

Financial Reserve Policy – City of Wauwatosa

Why a Reserve Policy Is Important

A financial reserve provides protection from risk. The City of Wauwatosa faces risks like revenue shortfalls during recessions and losses from extra-ordinary events, like a pandemic or extreme weather event. Reserves help make sure that the City can respond quickly and decisively to extreme events. Reserves also support vital public services during revenue declines. A reserve policy describes how much we will try to retain in our reserve. It also describes acceptable uses of reserves.

Acceptable Uses of Reserves

Reserves are meant to address unexpected, nonrecurring costs. Reserves should not be used for recurring annual operating costs. An exception is poor economic conditions or events that disrupt the City's revenues. In such cases, reserves may be used to provide short-term relief so that the City can restructure its operations in an orderly manner.

Replenishment of Reserves

If the City uses its reserves and those reserves are below the allowed minimum, then the Finance Director will propose a plan for the replacement of the reserves. The Financial Affairs Committee will review and approve the plan. The City will try to replace the reserves within the minimum amount of time that is practical.

If the maximum reserve is exceeded during the forecast period, the City may spend the excess reserves on allowable uses. Reserves should be treated as a one-time revenue, as per the City's policy on one-time revenues.

The City's finance department will conduct long-range forecasting to determine if City is likely to stay within its range of reserves.

Authority to Use Reserves

The Finance Director may authorize the use of reserves for purposes consistent with this policy.

The Size of the City of Wauwatosa's Reserve

The City of Wauwatosa will endeavor to hold the following amounts in reserves by fund:

General Fund

The General Fund Reserves include non-spendable, restricted and unrestricted balances. See attachment 1 for definitions of these categories. The unrestricted balances include:

Emergency and Working Capital Reserve (Unassigned)

Minimum	Two months of General Fund expenditures (16.7%) from the current year original adopted budget
Maximum	Three months of General Fund expenditures (20%)

Justification	Recommendation by the Government Finance Officers Association for an appropriate level of reserves for communities with a moderate risk profile. Provides sufficient working capital for year-end when debt service payments are due prior to property tax receipts
Reasons reserves may be used	<ul style="list-style-type: none"> • Response to emergencies (e.g. natural disasters, pandemics, terrorism) • Catastrophic infrastructure damage • Service sustention during a severe fiscal crisis • Short-term revenue bridging (i.e. awaiting property tax receipts in December)
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> • Capital Expenditures • Extra-ordinary economic development opportunities • Pay-down debt
Source of Funds	<ul style="list-style-type: none"> • Year-end Surplus • Budgeted funds

Contingency Fund (Unassigned)

Minimum	.5% of General Fund Expenditures of the current year original adopted budget
Maximum	Refreshed annually so should never exceed minimum
Justification	Based on prior years' experience and revenue constraints
Reasons reserves may be used	<ul style="list-style-type: none"> • Unplanned departmental budgetary shortfall (but not as an ongoing source of budgetary revenue) due to one-time events (severe winter weather, extra-ordinary public safety event, unanticipated litigation, pandemic, etc.)
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> • N/A
Source of Funds	<ul style="list-style-type: none"> • Must be replenished annually from the Emergency Reserve as of January 1.

Amortization Fund – Debt Coverage (Unassigned)

Minimum	125% of annual levy funded principal and interest payments (subsequent year budget) excluding short-term and refunding borrowings
Maximum	135%
Justification	Maintenance of Aaa bond rating is secured, in part, by this reserve as payment of debt service is pledged. Reserve secures repayment.
Reasons reserves may be used	<ul style="list-style-type: none"> • Extra-ordinary catastrophe causing an extreme cash flow shortage preventing debt service payments
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> • Cash-financing to avoid borrowing • Reducing outstanding debt • Smoothing mark-to-market fluctuations

	<i>Use of excess reserve requires approval of Public Debt Commission</i>
Source of Funds	<ul style="list-style-type: none"> • Surplus interest earnings • Bond premium

Capital Improvements - (Assigned)

