



CITY OF NORTH MANKATO

## Budget Reserve Policy

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### **Section One: Objectives**

It is the policy of the Governing Body to maintain prudent reserve amounts in City funds in order to maintain working capital, fund capital asset replacement, and fund debt retirement. The appropriate amount of reserves for a given fund will vary due to differences in cash flow, revenue and expenditure volatility, services provided, and statutory considerations.

The Governing Body believes it is important to maintain prudent reserves to mitigate current and future risks (such as revenue shortfalls and unanticipated expenditures), ensure stable tax rates, and protect the city's creditworthiness.

### **Section Two: Scope**

The Calculation of prudent reserve targets shall include consideration of the following factors:

#### **A. Maintain Working Capital:**

1. Maintain reserves to meet cash flow requirements
2. Maintain reserves to provide contingencies for unpredictable revenue sources
3. Maintain reserves to provide contingencies for unpredictable expenditures and emergencies (such as natural disasters)

#### **B. Fund Capital Asset Replacement and Debt Retirement**

1. Accumulate reserves to provide funding for capital asset replacement
2. Maintain reserves to meet debt reserve covenants/requirements
3. Accumulate reserves to prepay outstanding debt

#### **C. This policy shall apply to the following City Funds:**

1. General Fund
2. Debt Service Fund
3. Water Fund
4. Wastewater Fund

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### Section Three: Definitions

**DEBT SERVICE FUND:** Describes the fund(s) used to account for the city's payment of principal and interest on the city's outstanding debt obligations, excluding those associated with any utilities operated by the city.

**GENERAL FUND:** The primary operating fund of the City for general government services.

**WATER FUND:** Describes the fund used to account for the city's operation of the North Mankato Water Utility

**WASTEWATER FUND:** Describes the fund used to account for the city's operation of the North Mankato Wastewater Utility

**RESERVE TARGET:** The difference between the assets and the liabilities of a city fund also commonly referred to as Fund Balance in the city's comprehensive annual financial report (CAFR).

### Section Four: Provisions

A. General Fund: The General Fund reserve target amount shall be calculated according to the following guidelines:

Reserve Category	Policy Calculations
Meet Cash flow Requirements (maintain working capital)	Maintain 35% of current year budgeted Ad Valorem Revenue
Meet Cash flow Requirements (maintain working capital)	Maintain 25% of Local Government Aid for the current budgeted year
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 1% of current year budgeted Franchise Tax revenue in the General fund
Provide contingencies for unpredictable revenue sources	Maintain minimum reserve equal to 5% of current year budgeted Hotel Tax revenue in the General Fund

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Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 20% of current year budgeted of Business License & Permit revenue in the general fund.
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 35% of current year budgeted of Building Permit revenue in the general fund.
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 15% of the current year budgeted of Charges for Service in the general fund.
Provide contingencies for unpredictable revenue sources (maintain working capital)	Maintain minimum reserve equal to 20% of the current year budgeted of Fines & Forfeitures revenue in the general fund.
Provide contingencies for unpredictable expenditures (maintain working capital)	Maintain minimum reserve equal to \$250,000 for potential new expenditures to address growth of the community or fiscal emergencies

The total dollar amount of the reserve target for the General Fund (which is the sum of the calculations listed in the preceding table) will vary each year according to the policy calculations. As a general guideline, the policy calculations are expected to generate total reserve amount that ranges between 25% - 35% (3 – 4 months) of budgeted annual expenditures.

1. Any General Fund reserve amounts in excess of 30% of the budgeted annual General Fund expenditures are one-time revenues only for the following purposes:
  - For one-time expenditures such as capital purchases and studies
  - For capital projects through transfers to the Capital Improvement Fund and other City funds
  - For increasing reserve amounts to the appropriate level for that fund



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- To offset the impact of economic downturns on a short-term basis (1 to 2 fiscal years)
- To accomplish community priorities deemed necessary by the Governing Body

**C. Water Fund:** The Water Fund reserve target amount shall be calculated according to the following guidelines:

1. 33% of yearly budgeted on-going revenues or 120 days of operating expenditures, whichever is the greatest.

The total dollar amount of the reserve target for the Water Fund will vary each year according to the policy calculations. As a general guideline, the policy calculations are expected to generate total reserve amount that ranges between 30% - 35% of budgeted annual expenditures.

1. Any Water Fund reserve amounts in excess of 33% of the budgeted annual Water Fund expenditures are one-time revenues only for the following purposes:
  - For one-time expenditures such as capital purchases and studies
  - For transfers to the Capital Improvement Fund or General Fund
  - For increasing reserve amounts to the appropriate level for that fund
  - To offset the impact of economic downturns on a short-term basis (1 to 2 fiscal years)
  - To accomplish community priorities deemed necessary by the Governing Body

**D. Wastewater Fund:** The Wastewater Fund reserve target amount shall be calculated according to the following guidelines:

1. 33% of yearly budgeted on-going revenues or 120 days of operating expenditures, whichever is the greatest.

The total dollar amount of the reserve target for the Wastewater Fund will vary each year according to the policy calculations. As a general guideline, the policy calculations are expected to generate total reserve amount that ranges between 30% - 35% of budgeted annual expenditures.

1. Any Wastewater Fund reserve amounts in excess of 33% of the budgeted annual Wastewater Fund expenditures are one-time revenues only for the following purposes:
  - For one-time expenditures such as capital purchases and studies
  - For transfers to the Capital Improvement Fund or General Fund
  - For increasing reserve amounts to the appropriate level for that fund

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- To offset the impact of economic downturns on a short-term basis (1 to 2 fiscal years)
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**E. Bond & Interest Fund:** The city will maintain a reserve in the city's Bond & Interest Fund between 5% and 10% of the annual principal and interest amounts due on outstanding bonds and temporary notes.

Any debt service fund reserve amounts in excess of 10% can only be used to reduce the amount of outstanding debt or to reduce the Bond & Interest property tax levy.

### **Section Five: PROCEDURES**

A. The Finance Director shall annually prepare the status of Reserve Targets in relation to this policy and present to the city council in conjunction with the development of the annual budget.

B. If the Reserve Target amount for any fund or funds should fall below the minimum Reserve Target, the Finance Director shall submit a recovery plan for the fund or funds to the Governing Body as part of development of the annual budget.