

POLICY: Cash Reserve Policy

ESTABLISHED: June 7, 2023

RESOLUTION NO.: 64-23; **DATE:** June 27, 2023

I. Cash Reserve Policy

A. Overview

Municipal governments provide a wide range of services that have an impact on public safety and quality of life for community members. Prudent use of resources helps determine how effectively these services are provided on an ongoing basis. In addition to managing revenues and expenditures, it is also the municipal finance official's responsibility to focus on the General Fund balance and maintain cash reserves. In particular, to maintain operations in case of any significant event that could cause disruptions in cash flow, such as an economic downturn or natural disaster.

The City of Richmond endeavors to maintain adequate reserves in its General Fund as a matter of fiscal prudence and sound financial management: This policy will guide the City in:

- Planning for contingencies and unexpected events;
- Ensuring cash availability to stabilize cash flow;
- Maintaining creditworthiness;
- Long-range financial planning; and
- Deciding when to use reserves and how to replenish reserves should they fall below the minimum threshold

B. Policy Guidelines

For purposes of this policy document, cash reserves refer to the sum of the Committed, Assigned, and Unassigned portions of the fund balance in the General Fund. The Governmental Accounting Standards Board Statement No. 54 (GASB 54) defines five distinct classifications of fund balances, applicable to governmental funds only, as follows:

<u>CLASSIFICATION</u>	<u>NATURE OF DESIGNATION</u>
Non-Spendable	Cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to remain intact
Restricted	Restricted either externally imposed or imposed by law through constitutional provisions or enabling legislation
Committed	Reserved for specific purposes pursuant to constraints imposed by formal action of the City Council
Assigned	Reserved by the City Council or City Manager for specific purposes, but neither restricted nor committed
Unassigned	Residual balance not classified in any of the above categories and has not been restricted, committed, nor assigned to specific purposes

The City shall maintain year end contingency reserve balances in the General Fund of a minimum of twenty one percent (21%) of next year's budgeted General Fund expenditures including transfers out. This is the minimum needed to maintain the City's creditworthiness and to adequately provide for economic and legislative uncertainties, cash flow needs and contingencies. A policy based upon percentage assures that the reserve will remain a prudent cushion as the City's budgets grow over time.

City Council approval is required before any withdrawals from the reserve fund. The City Council shall have the discretion to use the reserve for one-time emergencies only and not to be used for ongoing expenditures. As the City experiences net revenue gains in future years, the reserve balance must grow back to a minimum of twenty one percent (21%) of total expenditures, in order to allow the City to build up its capacity to handle future short term economic downturns or emergencies with minimal to no impact to City services.

The Director of Finance will review the Cash Reserve Policy annually in connection with the City's annual budget process to ensure that the City is in compliance with the policy. Additionally, the City Manager will review the policy at regular intervals and will make recommendations for modification as deemed appropriate.