

# 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 (10)

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"> <li>• Response to emergencies (e.g. natural disasters, pandemics, terrorism)</li> <li>• Catastrophic infrastructure damage</li> <li>• Service sustention during a severe fiscal crisis</li> <li>• Short-term revenue bridging (i.e. awaiting property tax receipts in December)</li> </ul>
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> <li>• Capital Expenditures</li> <li>• Extra-ordinary economic development opportunities</li> <li>• Pay-down debt</li> </ul>
Source of Funds	<ul style="list-style-type: none"> <li>• Year-end Surplus</li> <li>• Budgeted funds</li> </ul>

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"> <li>• 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.)</li> </ul>
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> <li>• N/A</li> </ul>
Source of Funds	<ul style="list-style-type: none"> <li>• Must be replenished annually from the Emergency Reserve as of January 1.</li> </ul>

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"> <li>• Extra-ordinary catastrophe causing an extreme cash flow shortage preventing debt service payments</li> </ul>
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> <li>• Cash-financing to avoid borrowing</li> <li>• Reducing outstanding debt</li> <li>• Smoothing mark-to-market fluctuations</li> </ul>

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

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"> <li>• Cash financing capital projects that would otherwise require borrowing</li> </ul>
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> <li>• Cash-financing to avoid borrowing</li> </ul>
Source of Funds	<ul style="list-style-type: none"> <li>• Sale of public land owned by the City</li> <li>• Other one-time revenues designated by the Common Council</li> </ul>

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"> <li>• 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</li> <li>• Year-end shortfall in recycling revenue compared to budget contributing to a general fund deficit. This is generally not</li> </ul>

	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"> <li>One-time expenditures related to the solid waste function</li> </ul>
Source of Funds	<ul style="list-style-type: none"> <li>Surplus recycling revenue</li> </ul>

**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"> <li>Must be used for the assigned function</li> </ul>
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> <li>Per Common Council discretion</li> </ul>
Source of Funds	<ul style="list-style-type: none"> <li>Year-end surplus in the relevant accounts</li> </ul>

**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 (11)

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 (12)

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"> <li>Improvements to the Public Works yard and buildings</li> </ul>
Acceptable Use of Excess Reserves	NA
Source of Funds	<ul style="list-style-type: none"> <li>One time revenues associated with the Public Works complex</li> </ul>

### 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"> <li>To cover cash flow shortages for the fund</li> </ul>
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> <li>Cash finance capital improvements</li> </ul>
Source of Funds	<ul style="list-style-type: none"> <li>Capital project surplus</li> </ul>

## Community Development Block Grant Fund (13)

The Community Development Block Grant (CDBG) Fund is used expending funds received from the Federal Government's Department of Housing and Urban Development's block grant program. The majority of the funds are provided to third party entities known as sub-recipients. As expenses are paid on a reimbursement basis, any fund balance, is the result of timing delays in receiving those reimbursements and is restricted for already incurred expenses for program activities.

## Revolving Fund (14)

Certain funds that are donated or provided to the City for specific purposes are maintained in the Revolving Fund. The fund is known as a "revolving" fund because funds deposited in this fund automatically become available to be spent for the designated fund. Programs included in this fund are:

**Police Department Forfeiture funds.** Funds the City receives from the state and federal government when assets are seized as part of criminal activity.

**Fire Department EMT Grant.** Funds received by the Fire Department from the State of Wisconsin for Emergency Medical Technician expenses.

**Fire Department Training Tower.** Other Fire Departments pay an annual subscription fee to use Wauwatosa's Training tower. Funds are used to maintain the tower.

**Fire Department Donations.** Donations made from the public specifically to the Fire Department

**Fire Department Equipment Reserve.** Proceeds from the sale of fire vehicles are deposited here and then used to offset the cost of outfitting new vehicles.

## Agency Fund (15)

The City is the fiscal fiduciary over several different programs. As these funds are not technically governed by the Common Council, they are held in "Agency" in this fund. By definition, any fund balance is restricted to the purpose for which the funds were received. The current programs held in agency include:

- **Wauwatosa Firefighters Union Scholarship Endowment.** The City holds funds donated on behalf of the Fire Union which are then awarded by the Union for scholarships.
- **Dick Bachman Flag Fund.** In the past the local civic organization such as the Rotary Club, collected funds to maintain the flags on North Avenue.
- **Land Conservation Fund.** The City established a "Big Box" ordinance that requires new large retail stores to contribute to a fund that can be used to maintain or demolish any vacant big box properties.
- **Automated License Plater Reader.** The City is the fiscal agent for a coalition of police departments that share license plate data from their automated license plate readers.
- **Hart Park Senior Center.** Funds raised by the Senior Center members to be used for improving the Senior Center building and equipment.
- **Cemetery Trust Fund.** Funds required to be set aside by the Cemetery for the perpetual grounds of the Cemetery and not yet invested.

- **Library Trust.** Funds donated to the Library or earned from operating budget surplus that are governed by the Library Board.

