funds not available for City services)

Police Expendable Trust, Flexible Spending Benefits, Utility Deposits, Construction Deposit, Intergovernmental Agency Fund, Haller Park Fund Permanent

City Targeted Reserve Funds: The City uses the following classifications:

1. **Minimum Fund Balance Reserves:** Provides a financial cushion for revenue fluctuations and cyclical activity through General Operations.

- a) **Targeted Fund Balance**



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	Min	Max
General Fund and Streets	15% ongoing revenues	20% ongoing revenues
Water Unrestricted	3 months operating expenditures	5 months operating expenditures
Sewer Unrestricted	3 months operating expenditures	5 months operating expenditures

2. **Economic Uncertainty Reserves:** Provides a financial cushion against unanticipated adverse financial or economic circumstances, emergencies, or litigation.
- a) **Targeted Reserve:** The maximum fund balance should take into consideration level of volatile revenues, such as Development related revenues (Building Permits, Inspections, Plan Check Fees, and other Development Fees) and Sales Tax.

	Min	Max
General Fund and Streets	1% ongoing revenues	3% ongoing revenues
Water Unrestricted	1% ongoing revenues	3% ongoing revenues
Sewer Unrestricted	1% ongoing revenues	3% ongoing revenues

3. **Future Liabilities Reserves:** These amounts are set aside for a specified purpose, related to an accrued obligation or to self-insure for a future obligation. This should include reserves for a portion of accrued compensation (paid time off and sick leave) that is paid to an employee upon separation from employment.
- a) **Targeted Reserve:** The amount necessary to mitigate a specific future expense is based on a historical pattern or other appropriate measure. Accrued compensation is based on historical patterns or other appropriate measure.

	Min	Max
General Fund and Streets	1% ongoing revenues	3% ongoing revenues
Water Unrestricted	1% ongoing revenues	3% ongoing revenues
Sewer Unrestricted	1% ongoing revenues	3% ongoing revenues



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4. **Facilities and Equipment Reserve Funds:** Established to purchase, replace or refurbish City facilities and operating equipment such as computers, copiers, operating equipment and vehicles (see Capital Improvement Plan policy).
- a) **Targeted Reserve Fund Balance:** Maintained at a level sufficient to meet scheduled equipment replacement so as to sustain an acceptable level of services.

	Min	Max
Equipment Replacement (General Government)	2.5 years scheduled replacement	6 years scheduled replacement
City Facilities	2.5 years scheduled replacement	6 years scheduled replacement
Water Restricted	2.5 years scheduled replacement	6 years scheduled replacement
Sewer Restricted	2.5 years scheduled replacement	6 years scheduled replacement

II. PROCEDURES

1. **Ongoing Revenues and Operating Expenditures:** Reflects the ongoing operations and excludes one-time, nonrecurring and capital items. (See Budget Development Policy.)
2. **Addition to Fund Balance/Reserves:** Typically provided by surplus from prior years, one-time revenues and revenues in excess of operating expenditures.
3. **Replenishment of Fund Balance/Reserves:** Where a deficit causes a fund balance to be reduced contributions will be made over a three to five year period until targeted level is attained using one-time revenues first and surplus next.
4. **Minimum Fund Balance:** Replenishing the fund balance to the minimum level will be the first priority use of excess year-end resources.
5. **Budgeted Fund Balance and Targeted Reserves:** All reserves will be presented in the budget and will be compared to the adopted financial policy. If the resulting targeted reserves fall below policy a plan will be presented to bring the fund balance into compliance.



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6. Periodic Reporting: The Finance Department will provide the City Council with periodic reports (quarterly) regarding fund balance and targeted reserves. for compliance to policy.