

APPENDIX D - RESERVE POLICY

Adopted 5/1/2014 ORD-0080-2014

Purpose

The purpose of this policy is provide guidelines to the City Council and staff for establishing, maintaining and reviewing the Emergency Reserve for the City of Gahanna.

This policy addresses the following:

- Level of funding
- Conditions for use
- Allocation of the Emergency Reserve
- Mechanics of the Emergency Reserve
- Reporting and review provisions

Background

Establishing a minimum Emergency Reserve is a mechanism that governments can implement to help insure adequate levels of fund balance are available to help mitigate current and future risks. A minimum Emergency Reserve is generally considered a prudent and conservative fiscal policy to deal with unforeseen situations.

The Government Finance Officers Association (GFOA), an international organization that promotes the professional management of governments for the public interest, recommends maintaining a minimum unreserved fund balance in the General Fund of no less than 5 to 15 percent of regular General Fund Operating Revenues or no less than two months or 17% of General Fund Operating Expenditures. According to the GFOA, the methodology used to create the reserve depends on the circumstances of the individual organizations. The GFOA also recommends the establishment of a formal written policy on the level of unreserved fund balance that should be maintained in the General Fund.

Most cities choose General Fund Operating Expenditures as the basis for a reserve. Typically there is less fluctuation and risk in forecasting future expenditures. The General Fund Operating Expenditures methodology is also typically considered the more conservative basis for establishing an Emergency Reserve.

There are additional benefits to establishing a minimum Emergency Reserve. Credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government's General Fund to evaluate a government's continued creditworthiness. Finally, fund balance levels are a crucial consideration in long-term financial planning.

The City of Gahanna has undertaken a lengthy public process to analyze the City's risk exposure, current mitigation strategies and policy considerations related to the Emergency Reserve.

Policy

❖ Level of Funding

The target funding level for the Emergency Reserve shall be 25% of General Fund operating expenditures. The Director of Finance shall calculate and communicate the Reserve target to City Council each year as a part of the annual appropriations process.

Funding of the Emergency Reserve target will generally come from excess revenues over expenditures or one-time revenues in the General Fund.

❖ **Conditions for Use**

The Emergency Reserve is intended to provide the City with sufficient resources and a comfortable margin of safety to support one-time costs for emergencies such as:

- Natural disaster or other emergency
- Economic recession/depression
- Unexpected decline in revenue and/or unexpected large one-time expenditure

Emergency Reserves shall not be used to support recurring operating expenses. An exception may be made for winding down a program or service which must be eliminated in order to provide sufficient notice and reduce the impact to the community. This action shall have a definite end date of not more than one fiscal year.

Emergency Reserves shall not be used to leverage dollars for program expansion or as a match requirement for grants. An exception may be made for capital projects and public works under circumstances of a declared emergency.

A majority vote of the City Council will be required to use the Emergency Reserve.

❖ **Allocation of Emergency Reserve**

The full 25% Emergency Reserve target balance shall be available for use in the event of a natural disaster or other emergency.

Use of the Emergency Reserve for expenses related to economic recession/depression or unexpected decline in revenue and/or unexpected large one-time expenditure shall be limited to 10% of General Fund operating expenditures.

❖ **Replenishment**

In the event that the use Emergency Reserve would result in a balance below the 25% target, City Council shall approve a plan for replenishment at the same time that the use of the Reserve is approved. If feasible, the Reserve shall be restored the year immediately following the use of the Reserve. Full replenishment should take no longer than three years following the use of the Reserve.

❖ **Mechanics**

In order to maintain separate control and accountability over the Emergency Reserve, the City shall account for the Reserve in a separate fund (Fund 110). Appropriate approval by the Auditor of State to establish this fund will be required. Use of the Emergency Reserve, if approved by City Council, shall be accomplished by transferring funds into the appropriate City Fund for that purpose (e.g. General Fund). Replenishment of the Emergency Reserve shall be accomplished by fund transfer from the appropriate City Fund.

❖ **Reporting and Review Provisions**

As a part of the annual appropriations process, the Director of Finance shall provide a report to City Council on the balance of the Emergency Reserve, the status of any uses of that fund in the past year and any ongoing replenishment plans in place. Should the balance of the Emergency Reserve be below

the 25% target due to conditions not related to the use of the Reserve, the appropriations shall include provisions to bring the Reserve to the target funding level.

The City's Emergency Reserve Policy shall be adopted by Ordinance of the City Council. City Council shall review and reaffirm this policy every five years at a minimum.