

RESOLUTION NO. 2013-05

**A RESOLUTION OF THE CITY OF OAK RIDGE NORTH, TEXAS,
AMENDING THE CITY'S RESERVE FUND POLICY TO PROVIDE
CORRECT STAFF POSITION AND TITLES; AND MAKING OTHER
FINDINGS AND PROVISIONS RELATED THERETO.**

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WHEREAS, on January 9, 2012, the City Council adopted the City of Oak Ridge North, Texas, Reserve Fund Policy by Resolution No. 2012-01; and

WHEREAS, the City Council desires to amend the policy to reflect the title of "Director of Finance" as provided for in the City's Code of Ordinances, Chapter 2-Administration;

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF OAK RIDGE NORTH, TEXAS:

Section 1. The City Council of the City of Oak Ridge North amends the City's Reserve Fund Policy as set forth in Exhibit "A" attached hereto and made a part hereof.


Section 2. All established policies, resolutions or parts of resolutions inconsistent or in conflict herewith are, to the extent of such inconsistency or conflict, hereby repealed.

PASSED, APPROVED, and RESOLVED this 25th day of February, 2013.



Jim Kuykendall
Mayor

ATTEST:



Clasina Watson
City Secretary





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CITY OF OAK RIDGE NORTH RESERVE FUND POLICY

To protect the interest and welfare of the citizens of Oak Ridge North, Texas, and to establish a formal process to maintain the fiscal health of the City, the following reserve fund policy has been designed to guide the City management in the budget development, amendment and monitoring activities for the City and its public trust authorities. This policy shall be known as "The Municipal Reserve Fund Policy".

Purpose

The purpose of this policy is to establish a key element of the financial stability of the City by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations.

Definitions

Fund Equity – A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance – An accounting distinction is made between the portions of fund equity that are spendable and non-spendable. These are broken up into five categories:

- 1) **Non-spendable fund balance** – includes amounts that are not in a spendable form or are required to be maintained intact. Examples are inventory or permanent funds.
- 2) **Restricted fund balance** – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and child safety fees.
- 3) **Committed fund balance** – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

- 4) **Assigned fund balance** – comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) **Unassigned fund balance** – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Budgetary Fund Balance Reserves

In an effort to provide fiscal stability for the City and allow City management to apply fiscal prudence in managing the budgetary condition of the City and its public trusts, desired fund balance reserve levels are established.

Operating Reserve Funds (Unassigned Fund Balance) - The desired level of reserves for the all operating funds shall be 50% of the annual fund revenue accruing to that fund. For the purposes of this policy, operating reserve funds shall be maintained for the general fund and for the water and sewer fund.

Long-Term Capital Reserve Fund (Committed Fund Balance) – a continuous five-year plan of capital asset and infrastructure needs including new capital assets and replacement of existing assets shall be maintained. This budget/plan is used as a tool in developing the Capital Fund Budgets within the annual fiscal year budget. The desired level of reserves for capital funds will be based on an estimated average annual capital budget as evidenced by the long-term capital plan.

In fiscal years when these desired reserves are not already in existence, City management and the City Council will add to the reserves when possible to attain the desired levels.

On a monthly basis, the Director of Finance will report the budget status of the operating and capital reserve funds to the City Council. The City will also engage the external financial statement auditor to make an express statement as to the City's compliance with this budget policy, including the level of budgetary reserves.

Other Fund Balance Reserves

Construction Reserve Fund (Restricted Fund Balance) – This fund shall be limited to accounts assigned to specific projects covered by external grants or funding programs not associated with the annual budget.

Severance Reserve Fund (Committed Fund Balance). This fund is created to provide for the payment of accrued leave benefits, severance packages, early retirement programs, and other similar non-recurring employee benefits owed to employees at the time of resignation, lay-off, severance and or termination. The initial appropriation for this fund is \$200,000.

Debt Service Fund (Restricted Fund Balance) – This fund shall be limited to the payment of debt service.

