

POLICY NO. P14-02

CITY OF COLDWATER, MICHIGAN & COLDWATER BOARD OF PUBLIC UTILITIES

CASH RESERVE & FUND BALANCE POLICY

I. Introduction

The City of Coldwater (City) and Coldwater Board of Public Utilities (CBPU) are committed to providing excellent municipal services to our community: police and fire protection, streets and sidewalks, electrical and telecommunication services, water and sewer systems, libraries and parks, to name a few. Our ability to provide this wide range of services depends on wise fiscal planning and decision-making. A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital and debt service needs and to anticipate the likelihood of, and preparing for, unforeseen events. Maintaining cash reserves and unrestricted fund balance sufficient to meet the needs of the City/CBPU is an important measure of economic stability.

Maintaining reserves mitigates financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances. It enables the City/CBPU to respond to unanticipated events or emergencies, such as natural disaster. Cash reserves/fund balance may be used for financing large capital expenditures, such as infrastructure, building maintenance projects, vehicles and other equipment, and may eliminate the need for entering into debt, or at least reduce the amount of debt needed when capital expenditures are required, thereby reducing the interest charges the City/CBPU will pay. Cash reserves/fund balance allows the City/CBPU to plan ahead for major expenditures, to smooth out the tax and utility rate charges as much as possible, and provides additional assurance that the current levels of service reliability and quality will continue into the future.

II. Purpose of the Policy

The purpose of this policy is to define and establish goals for cash reserve balance levels sufficient to address current operating, capital and debt service needs and to help mitigate the effects of fluctuating cash flow and unforeseen events or emergencies.

III. Minimum Cash Reserves

Factors to be considered when establishing minimum cash reserves and fund balance ranges may include:

Operation and Maintenance Expenses – Used to address timing differences between when expenses are incurred and revenues are received and to ensure reserve funds are available sufficient to cover peak monthly expenses.

Power and Service Supply Expense (for Electric and Telecommunications Funds)
 – Used to address timing differences between when expenses are incurred and revenues are received and to ensure reserve funds are available sufficient to cover peak monthly expenses.

Rate Base – Used to factor in risk of catastrophic event. Consider age of assets and accumulated depreciation expense.

Debt Service – Used to ensure reserve funds are available sufficient to pay debt service payments when due.

Capital Improvements – Used to ensure cash is available in reserves to fund capital expenses at beginning of construction season. Since capital expenditures often fluctuate annually, may elect to smooth fluctuations by using a five-year average of capital expenditures.

The table below shows the calculation for the minimum level of cash reserves required to help ensure timely replacement of assets and to provide financial stability. The methodology used to establish this minimum is based on certain assumptions related to a percentage of operating expense, historical investment, capital improvements, and debt service to be kept in cash reserves. Minimum cash reserves attempt to quantify the minimum amount of cash the City/CBPU should keep in reserve. It is considered a critical level if cash approaches the minimum. Actual cash reserves may vary substantially above the minimum and are dependent on the life cycle of assets that are currently in service.

	Percent Allocated
Operation & Maintenance Less Depreciation Expense (45 days)	12.3%
Power and Service Supply Expense (Electric/Telecom only)	(12.3% -14.5%)
Historical Rate Base	(1%– 3%)
Current Portion of Debt Service Reserve	100.0%
Five Year Capital Improvements – net of bond proceeds	20.0%

IV. Administrative and Reporting Responsibilities

The Finance Director shall be responsible for monitoring and reporting the City/CBPU’s various assignments of reserves. The City Manager and CBPU Director shall make recommendations to City Council and CBPU Board respectively on use of reserves both as an element of the annual operating budget submission and from time to time throughout the year as needs arise.

The Finance Director shall annually submit a report to City Council and CBPU Board outlining the status of the City/CBPU’s various components of the cash reserves/fund balance. This report shall be submitted within thirty days of the receipt of the annual financial audit. The Finance Director shall also provide status reports at other times to the City Council/CBPU Board as may be requested.

V. Replenishing Deficiencies

The City/CBPU considers a balance of less than the lower range to be cause for concern, and will work to restore the balance as soon as possible

In the event that the cash reserves or the unrestricted fund balance is so calculated to be less than the policy anticipates, the City/CBPU shall plan to adjust budget resources in the subsequent one to three fiscal years to restore the balance. Except in extraordinary circumstances, unrestricted fund balance should not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the City/CBPU. It should be used primarily to insure adequate assigned balances, to respond to unforeseen emergencies, to provide cash flow, and to provide overall financial stability.