



**AGENDA ITEM EXECUTIVE SUMMARY**

Agenda Item number: 5b

Title:

Recommendation to Approve a Resolution Authorizing an Amendment to the Reserve Policy of the City of St Charles

Presenter:

Chris Minick, Finance Director

Meeting: Government Operations Committee

Date: April 17, 2017

Proposed Cost: N/A

Budgeted Amount: N/A

Not Budgeted:

**Executive Summary** (if not budgeted please explain):

Recently, the City Council had requested that staff review the policy regarding appropriate levels of reserves for enterprise funds and recommend any changes deemed appropriate given the recent economic conditions and the significant amount of time that had passed since the last review of this policy. Staff also took the opportunity to review the General Fund reserve policy as part of this analysis.

Reserves are maintained to provide working capital in the short term in the event of unforeseen circumstances/situations that impact the operations of a fund or utility. Revenue shortfalls, emergency repairs, natural disasters, and other system failures are a few of the major factors that reserves are intended to address. The City’s current reserve policy is as follows: **“Maintain available fund balance (working capital) of at least 25% of operating expenditures for the General Corporate Fund and 25-50% for enterprise funds.”** The enterprise portion of this current policy has two weaknesses: 1) Having a range of reserves rather than a minimum threshold promotes confusion as to the level of reserves that should be maintained and 2) The current definition of available fund balance (working capital), does not take into account the City’s legally restricted cash that is not available to fund operations. In addition, the General Fund portion of the policy does not take into account that the City funds many of its debt service and general governmental capital projects needs with “transfers out” of the General Fund to the appropriate fund to finance these activities. Staff believes including operating transfers is a more conservative approach to determining a minimum fund balance.

To address the identified shortcomings, staff is recommending the reserve policy be amended as follows: **“Maintain available fund balance of at least 25% of operating expenditures and interfund transfers out for the General Corporate Fund and net working capital of at least 25% of operating expenses for the enterprise funds. Net working capital shall exclude any restricted current assets prohibited from being expended upon operations.”** The attached Resolution amends the policy to incorporate the staff recommendations.

The enterprise funds that are covered under this policy are the City’s three (3) utility funds: Electric, Water and Wastewater. The revised policy eliminates the confusing fund balance range and instead provides a minimum fund balance requirement that is consistent with the General Fund. The 25% minimum is essentially in line with policies established at other municipalities, based on a recent survey of 13 other communities in the Chicago metropolitan area. In addition, the 25% minimum is consistent with the Government Finance Officers Association’s (GFOA’s) recommended baseline level of 90 days of operating expenses for enterprise funds, or 25% of a year.

**Attachments** (please list):

Resolution

**Recommendation/Suggested Action** (briefly explain):

Recommendation to approve a Resolution Authorizing an Amendment to the Reserve Policy of the City of St Charles.

**City of St. Charles, Illinois**  
**Resolution No. \_\_\_\_\_**

**A Resolution Authorizing an Amendment to the Reserve Policy of the City of  
St Charles**

**Presented and Passed by the  
City Council on \_\_\_\_\_**

WHEREAS, the City of St Charles had previously established a policy for reserves for its major operating funds including the City's General Fund, and Electric, Water, and Sewer utilities; and

WHEREAS, the City Council requested that staff review the Reserve Policy and suggest any relevant changes to the policy to reflect current economic and financial conditions. Any revisions proposed must also be in accordance with best practices and prudent business practices for local governmental units; and

WHEREAS, Staff has reviewed the Reserve Policy, surveyed various area communities to analyze common practices, and reviewed the Government Finance Officer's Association's (GFOA's) recommended policies and practices for Reserve Policies, particularly related to enterprise funds and utilities; and

WHEREAS, the City wishes to amend its Reserve Policy in accordance with prudent business practices and in accordance with GFOA's best practices;

NOW THEREFORE BE IT RESOLVED by the City Council of the City of St. Charles, Kane and DuPage Counties, Illinois, that the City's Reserve Policy is hereby amended as follows:

*“Maintain available fund balance ~~(working capital)~~ of at least 25% of operating expenditures and interfund transfers out for the General Corporate Fund and net working capital of at least 25-50% of operating expenses for the enterprise funds. Net working capital shall exclude any restricted current assets prohibited from being expended upon operations.” for enterprise funds.”*

**Presented** to the City Council of the City of St. Charles, Illinois this \_\_\_\_ day of \_\_\_\_\_, 2017.

**Passed** by the City Council of the City of St. Charles, Illinois this \_\_\_\_ day of \_\_\_\_\_, 2017.

**Approved** by the Mayor of the City of St. Charles, Illinois this \_\_\_\_ day of \_\_\_\_\_, 2017.

\_\_\_\_\_  
Mayor

ATTEST:

\_\_\_\_\_  
City Clerk

**COUNCIL VOTE:**

Ayes: \_\_\_\_\_

Nays: \_\_\_\_\_

Abstain: \_\_\_\_\_

Absent: \_\_\_\_\_