

RESOLUTION NO. 3878

**A RESOLUTION OF THE NEWPORT CITY COUNCIL
ADOPTING A REVISED POLICY REGARDING THE CITY'S FINANCIAL RESERVES,
CONTINGENCIES, AND UNAPPROPRIATED ENDING FUND BALANCES
AND REPEALING RESOLUTION NO. 3748 IN ITS ENTIRETY**

WHEREAS, the City of Newport is responsible to its citizens for the care and management of public funds; and

WHEREAS, the city must provide adequate funding for the services it is obligated to provide to its citizens; and

WHEREAS, the city's financial responsibilities and obligations must adhere to numerous laws and regulations; and


WHEREAS, the financial reserves, contingencies, and unappropriated ending fund balances policy attached as Exhibit A is designed to ensure the fiscal stability of the City of Newport, and to provide guidance in financial management and practices to city staff.

THE CITY OF NEWPORT RESOLVES AS FOLLOWS: the attached Financial Policy (Exhibit A) is hereby adopted, and Resolution No. 3748 is repealed in its entirety.

This resolution will become effective immediately upon passage.

Adopted by the Newport City Council on March 16, 2020.

CITY OF NEWPORT



Dean H. Sawyer, Mayor

ATTEST:



Margaret M. Hawker, City Recorder

FINANCIAL POLICY

City of Newport Fund Balance, Contingencies & Reserves Policy

1.0 -- PURPOSE:

The purpose of this policy is to provide guidance to the city administration, Budget Committee, and City Council regarding the maintenance of unappropriated ending fund balances, reserves for future expenditures, and contingencies for the various operating funds. This policy is intended to identify desired levels to protect the city's financial position in the event of unanticipated emergencies.

2.0 -- DEFINITIONS

2.1 -- Unappropriated Ending Fund Balance (UEFB)

Budgeted requirements may include an unappropriated ending fund balance. The purpose of an unappropriated ending fund balance is to provide the local government with a cash or working capital balance with which to begin the fiscal year following the one for which this budget is being prepared (ORS 294.371 and OAR 150-294.398, renumbered from 294.371).

The amount of an unappropriated ending fund balance is determined by estimating cash requirements between July 1 of the fiscal year following the one which is being budgeted, and the time sufficient revenues will become available from other sources to meet cash flow needs. The maximum amount that should be budgeted in an unappropriated ending fund balance is the difference between the cash requirements and the other resources available during that period.

The unappropriated ending fund balance is not included in the resolution making appropriations. No expenditures can be made from an unappropriated ending fund balance during the year in which it is budgeted, except in an emergency situation arising during the year by involuntary conversion (theft, vandalism, accident, etc.), civil disturbance or natural disaster.

2.2 -- Reserved for Future Expenditure

An amount "reserved for future expenditure" is a line item requirement which identifies funds to be "saved" for use in future fiscal years.

Since the initial intent when the budget is adopted is not to spend the amount reserved for future expenditure, it is not included in the resolution making appropriations. If the

need arises during the fiscal year to spend this money, a supplemental budget may be adopted to appropriate the expenditure.

An exception to this is in an emergency situation created when property is destroyed by involuntary conversion, civil disturbance or natural disaster. ORS 294.481, renumbered from 294.455, describes when and how any available monies, including reserved amounts can be used to make such expenditures.

2.3 – General Operating Contingency

An estimate for **general operating contingency** may be included in an operating fund. The estimate is based on operations that may necessitate spending during the year on items that cannot be specifically identified at the time the budget is being prepared. The contingency is not a separate fund. It is a line item within an operating fund, separate from any of the other major object classifications. Its purpose and proper use are explained in Oregon Administrative Rule 150-294.352(8).

Each operating fund (each fund from which operating expenses are paid) is allowed one appropriation for a general operating contingency. A non-operating fund cannot have an appropriation for a contingency. During the fiscal year, money budgeted and appropriated as contingency must be transferred to another appropriation category before it can be expended.

