



CITY OF
MUKILTEO

Finance Department

11930 Cyrus Way Mukilteo, WA 98275

**Fund Balance Reserve
Policy**

2019

RESERVE AND CONTINGENCY FUND POLICIES

Adequate fund balance and reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength.

Maintenance of fund balance for each accounting fund assures adequate resources for cash flow and to mitigate short-term effects of revenue shortages. Reserve funds are necessary to enable the City to deal with unforeseen emergencies or changes in condition.

A. General Policy

The City shall maintain reserves required by law, ordinance and/or bond covenants.

All expenditures drawn from reserve accounts shall require prior Council approval unless previously authorized by the City Council for expenditure within the City's annual budget.

If reserves and/or fund balances fall below required levels as set by this policy, the City shall include within its annual budget a plan to restore reserves and/or fund balance to the required levels.

All reserves will be presented in the City's annual budget.

B. Contingency Fund

The City will maintain a Contingency Fund and shall maintain a reserve equal to \$1,000,000 to provide a financial cushion to cover revenue shortfalls resulting from unexpected economic changes or recessionary periods or to provide funds in the event of major unplanned expenditures the City could face as a result of landslides, earthquake or other natural disaster.

C. General Fund Operating Reserves

The City will maintain a General Fund Operating Reserve to provide for adequate cash flow, budget contingencies, and insurance reserves. The General Fund Operating Reserves will be determined as follows:

1. **Cash Flow Reserve:** The City will maintain a cash flow reserve within the General Fund in an amount equal to two months of budgeted operating expenditures. The City will review annually the required cash flow reserve level that is necessary to meet the City's cash flow needs. If it is determined that the two months of operating expenditure reserves is not adequate, the Finance Director shall propose an amendment to these policies.

D. Hotel/Motel Lodging Tax Reserves

The City will maintain a Hotel/Motel Lodging Tax Reserve of allocating grants to fund tourism promotional opportunities within the City. The City will maintain a cash flow reserve within the Hotel/Motel Lodging Tax Fund in an amount equal to one prior complete year's revenues in ending fund balance. For example, the 2010 budgeted expenditures cannot exceed the 2008 actual revenues received into the fund.

E. Technology Replacement Reserves

The City will maintain a Technology Replacement Reserve for replacement of entity-wide computer hardware, software, or telephone equipment identified in the City's Technology Replacement listing. The required level of reserve will equal each year's scheduled replacement costs. For example, if the 2010 equipment replacement costs are budgeted at \$100,000, the fund reserve balance must equal or exceed \$100,000. Contributions will be made through assessments to the using funds and maintained on a per asset basis.

F. Health Self-Insured Administration Reserves

The City will maintain a Health Self-Insured Administration Reserve to provide Washington State mandated reserves for the City's self-insured dental and vision benefits for City Employees. Reserves will be determined as follows:

1. The City will maintain a reserve in an amount equal to 16 weeks of budgeted expense as required by Washington State's Office of Financial Management. The City will review annually the required reserve level that is necessary to meet the State's requirements (Washington Administrative Code, WAC 82.60).

G. Equipment and Vehicle Replacement Reserves

The City will maintain fully funded reserve for the replacement of vehicles and equipment identified on the City's equipment replacement listing. The required level of reserve will equal each year's scheduled replacement costs. For example, if the 2010 equipment replacement costs are budgeted at \$100,000, the fund reserve balance must equal or exceed \$100,000. Contributions will be made through assessments to the using funds and maintained on a per asset basis.

H. Surface Water Utility Fund Reserve

The City shall maintain an operating reserve within the Surface Water Utility Fund an amount equal to no less than 20% of budgeted operating revenues.