Minimum	N/A
Maximum	N/A
Justification	Source of additional funding for cash financing capital projects
Reasons reserves may be used	<ul style="list-style-type: none"> • Cash financing capital projects that would otherwise require borrowing
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> • Cash-financing to avoid borrowing
Source of Funds	<ul style="list-style-type: none"> • Sale of public land owned by the City • Other one-time revenues designated by the Common Council

Welcome to Wauwatosa Plant Beds/Medians - (Assigned)

Minimum	N/A
Maximum	N/A
Justification	Donated funds with expressed purpose for the “care and maintenance of the Welcome to Wauwatosa Sign plant beds and the plant beds in the medians.
Reasons reserves may be used	See above
Acceptable Use of Excess Reserves	N/A
Source of Funds	Donated from the dissolved “Beautification Committee” in 2019.

Recycling Stabilization - (Assigned)

Minimum	None
Maximum	Current Year Estimated Total Annual Commodity Value X 2
Justification	The City receives revenue based on the market value of its recyclables. This market is subject to significant volatility, which can cause stress on the Solid Waste budget as this function depends on this revenue to offset the cost of the program. This reserve will smooth out year-to-year fluctuations, which in the past have been significant and unpredictable.
Reasons reserves may be used	<ul style="list-style-type: none"> • Actual or anticipated decrease in recycling revenues that would cause a budgetary shortfall requiring the City to budget additional levy for the solid waste function • Year-end shortfall in recycling revenue compared to budget contributing to a general fund deficit. This is generally not

	realized as a revenue loss, rather a deficit in the expense budgeted to pay the recycling vendor.
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> One-time expenditures related to the solid waste function
Source of Funds	<ul style="list-style-type: none"> Surplus recycling revenue

Non-lapsing Funds - (Assigned)

Minimum	N/A
Maximum	N/A
Justification	The City designates certain accounts as “non-lapsing” as part of the annual budget resolution so that any year-end balance automatically carries over. The Senior Commission, Youth Commission and Commission for Persons with Disabilities are all examples of non-lapsing accounts as well as funds donated for specific purposes, such as for the Police K-9 unit. For a full listing, please see the most recent operating budget resolution.
Reasons reserves may be used	<ul style="list-style-type: none"> Must be used for the assigned function
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> Per Common Council discretion
Source of Funds	<ul style="list-style-type: none"> Year-end surplus in the relevant accounts

Reserve for Subsequent Year Expenditures - (Assigned)

Any funds carried over from the prior year must be reserved as assigned fund balance in the year from which they are carried over. For example, funds carried over from 2022 to 2023 will be held in reserve as subsequent year expenditures in the 2022 Subsequent Year Expenditure Reserve. The 2023 expenditure budget must be amended to reflect the increased expenditure authority with a revenue offset shown as “Appropriated Surplus Applied” to reflect the future use of funds held in reserve. Had these funds not been carried over, they would have otherwise increased the Unassigned Fund Balances. The Finance Department updates this reserve balance manually each year as part of the year-end close process. This reserve will exist in any fund for which there are carry-overs.

Reserve for Encumbrances - (Assigned)

Similar to the Reserve for Subsequent Year Expenditures, any funds encumbered for a purchase order or contract at year-end, will automatically carry-over into the subsequent year and be reserved as assigned fund balance in the year from which they are carried over. For example, purchase order and contract balances carried over from 2022 to 2023 will be held in reserve in the 2022 Reserve for Encumbrances. The 2023 expenditure budget must be amended to reflect the increased expenditure authority with a revenue offset shown as “Appropriated Surplus Applied” to reflect the future use of funds held in reserve. This reserve will decrease automatically as the funds are spent. This reserve will exist in any fund for which there are year-end encumbrances.

Debt Service Fund

The Debt Service Fund is used to pay all non-utility principal and interest debt payments as well as debt issuance expenses. Special revenue funds, such as Tax Incremental Districts, transfer funds to this fund for the debt service owed. The Debt Service Fund includes a non-spendable balance for a loan provided to the Milwaukee Area Domestic Animal Control Commission that will be paid off in 2036. The designated fund balance includes bond premium that is held to be used for subsequent year's interest payments. No additional fund balance may accumulate, per state statute.

