


City of Reedley
Administrative Services Department
845 "G" Street
Reedley, Ca 93654

DATE: September 16, 2021
TO: Nicole R. Zieba, City Manager
FROM: Paul A. Melikian, Assistant City Manager 
SUBJECT: **Annual Review of Fund Balance Policies for General Fund Reserve & Enterprise Funds**

General Fund Reserve

In February 2021, the City Council adopted Resolution 2021-006 revising the Fund Balance Policy for the General Fund Reserve that increases the minimum target amount of 'cash on hand' to 90 days' worth of average monthly operating expenditures, upwards from the previous target of 60 days, which constitutes a margin or buffer for mitigating risks and providing a back-up for revenue shortfalls.

The value of 90 days (three months) operating expenditures to be held in the General Fund Reserve is re-calculated every July, at the close of the previous fiscal year, and the 'cash on hand' in the General Fund Reserve fund is the valuation measure to determine the target reserve fund balance. The average monthly expenditures from the General Fund for the 2020-21 fiscal year were **\$918,679**, therefore the 90-day reserve threshold amount is now **\$2,756,038**. As of June 30, 2021, the cash on hand in the General Fund Reserve fund is **\$2,171,971**, an increase of \$257,445 over last year at this time (\$1,914,526). Therefore, the cash on hand is **(\$584,067)** below the minimum target as set forth in the policy, as detailed in the attached spreadsheet. The review for last fiscal year, dated August 31, 2020, communicated that the cash on hand as of June 30, 2020 was \$359,502 above the minimum target as set forth in the policy, however this was calculated at the lower 60-day minimum target, since amended.

It should be noted, that although this review is as of June 30, 2021, the FY 2021-22 Adopted Budget includes transfers of \$300,000 to the General Fund Reserve from one-time resources. In addition, on September 14, 2021, the City Council authorized using a portion of higher than anticipated carryover in the General Fund to payoff the remaining portion of the Reedley Municipal Airport Loan, an interfund loan made from the General Fund Reserve. In summary, the budgeted transfers, airport loan payoff and expected investment interest will result in an approximate \$495,000 increase to the Reserve this fiscal year. As of September 2021, the Reserve is only about \$89,000 shy of hitting the higher 90-day target.

While certainly a manageable gap, the policy calls for diligently working towards hitting the target; therefore, staff will continue to monitor the City budget for opportunities to bolster the Reserve, potentially as early as the FY 2021-22 mid-year budget review process.

Utility Enterprise Funds

Resolution 2014-017 adopted February 25, 2014, established a policy for the City to maintain a minimum level of working capital, equivalent to 45 days operating expenditures, in the City's Water, Wastewater, and Solid Waste enterprise operations. Monthly operating expenditures excludes capital outlay, debt service and depreciation expense. The minimum 45-day reserve threshold amount is now:

- \$303,521 for the Water Enterprise Fund (050)
- \$391,119 for the Wastewater Enterprise Fund (052)
- \$441,583 for the Solid Waste Enterprise Fund (053)

Working capital, defined as current assets less current liabilities, includes both operating and capital set aside funds. All three enterprise operations comfortably exceed the reserve threshold set by resolution as of June 30, 2021, as detailed in the attached spreadsheet.

The Solid Waste Enterprise had fallen short of hitting the minimum threshold over the last two years. With the privatization of solid waste collections as of July 1, 2021 the City was in receipt of one-time proceeds from the sale of collections equipment, cans and bins; therefore the fund balance as of June 30, 2021 reflects this cash inflow and is a primary factor in exceeding the threshold this year.

This annual review reflects only a certain point in time, and does not include any revenue shortfalls or expenditure activity that may occur during the course of the 2021-22 fiscal year that may cause the Enterprise funds to fall in/out of compliance with the policy. It is recommended that City Departments/Divisions utilizing enterprise funds for large capital or equipment acquisition projects consult with the Administrative Services Department **prior to** making purchasing decisions to ensure that adequate working capital is available after the expenditure(s) is made.

C: Department Heads

Attachment

ANNUAL RESERVE POLICY CALCULATIONS FOR FISCAL YEAR 2020-21

GENERAL FUND & GENERAL FUND RESERVES												
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Monthly Expenditures for Fund 001*	\$ 785,880	\$ 762,469	\$ 881,747	\$ 1,235,255	\$ 843,091	\$ 931,762	\$ 739,878	\$ 745,853	\$ 861,841	\$ 1,035,391	\$ 862,781	\$ 1,338,204
Average Monthly Expenditure	\$ 918,679											
90-Day Reserve Threshold Amount - per Resolution 2021-006	\$ 2,756,038											
Cash For Fund 002 General Fund Reserves of June 30 2021***	\$ 2,171,971											
Cash on Hand Falls Short of Reserve Threshold Set By Resolution	\$ (584,067)											

WATER ENTERPRISE												
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Monthly Expenditures for Fund 050*	\$ 227,627	\$ 219,329	\$ 242,340	\$ 239,901	\$ 195,160	\$ 252,907	\$ 191,964	\$ 133,594	\$ 267,745	\$ 189,410	\$ 189,227	\$ 78,965
Average Monthly Expenditure	\$ 202,347											
45-Day Reserve Threshold Amount - per Resolution 2014-017	\$ 303,521											
Working Capital For Fund 050, 048 and 049 as of June 30 2021**	\$ 787,828											
Working Capital Exceeds Reserve Threshold Set By Resolution	\$ 484,307											

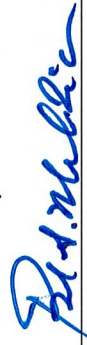
WASTEWATER ENTERPRISE												
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Monthly Expenditures for Fund 052*	\$ 275,098	\$ 218,038	\$ 287,373	\$ 240,281	\$ 168,336	\$ 319,558	\$ 182,077	\$ 352,550	\$ 269,265	\$ 237,719	\$ 186,828	\$ 391,824
Average Monthly Expenditure	\$ 260,746											
45-Day Reserve Threshold Amount - per Resolution 2014-017	\$ 391,119											
Working Capital For Fund 052 and 051 as of June 30 2021**	\$ 1,390,978											
Working Capital Exceeds Reserve Threshold Set By Resolution	\$ 999,859											

SOLID WASTE ENTERPRISE												
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Monthly Expenditures for Fund 053 *	\$ 215,147	\$ 216,497	\$ 371,623	\$ 251,102	\$ 263,458	\$ 355,513	\$ 254,874	\$ 237,322	\$ 354,090	\$ 301,687	\$ 235,877	\$ 475,470
Average Monthly Expenditure	\$ 294,388											
45-Day Reserve Threshold Amount - per Resolution 2014-017	\$ 441,583											
Working Capital For Fund 053 and 054 as of June 30 2021 **	\$ 1,449,678											
Working Capital Exceeds Reserve Threshold Set By Resolution	\$ 1,008,095											

* Excludes capital outlay, debt service and depreciation expense

** Includes both Enterprise Fund and associated Capital Set-Aside Funds

*** Excludes Cash On Hand for General Fund 001



Paul A. Melikian, Assistant City Manager

9/16/21

Date