

ATTACHMENT #5

CITY OF INDIAN WELLS

GENERAL FUND RESERVE POLICY

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**Considered by the City Council of the
City of Indian Wells**

September 5, 2024

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Policy Statement:

Maintaining appropriate financial reserves is essential for organizational stability. Adequate reserves empower an organization to navigate significant economic downturns, mitigate the impact of external agency actions that may reduce revenue, and respond effectively to unforeseen emergencies such as natural disasters, catastrophic events, or substantial legal liabilities.

Purpose:

It is the policy of the City of Indian Wells (City) to establish sound financial policies that are guidelines for prudent decision-making related to financial matters. The purpose of this reserve policy (Reserve Policy) is to establish a target minimum level of designated reserves in the General Fund to:

- Reduce the risk of financial impacts resulting from natural disasters or other catastrophic events.
- Respond to the challenges of a changing economic environment, including prolonged local, state, or national economic downturns.
- Demonstrate continued prudent fiscal management and creditworthiness.
- Provide funding stability for core services and infrastructure funded through the General Fund.

General Fund Reserve Policy:

The General Fund, as the City's primary operating fund, plays a crucial role. It is the financial backbone that accounts for sources and uses of discretionary resources to the City Council in providing activities, programs, and services deemed necessary and desirable by the community. It also accounts for all general revenues of the City not explicitly levied or collected for other City funds and related expenditures.

The General Fund is primarily funded through transient occupancy taxes, admissions taxes, sales taxes, property taxes, franchise fees, business license fees, unrestricted state revenues, fines, forfeitures, and interest income. These funds are then allocated for community development, recreation, public safety, public works, and other services, ensuring the smooth functioning of the City.

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Rationale for a Robust Reserve:

Given the City of Indian Wells' significant reliance on tourism revenues, which are inherently volatile due to seasonal variations, economic downturns, and unexpected disruptions such as natural disasters or global pandemics, it is imperative to prioritize maintaining a large General Fund reserve. A robust reserve provides a financial cushion that enables the City to sustain essential public services, maintain infrastructure, and support community welfare during periods of reduced income.

Additionally, a substantial reserve enhances the City's creditworthiness, enabling it to secure better terms on borrowing for critical projects. By preparing for revenue shortfalls, the City can avoid drastic cuts to services or steep tax increases, thereby preserving its appeal as a tourist destination and safeguarding the well-being of its residents and businesses.

Prudent financial management dictates that a portion of the funds available to the City be held in reserve for future use. This Reserve Policy establishes the amounts the City will strive to maintain in the General Fund Reserve and the conditions under which the reserves may be spent.

Establishing Target Amounts:

Setting target amounts for cash reserves with a focus on risk involves evaluating specific risks and uncertainties that could affect financial stability. The goal is establishing a reserve that provides a sufficient buffer to manage unexpected expenses or revenue shortfalls. The following considerations are essential in determining the target funding objectives:

- Identify Key Risks
- Assess Risk Tolerance
- Estimate Potential Impact
- Determine Reserve Duration
- Incorporate Industry Benchmarks
- Conduct Annual Review
- Perform Stress Testing

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Fund Balance Classifications:

The City will include Assigned and Unassigned Fund Balance classifications as part of its overall Reserve Policy. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54 (GASB 54), the City classifies fund balance components to identify whether they are available for appropriation:

- *Non-spendable:* Resources not in spendable form or legally required to remain intact.
- *Restricted:* Resources constrained by external parties or laws.
- *Committed:* Resources subject to limitations imposed by the City Council.
- *Assigned:* Resources intended for specific purposes established by the City Manager.
- *Unassigned:* Resources not classified in any other category, typically only in the General Fund.

General Fund Assigned Reserve Targets:

The City will fund the General Fund Assigned Reserve at a minimum of 50% of the budgeted annual General Fund Expenditures with no maximum. The Assigned Reserve is designated for specific purposes and is not accessible for routine expenditures. These funds are held for the following uses:

- Addressing short-term budgetary shortfalls due to economic downturns.
- Managing institutional changes, such as state budget takeaways and unfunded mandates.
- Covering economic shortfalls during declared emergencies.
- Preventing reductions in required services during prolonged economic downturns.

Unassigned Cash Balance:

In addition to the 50% assigned reserve, the City will maintain an additional 20% of the budgeted annual General Fund expenditures as an operating cash balance within the

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Unassigned Fund Balance. This policy ensures that sufficient operational cash is available throughout the year, reducing the need to utilize assigned reserves.

Total General Fund Cash Reserves:

At the beginning of each fiscal year, the combined balance of the Assigned and Unassigned reserves will be maintained at a minimum of 70% of the budgeted annual General Fund expenditures. The City recognizes the inherent fluctuations in cash reserves throughout the fiscal year, influenced by factors such as seasonal tourism and other cyclical elements. As a result, the requirement to maintain a minimum combined total of 70% of the budgeted annual General Fund expenditures—including the 50% assigned reserve and 20% operating cash balance—is evaluated only as of July 1 of each fiscal year. This approach accounts for the variations in cash flow and ensures that the City's financial health is assessed at a stable point in the fiscal cycle.

Funding Mechanisms:

The General Fund Reserve will be funded from excess ongoing and one-time funds. The reserve helps ensure that the City can provide consistent, uninterrupted municipal services in the event of economic disruption or extreme events. The City Council is responsible for determining appropriate General Fund Reserve thresholds and allocating or changing those funding thresholds as appropriate.

The funding levels are based on a conservative risk assessment methodology for setting reserve levels developed by the Government Finance Officers Association of the United States and Canada (GFOA). The General Fund Reserve follows Generally Accepted Accounting Principles set by GASB 54.

Excess Funding Utilization:

Where funding exceeds the established thresholds, the City Manager may authorize the use of excess funds for:

- Additional General Fund reserves.
- Capital Improvement Projects.
- Pension and OPEB contributions.
- Additional Capital Reserve contributions.

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- Disaster Recovery Reserve funding.

Interfund Borrowing Authority:

The City Manager is authorized to approve interfund borrowing in response to catastrophic events.

Replenishment and Review:

If Assigned reserves fall below the minimum threshold of 50% of the budgeted annual General Fund Expenditures, the City Manager will propose a plan to replenish them as quickly as feasible, with a target timeline not exceeding five years. The Finance Committee will review this Reserve Policy annually to ensure its effectiveness and relevance, incorporating best practices and sound risk assessment methodologies.

By adhering to this General Fund Reserve Policy, the City of Indian Wells ensures a solid financial foundation that supports its long-term goals and maintains fiscal health through prudent reserve management.