

RESOLUTION NO. 11-10

**A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF FAIRFAX
ADOPTING A RESERVE POLICY**

WHEREAS, the Town wishes to establish a comprehensive set of reserve policies for the Town that will serve as a guideline for operational and strategic decision making related to financial matters; and

WHEREAS, the goals of adopting reserve policies are to establish a comprehensive set of guidelines for use by the Town Council and Town staff on budgeting for on-going and future liabilities that have a fiscal impact, to maintain the Town's financial stability and adapt to local and regional economic changes, and to allow the Town to maintain and enhance its sound fiscal condition; and

WHEREAS, the current reserve limits for the Town are General Fund Reserve \$769,465 and OPEB Reserve \$120,000; and,

WHEREAS, the word "should" in the reserve policy reflects the aspiration of the Town and does not impose a duty.

NOW, THEREFORE, BE IT RESOLVED, that the Town Council of the Town of Fairfax does hereby adopt the policies attached hereto as Exhibit "A," and incorporated herein by reference; and

BE IT FURTHER RESOLVED that this policy will be included as part of the Town's annual Adopted Budget; and

BE IT FURTHER RESOLVED that the Town's Reserve Policy shall be in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA), and

BE IT FURTHER RESOLVED, that this reserve policy will be reviewed annually to ensure that it remains current.

The foregoing resolution was adopted at a regular meeting of the Town Council of the Town of Fairfax held in said Town on the 2nd day of March, 2011, by the following vote:

AYES:
NOES:
ABSENT:

LARRY BRAGMAN, MAYOR

Attest:

Judy Anderson, Town Clerk

AGENDA ITEM # 7

RESERVE POLICY

Town of Fairfax Reserve Policy Notes

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PURPOSE:

To establish a comprehensive set of reserve policies for the Town that will serve as a guideline for operational and strategic decision making related to financial matters. These are the goals that the Town strives for and works towards, in an effort to promote the fiscal sustainability and stability of the Town; the adoptions of these policies do not impose a duty.

STATEMENT OF POLICY:

The following reserve policies are intended to establish a comprehensive set of guidelines for use by the Town Council and Town staff on budgeting for on-going and future liabilities that has a fiscal impact. The goal is to maintain the Town's financial stability in order to be able to continually adapt to local and regional economic changes. Such policies will allow the Town to maintain and enhance a sound fiscal condition. This policy should be implemented in conjunction with associated policies, i.e. Financial Policies, Mission Driven Budgeting Policy, etc.

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The General Fund Reserve Policy is included in the Financial Policies as well, ~~but is repeated here for sake of discussion and comparison.~~

GENERAL FUND RESERVE POLICY

1. It is a goal of the Town to maintain a general operating reserve of, at a minimum, 20% of projected General Fund operating expenditures for each fiscal year and an additional 5% for emergency situations (excluding debt service, fund transfers, and encumbered funds). These reserves are designed to be used in the event of a significant financial emergency. Should the General Fund reserve fall below 25%, the Town will strive to implement measures to restore the reserve percentage to 25% in the following fiscal year.
2. The Town ~~will~~ shall establish, at the beginning of each fiscal year, an "appropriated reserve" to provide funding for special projects/programs approved by Town Council after the annual budget is adopted, for unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in current service delivery costs. The amount of this reserve will be approved annually by the Town Council.
3. A portion of any uncommitted fund balance in excess of 25% of annual revenues resulting from the previous fiscal year's operations ~~should~~ will strive to be committed to capital improvement projects or ~~should~~ will be used to retire existing debt, fund future liabilities or potential legislative impacts, establish or replenish equipment replacement funds, and/or establish or replenish deferred maintenance funds.

RESERVE POLICY

4. The Town will strive to not use ~~one-time funds should not be used to~~ fund ongoing Town programs. Any onetime revenue receipt during the fiscal year should be recognized and recorded in a "non-recurring revenue source" category. One-time revenue windfalls include: sales of Town-owned real estate, CalPERS rebates, lump sum (net present value) savings from debt restructuring, litigation settlement, unexpected revenues, and other similar sources of revenue as designated by the Town Council.

5. The Town ~~will~~ should strive to establish and maintain a designated reserve fund for any anticipated future expenses that will require a certain level of steady funding source, i.e. unfunded future retiree medical cost and pension cost. It is prudent to set aside these funding needs each year in order to maintain the Town's financial stability.

The areas for Reserve Policy discussion today are:

- **General Fund Reserve (assumed undesignated)**
 - Projected at required safety level of 15% to 25% of operating expenditures
 - 20% \$1, 380,300
 - 15% \$1, 035,225
 - 10% \$ 690,150
 - 5% \$ 345,075

- **Emergency Reserve**
 - Projected at 5% for **only** emergency use
 - 5% \$345,075

- **Capital Improvements and Maintenance**
 - Projected at 11% for **only** repairs and maintenance based on the 20 year CIP Maintenance Plan included in the packet.
 - 11% \$750,000

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RESERVE POLICY

- Equipment Replacement
 - Projected at 2% for replacement pending an amortization methodology calculation (currently we budget 1% annually)
 - 2% \$138,030

- OPEB (Other Post Retirement Benefits)
 - Projected at slightly less than 2% annually for the ARC (Annual Required Contribution) to fully fund our liability.
 - >2% \$120,000

If we funded all of the above at the recommended percentages we would find ourselves at the annual contribution amount listed below (Maximum and minimum) for the budget year of 10-11:

Maximum contributions:

• <u>General Fund Reserve</u>	20%	\$1,380,300
• <u>Emergency Reserve</u>	5%	\$ 345,075
• <u>Capital Maintenance Reserve</u>	11%	\$ 750,000
• <u>Equipment Replacement</u>	2%	\$ 138,030
• <u>OPEB - ARC</u>	>2%	\$ 120,000

Total Required Maximum Available Annually \$ 2,733,405

Minimum contributions:

• <u>General Fund Reserve</u>	15%	\$ 690,150
• <u>Emergency Reserve</u>	5%	\$ 345,075
• <u>Capital Maintenance Reserve</u>	11%	\$ 750,000
• <u>Equipment Replacement</u>	2%	\$ 138,030
• <u>OPEB - ARC</u>	>2%	\$ 120,000

Total Required Minimum Available Annually \$ 2,043,255

These are benchmark contributions recommended for Council's awareness, and for the discussion here today. These are forthcoming challenges to be addressed.

RESERVE POLICY

Town of Fairfax Reserve Policy Notes

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