

## 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.

### 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.**

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, 25% 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 30%, the Town will implement measures to restore the reserve percentage to 30% in the following fiscal year.
2. The Town 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.
2. A portion of any uncommitted fund balance in excess of 30% of annual revenues resulting from the previous fiscal year's operations should be committed to capital improvement projects or should be used to retire existing debt, fund future

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liabilities or potential legislative impacts, establish or replenish equipment replacement funds, and/or establish or replenish deferred maintenance funds.

3. 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 should 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 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
    - 25%           \$1,725,375
    - 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

- 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) :

**Maximum contributions:**

• <u>General Fund Reserve</u>	25%	\$1,725,375
• <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%	<u>\$ 120,000</u>

Total Required Maximum Available Annually                 \$ 3,081,955

**Minimum contributions:**

• <u>General Fund Reserve</u>	15%	\$1,035,225
• <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%	<u>\$ 120,000</u>

Total Required Minimum Available Annually                 \$ 2,391,805

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