

TOWN OF BEDFORD
OPERATING POLICY MANUAL

Chapter: Finance

Issue (Effective) Date: July 1, 2017

Approval Date: June 13, 2017

Approved By: Town Council

GENERAL FUND RESERVES

Section 1. PURPOSE

This policy is to document the General Fund Operating Reserve objectives of the Town of Bedford ("Town"). The Town's goal is to maintain a prudent level of financial resources to guard its constituents against service disruption in the event of unexpected temporary revenue shortfalls, unpredicted one-time expenditures and to provide sufficient cash flow to avoid the need for short-term borrowing. The General Fund operating reserves are accumulated and maintained to provide stability and flexibility to respond to unexpected adversity and/or opportunities. In addition, this policy is intended to document the appropriate reserve level to protect the Town's credit worthiness.

Section 2. POLICY

- A. Each year, Town Council through its staff shall allocate any carry-forward funds with respect to the General Fund which are not recognized in the current budget as a result of the annual close-out audit and exceeds an operating surplus of \$50,000 or more into the Unrestricted General Fund Reserve Account. This allocation shall be after budget adjustments are made for approved projects, programs, or services.
- B. In recognition of its fiduciary role in the management of all Town funds entrusted to its care it shall be the policy of Town Council, in accordance with the Code of Virginia §15.2-2505, that the use of reserves shall be limited to unanticipated, non-recurring needs, or anticipated future obligations. Fund balances shall not be used for routine or recurring annual operating expenditures.
- C. The Town will maintain a minimum Undesignated/Unreserved General Fund Reserve that is sufficient to provide financial resources for the Town in the event of an emergency or the loss of a major revenue source. Therefore, the Town has set the minimum Undesignated/Unreserved Balance for the General Fund at an amount equal to two (2) months of General Fund operating expenditures to mitigate the impacts of unanticipated revenue shortfalls, and provide a buffer for unexpected expenditure requirements. Any General Fund balance that the Town has designated as a contingency reduces the amount of Undesignated/Unreserved balance that must be maintained in accordance with this policy.
- D. An assessment of the minimum Undesignated/Unreserved General Fund Reserve funds will be conducted once the Town's Comprehensive Annual Financial Report (CAFR) becomes available for each fiscal year.
- E. It is the responsibility of the Town Manager to make recommendations to the Town Council for use of reserves. A majority vote of the Town Council will be required to use reserves. Any recommendation to Town Council for use of reserves shall also be accompanied with an action plan on the replenishment of the used reserves.

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Section 3. OBJECTIVES

- A. The primary objectives of the General Fund Reserves Policy shall be as follows:
 - 1. **Reserve for cash flow:** This reserve addresses liquidity. A reserve for cash flow is needed to address the imbalance of monthly income compared to monthly expenditures in the event that expenditures exceed income.
 - 2. **Reserve for emergencies:** This reserve addresses emergency or disaster in which there is extreme peril to the safety of person and/or property within the Town limits caused by such conditions as air pollution, fire, flood, storm, epidemic, riot, earthquake or other conditions as set forth by Town Council.
 - 3. **Reserve for economic stabilization:** This reserve addresses the stabilization of the delivery of Town services during periods of operation budget deficits resulting in conditions such as drastic and unanticipated economic downturns or unanticipated spikes in operating costs.

Section 4. PROCEDURES

- A. Town Council:
 - 1. Approve General Fund Reserve Policy.
 - 2. Approve the use of any reserves.
- B. Town Staff:
 - 1. Propose revisions to the General Fund Reserve Policy.
 - 2. Ensure the Town is in compliance with the General Fund Reserve Policy.
 - 3. Recommend use of any reserves.
 - 4. Report results from use of any reserves.

Section 5. REVISIONS

- A. This policy was approved and adopted by the Town Council on June 13, 2017.

Revisions
Original-June, 2017