Village of Oak Ridge Grove PID Fund (Restricted Fund Balance) – This fund shall be limited to account for assessments for properties located within the district to pay for past infrastructure costs.

Special Revenue Projects Fund (Restricted Fund Balance) – This fund shall be limited to specific projects that are authorized to be funded through the Court Security, Court Technology, Judicial Efficiency, or Crime Solving Rewards Funds.

Budget Balancing Policy

It is the City's policy to appropriate no more than the current year estimated revenues, including interfund transfers, for each fund, in the original budget for a given fiscal year. Compliance or departure from this policy shall be duly noted in the Budget Message submitted by the City Manager for the following fiscal year, including an explanation as to the basis for any departure, making reference to the applicable criteria outlined in the following section. "Criteria for Use of Fund Balance Reserves."

During the fiscal year, after adoption of the original approved budget, any supplemental appropriations of available fund balance must be approved by the City Council who shall consider the basis for the proposed use of reserves as well as the adequacy of the remaining unappropriated fund balance. Actual approval of any supplemental appropriations of available fund balance shall be duly noted in the minutes, including a reference to the basis or justification for same, as outlined in the following section, entitled, "Criteria for Use of Fund Balance Reserves".

Interfund Transfers

In the process of balancing the budget, interfund transfers from the Water and Sewer Fund to the General Fund will be limited to no more than 25% of the annual estimated gross revenue for the Water and Sewer Fund for the budget year.

Criteria for Use of Fund Balance Reserves

A central goal of this budget policy is to bring about the development and preservation of adequate fund balance reserves to ensure fiscal solvency of the municipality over the long run, as a safeguard against economic downturns, natural disasters or other catastrophic circumstances, significant budgeting or accounting errors, or possibly even adverse liability claims or legal judgments.

Caution will be exercised whenever considering budgeting reserve funds, even when actual reserve fund levels exceed desired levels, since they represent one-time monies. City Management and City Council, as a general rule, should avoid using reserve funds to finance new spending initiatives, lest they find themselves unable to satisfy the new, recurring expenses.

There are circumstances when it is acceptable and/or necessary to budget the use of fund balance reserves even though reserve amounts on hand already fall shy of desired levels. Following is a list of acceptable uses of fund balance reserves, to serve as a guide for administrators and managers in budgeting reserve funds.

Acceptable / Permitted Supplemental Appropriations of Fund Balance Reserves Might Include:

1. Emergency expenditures for life, health, or public safety issues for which no existing appropriation exists;
2. Situations where the expenditure will yield recurring savings which offset the expense within five years;
3. Situations where the expenditure will yield a recurring stream of additional or new revenues which offset the expense within five years;
4. The expenditure of restricted resources temporarily held within fund balance reserves, pending disbursement, in accordance with restrictions imposed by the donor or granting entity;
5. Correcting results of an erroneous posting or transaction;
6. Situations where fund balance reserves exceed desired levels and the proposed use is of a non-operational nature involving capital or equipment purchases having a useful life of greater than five years;
7. Situations where fund balance reserves exceed desired levels and the proposed use is of a non-recurring nature, such as a study, or for start-up costs of a program whose ongoing costs are otherwise funded;
8. Situations where an unexpected expense arises that could not have reasonably been foreseen, for which new revenue funded appropriations are not available and transfers of existing appropriations are not considered feasible or appropriate in maintaining existing service levels throughout the City;
9. Situations where an unexpected revenue decline arises that could not have reasonably been foreseen, for which new revenue funded appropriations are not available and transfers of existing appropriations are not considered feasible or appropriate in maintaining existing service levels throughout the City;
10. To create a new fund for a dedicated purpose;
11. To satisfy a judgment from a court of competent jurisdiction; and
12. Under no circumstances should a supplemental appropriation of fund balance reserves be made for expenditure likely to recur on a multiple year or annual basis.

In addition to the requirement stated above regarding budgeting of fund balance reserves, the City Manager's annual Budget Message shall include, at a minimum, an explanation as to why fund balance reserves were budgeted.