Capital Projects Fund

The Capital Projects Fund is used for expenses and revenues related to constructing, improving or acquiring a non-utility asset. Examples includes roads, bridges, fire apparatus and public building renovations. Unspent bond proceeds are held in reserve and considered restricted.

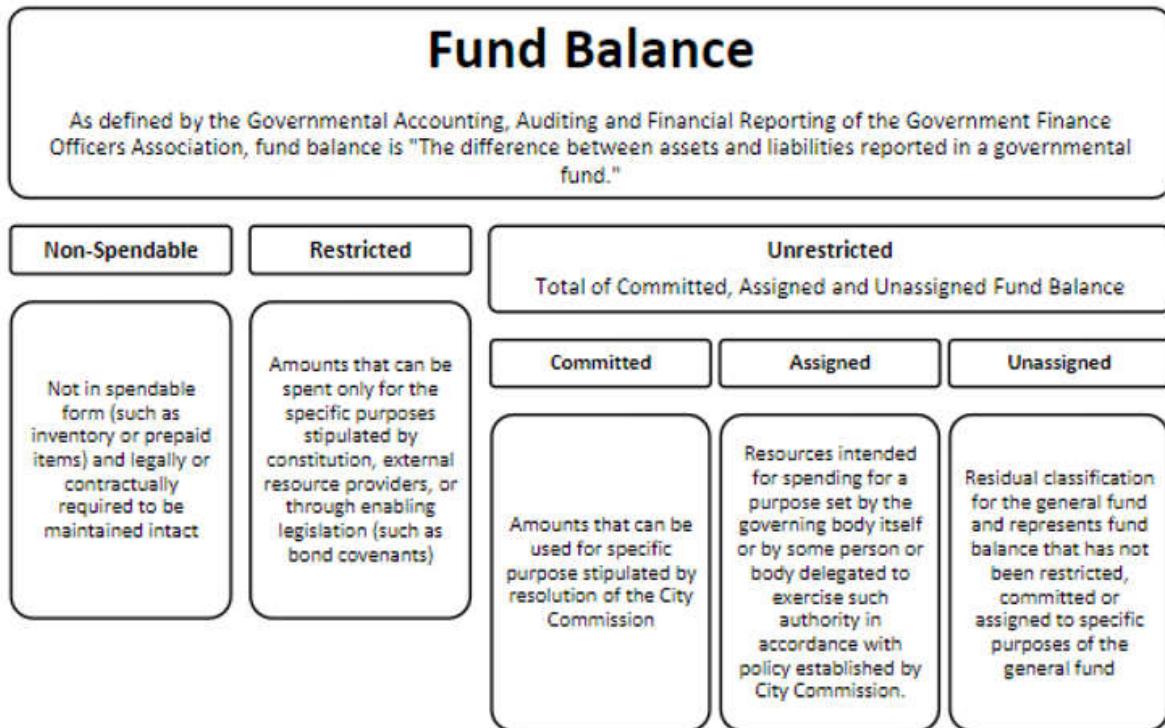
Public Works Building and Yard Improvements (Assigned)

Minimum	NA
Maximum	NA
Justification	This balance was created with funds received by the Department of Transportation for temporary easements necessary for the Zoo interchange reconstruction.
Reasons reserves may be used	<ul style="list-style-type: none">• Improvements to the Public Works yard and buildings
Acceptable Use of Excess Reserves	NA
Source of Funds	<ul style="list-style-type: none">• One time revenues associated with the Public Works complex

Capital Projects Cash Flow Reserve (Restricted)

Minimum	10% greater than 3 year average of maximum monthly cash deficit
Maximum	30 % greater than 3 year average of maximum monthly cash deficit
Justification	The capital projects fund often expends funds prior to receiving revenues such as bond proceeds and grants so it is necessary to maintain a working capital reserve for cash flow.
Reasons reserves may be used	<ul style="list-style-type: none">• To cover cash flow shortages for the fund
Acceptable Use of Excess Reserves	<ul style="list-style-type: none">• Cash finance capital improvements
Source of Funds	<ul style="list-style-type: none">• Capital project surplus

Attachment 1



- City Commission refers to the Common Council.