2.4 – Reserve Fund

Reserve funds may be set up to accumulate money for financing the cost of any service, project, property or equipment that the district can legally perform or acquire (ORS 294.346, renumbered from 294.525). Under Local Budget Law, a reserve fund is a way to save money from year to year. Expenditures can be appropriated and made directly from a reserve fund.

The resolution creating a reserve fund should state the purpose for which the money in the fund can be spent. At least every 10 years after the establishment of a reserve fund, the governing body must review the fund to decide if it should be continued or abolished. Any unexpended or unobligated balance left in the fund when it is abolished can be transferred to the general fund or any other fund designated by the governing body.

Unlike reserves for future expenditures, reserve funds are established for a specific purpose to be funded over a number of fiscal years for specifically planned purposes.

3.0 - FUNDING LEVELS FOR UEFB & CONTINGENCIES

3.1 - Calculation of Funding Levels

The proposed budget shall be the basis for establishing U.E.F.B., reserves for future expenditures and contingencies for all operating funds. The funding levels shall be calculated based on the total expenditures, less transfers as outlined in this section. Any

operating funds in which the U.E.F.B., reserve for future expenditures and/or contingencies fall more than 10% outside of these parameters shall be noted in the budget message.

Any unappropriated dollars in development funds and capital outlay funds shall be held as a reserve for future expenditures. Debt retirement funds shall be funded to meet requirements for the payment of interest and principal and related expenses. Any required reserves for future payments or payment scheduled in future years shall be held as part of the reserves for future expenditures for that debt fund.

The Contingency, Unappropriated Ending Fund Balances and Reserve for Future Expenditures for operating funds of the City of Newport shall be calculated as follows:

Unappropriated Ending Fund Balance is calculated by multiplying the total expenditures of the fund without transfers by the targeted percentage in Section 3.2 of this policy.

General Operating Contingency is then calculated by multiplying the total expenditures of the fund without transfers, less the Unappropriated Ending Fund Balance, by the targeted percentage in Section 3.2 of this policy.

Reserve for Future Expenditures will include all remaining funds not required for contingency or UEFB. The Reserve for Future Expenditures should fall within a range calculated by multiplying the percentages outlined in Section 3.2 of the policy, times the total expenditures of the fund without transfers, less contingency and UEFB. Please note: the Reserve for Future Expenditures will be consolidated into the Ending Fund Balance.

3.2 - Fund Balances, Reserves & Contingency Levels

The funding targets of the unappropriated ending fund balances, reserves for future expenditures and contingencies for operating funds shall be as follows:

	<u>Contingency</u>	<u>UEFB</u>	<u>Reserve for Future Expenditures</u>
General Fund	4%	10%	8% to 15%
Self-Supporting Funds (1)	10%	12%	0% to 25%
Funds Supported by Transfers (2)	10%	8%	0% to 25%

(1) Self-Supporting Funds - Street, Water, Wastewater, Stormwater, Room Tax Fund, & Building Inspection Fund

(2) Funds Supported by Transfers - Public Works Fund, Parks & Recreation & Airport, & City Facility.

4.0 - TARGETED FUND BALANCE GOALS

4.1 - UEFB Falls Below Targeted Levels

In the event that the UEFB falls below the designated range for that type of fund, the city administration shall develop a proposed plan to bring the UEFB back to the appropriate range for consideration and approval by the City Council within six (6) months after this discovery.

4.2 - UEFB Exceeds Targeted Levels

In the event that the UEFB falls above the designated range for any funds, the city administration shall develop a plan to bring the UEFB within the targeted limits through a one-time capital expenditure, commitment of funds to reserves, or other fiscally responsible actions for that fiscal year. In subsequent fiscal years, the funding requirements and or expenses for that fund should be evaluated to determine whether revenues could be reduced, services increased, or other actions taken to address subsequent fund balance issues.

4.3 - Balance Review

Annually, in February of each year, the Finance Director will evaluate the targeted levels to determine their adequacy for the upcoming budget year, and will provide a report to the City Manager for review. The City Manager will present a report to the City Council when modifications are recommended for the targeted funding levels included within this financial policy.