### Health/Life Insurance Fund (16)

The Health/Life Insurance Fund pays for all health and life insurance expenses. Direct program revenues are deposited in this account as well as the fees charged to departments with employees who are enrolled in these programs. As an internal service fund, the fund is designed to cover all of its costs.

Minimum	30% of most recent 3 years of actual claims costs
Maximum	No maximum so long as the City has an unfunded retiree health insurance liability.
Justification	Largest and most volatile expense is health insurance claims. Largest percent change since 2002 was a 31% spike.
Reasons reserves may be used	<ul style="list-style-type: none"> <li>• To cover one-time spikes in health insurance claims costs, including stop loss insurance.</li> </ul>
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> <li>• Replace or expand City workout equipment</li> <li>• Issue one-time dividends to departments and/or employees</li> <li>• One-time Wellness or Health Insurance program expenses</li> <li>• One-time expenses to reduce City’s retiree health insurance liability.</li> <li>• Contributions to a trust to pay for the City’s retiree health liability.</li> </ul>
Source of Funds	<ul style="list-style-type: none"> <li>• Year-end surplus in the Health/Life Insurance Fund</li> </ul>

### Dental Insurance Fund (17)

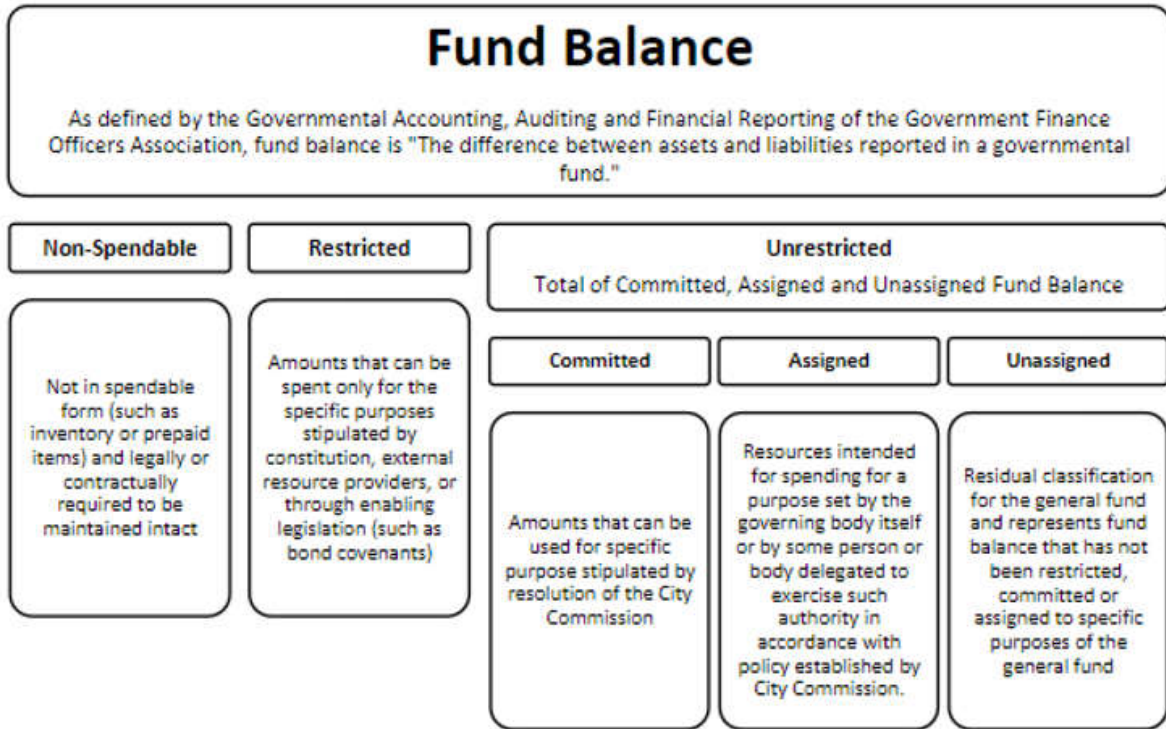
The Dental Insurance Fund pays for all dental insurance expenses. Direct program revenues are deposited in this account as well as the fees charged to departments with employees who are enrolled in these programs. As an internal service fund, the fund is designed to cover all of its costs.

Minimum	30% of most recent 3 years of actual claims costs
Maximum	No maximum so long as the City has an unfunded retiree health insurance liability.
Justification	Largest and most volatile expense is dental claims. Largest percent change since 2002 was a 21% spike.
Reasons reserves may be used	<ul style="list-style-type: none"> <li>• To cover one-time spikes in dental insurance claims costs</li> </ul>
Acceptable Use of Excess Reserves	<ul style="list-style-type: none"> <li>• Issue one-time dividends to departments and/or employees</li> <li>• One-time Wellness program expenses</li> <li>• One-time expenses to reduce City’s retiree health insurance liability.</li> </ul>

	<ul style="list-style-type: none"><li>• Contributions to a trust to pay for the City’s retiree health liability.</li></ul>
Source of Funds	<ul style="list-style-type: none"><li>• Year-end surplus in the Dental Insurance Fund</li></ul>



# Attachment 1



- City Commission refers to the Common Council.