

RESOLUTION 2013-4

**A RESOLUTION ADOPTING A WORKING CAPITAL POLICY
FOR THE CITY OF CAMERON, CLINTON AND DEKALB
COUNTIES, MISSOURI**

WHEREAS, the City is desirous of maintaining appropriate reserves of working capital to sustain operations; and

WHEREAS, the policy is intended to comply with good accounting practices; and

WHEREAS, the policy will provide consistent direction for maintaining reserve levels, and explains the rationale for same.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Cameron, Clinton and DeKalb Counties, Missouri, as follows:

Section 1. The City Council of the City of Cameron adopts the Working Capital Policy attached hereto and made a part hereof.

Section 2. This Resolution shall become effective upon the date of its adoption.

Passed and approved this 15th day of January 2013.

Mayor Dennis M. Clark

Attest:

City Clerk/Finance Clerk

Definition of Reserve

Resources set aside to provide a buffer against risk.

Cash Reserve is not to be confused with *fund balance* which is an accounting term describing the difference between assets and liabilities in a governmental fund. Reserve as frequently used in general public finance is not a governmental accounting term. Reserve as used by the City of Cameron is not the equivalent of fund balance. It is, however, the portion of that fund balance which the City will hold to buffer against risk, by having managed resources that will allow for sufficient working capital (cash) to meet its obligations and provide for contingencies. The term reserve will be used to describe this working capital concept.

Preview

Reserves are often misunderstood. There are the questions as to how much reserve is enough; when should reserve be used; and, what should it be used for? These are questions that must be answered. However, we must realize the value of an adequate reserve. Reserves offer the City financial flexibility allowing for a timely response to unexpected issues that arise and a buffer against economic shocks or other emergencies.

Reasons For A Reserve Policy

Generally there are at least 6 purposes for a reserve policy.

1. Planning for Contingencies
Budgeting is always a challenge for City Governments. Matching revenue with expenditures has to allow for somewhat unpredictable revenue sources (like sales taxes) against regular operating costs and potential extreme events like storms creating unusual expenses that cannot be predicted at budget time. Reserves can be used to make up for any shortfalls caused by these unexpected events.
2. Maintaining good standing with rating agencies
Bond rating agencies look at the City's level of reserves to determine creditworthiness because adequate reserve is an indication of a City's ability to repay debt in a timely manner.
3. Avoiding interest expenses
The way to avoid interest expense through the use of reserves is to fund capital projects using reserves rather than using debt and cover short-term cash shortfalls using reserves instead of using debt.
4. Generate investment income
Reserves can, in good economic times, be a good source of income through investment yield. However, to utilize reserves as a risk reduction method the City must keep reserves managed and relatively liquid.

5. Ensure cash availability when revenue is unavailable
Reserves should be used to cover the times of the year when revenue streams are low.
6. Create a better working relationship between the Council and Staff
A reserve policy creates a better understanding of what constitutes a proper level of investment of the City's resources.

General Fund Reserve Policy

Purpose

The City of Cameron desires to maintain a prudent level of reserve; to guard against service disruption in the event of unexpected revenue shortfalls, unpredicted one time expenditures, cash flow shortages due to property tax revenue receipts, unexpected shortages in enterprise funds, unfunded asset replacement or maintenance and to provide a source of capital for investment opportunities that may unexpectedly present themselves which will have the potential for important returns for the City's investment. Reserves can be targeted toward each of the above purposes, that is, a specific reserve percentage for each of the targets. That method does get somewhat complicated and can be used to limit their use. Therefore, it is the intention of the City of Cameron to use a percentage to cover all the above targets. This percentage is partially based upon the average of four regional states with city populations under 25,000. Keeping in mind that the smaller the city budget the larger the percentage must be.

The goal of the City of Cameron general fund is to maintain a minimum reserve (cash and other liquid assets) of 25% with a maximum of 40% of the current budgeted expenditures less planned capital expenditures. In the event the fund has less than the minimum fund balance target, an amount must be added to the budget (meaning that revenues must exceed expenditures) to cover the deficiency over a period of time not to exceed five (5) fiscal years.

Special Revenue Reserve Policy

Special revenue funds are created to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes. No specific reservation of Fund Balance is created by virtue of enactment of this policy. However, in the case of bonded indebtedness for any special fund, the City of Cameron shall maintain a reserve Fund Balance of 50% of the annual debt service.

Debt Service Fund

Debt service funds are typically subjected to the creation of very specific reserve amounts as part of the ordinance or resolution which authorizes the issuance of the bonds. This policy does not create any specific reservation of Fund Balance within any Debt Service Fund. Reserve requirement for any outstanding bond issue will be consistent with the ordinance or resolution authorizing the issuance of the bonds.

Enterprise Funds

For each enterprise fund, there shall be a minimum of reserves on hand that equal 90 days of operating costs for that fund. Operating costs are the recurring expenses which are related to the operation of the enterprise; it does not include depreciation, bond payments or capital purchases. For the purposes of the calculation, the current fiscal year budget shall be the budget as originally adopted by ordinance in September for the subsequent fiscal year. This reserve shall be in addition to all other required reservations of Retained Earnings including, but not limited to, amounts for debt service and/or amounts reserved for renewal and replacement of long lived assets.

Compliance

Compliance with the provisions of the reserve policy shall be reviewed as part of the annual budget adoption process.