

RESOLUTION 25-30

A RESOLUTION OF THE SOUTH WEBER CITY COUNCIL ADOPTING A FINANCIAL RESERVE POLICY

WHEREAS, South Weber City Council is conscientiously seeking to be frugal in its fiscal responsibilities and ensure financial stability; and

WHEREAS, the Admin Finance Committee drafted a reserve policy following state code and Government Financial Officers Associations' (GFOA) best practices; and

WHEREAS, the policy specifically establishes target levels for the specific city funds and promotes sound fiscal management, transparency, and resilience;

NOW THEREFORE BE IT RESOLVED by the Council of South Weber City, Davis County, State of Utah, as follows:

Section 1. Adoption: The attached policy in **Exhibit 1** is hereby adopted and will serve to guide future financial decisions by South Weber City Council.

Section 2: Repealer Clause: All ordinances or resolutions or parts thereof, which are in conflict herewith, are hereby repealed.

PASSED AND ADOPTED by the City Council of South Weber, Davis County, on the 23rd day of September 2025.

Roll call vote is as follows:

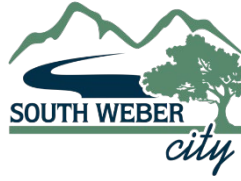
Council Member Halverson	FOR	AGAINST
Council Member Petty	FOR	AGAINST
Council Member Dills	FOR	AGAINST
Council Member Davis	FOR	AGAINST
Council Member Winsor	FOR	AGAINST


Rod Westbrook, Mayor


Attest: Lisa Smith, Recorder



RES 25-30 Exhibit 1



South Weber City Fund Balance & Reserves Policy

Purpose Statement

Governmental entities have a unique responsibility to minimize potential disruptions to the essential services they provide, and as such, it is important to put in place policies designed to aid the continuity of services. Local governments can experience much volatility in their financial stability due to the economy, natural disasters, unfunded legislative mandates, etc. Sound financial management includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. Such contingencies include but are not limited to: operating cash flow requirements, economic uncertainties including downturns in the economy, local emergencies and natural disasters, loss of major revenue sources, unanticipated operating or capital expenditures, uninsured losses, future capital projects, and capital asset and infrastructure repair and replacement.

Reserve funds are a portion of the City's equity position (e.g. fund balance or net position) that is set aside for future projects, operations, or as a hedge against risk. The Government Finance Officers Association (GFOA) states that reserves: "serve as a bottom-line measure to help determine the extent to which structural balance goals are being achieved... If reserves are maintained at their desired levels, it is an indication that the organization is maintaining a structurally balanced budget. If reserves are declining, it may indicate an imbalance in the budget (e.g., if reserves are being used to fund on-going expenditures)." *GFOA Best Practice: Achieving a Structurally Balanced Budget.*

Equity balance reserves (e.g. operating reserves, rainy-day/contingency funds, or repair & replacement funds) are a prudent fiscal policy and an important factor in the analysis of fiscal and management responsibility. The establishment of prudent financial reserve policies is important to ensure the long-term financial health of South Weber City (the City) and the continuity of its operations.

1. Equity Reserve Target Levels & Conditions for Use of Reserves

a. General Fund

Reserve Target Level

- 1) At the end of each fiscal year, the City will maintain a reserved portion of unrestricted fund balance between 30 and 35%, no less than 25%, of General Fund "Total Revenues" for the current fiscal period.

Reserve Conditions of Use

- 1) Should the actual amount of reserves fall below 25%, the City shall create a detailed financial plan to restore balances to the minimum requirements within three (3) fiscal years. The plan will be prepared and submitted for City Council approval in conjunction with the annual budget. Progress toward reserve replacement will be provided at

RES 25-30 Exhibit 1

least annually to the City Council.

- a. In restoring reserves to the targeted range the City's financial plan must include measures that do not jeopardize long-term capital plans or asset useful lives. Short-term reductions in infrastructure or asset maintenance expenditures at the expense of asset longevity will not be considered.
- 2) The use of reserves shall be limited to unanticipated and non-recurring needs. Reserve balances shall not be used under normal operating conditions.

b. Capital Projects Fund

Reserve Target Level

- 1) At the end of each fiscal year, the City will maintain a reserved portion of unrestricted fund balance between 100% and 200%, no less than 50%, of the average of the last ten (10) fiscal years' Capital Projects Fund total expenditures.

Reserve Conditions of Use

- 1) Should the actual amount of reserves fall below 50%, the City shall create a detailed financial plan to restore balances to the minimum requirements within five (5) fiscal years. The plan will be prepared and submitted for City Council approval in conjunction with the annual budget. Progress toward reserve replacement will be provided at least annually to the City Council.
 - a. In restoring reserves to the targeted range the City's financial plan must include measures that do not jeopardize long-term capital plans or asset useful lives. Short-term reductions in infrastructure or asset maintenance expenditures at the expense of asset longevity will not be considered.
- 2) The use of reserves shall be limited to unanticipated and non-recurring needs, such as emergencies, change orders, etc. Reserve balances shall not be used under normal operating conditions. Reserve balances shall not be used for recurring small to moderate capital asset/infrastructure lifecycle replacement.

c. Enterprise Funds

Reserve Target Level

- 1) At the end of each fiscal year, each City enterprise fund will maintain a reserved portion of "Unrestricted Net Position" no less than one hundred eighty (180) days of its total operating expenses, with a goal of an additional 100% of the average of the last ten (10) fiscal year's capital expenses.
- 2) If possible, Capital Projects will be deferred instead of using reserve funds.

Reserve Conditions of Use

- 1) Should the actual amount of reserves fall below the minimum, the enterprise fund shall create a detailed financial plan to restore balances to the minimum requirements as soon as possible but no longer than five (5) fiscal years. The plan will be prepared and submitted for City Council approval in conjunction with the annual budget. Progress toward reserve replacement will be provided at least annually to the City Council.
- 2) The use of operating reserves shall be limited to unanticipated and non-recurring needs.

RES 25-30 Exhibit 1

Reserve balances shall not be used under normal operating conditions.

- 3) The use of the capital reserves within the enterprise funds will only be considered for infrastructure/asset projects with greater than a 20-year lifecycle or emergency/natural disaster situation.

Reserve Target Level Exception

Should the City Council and management determine that, based on available data, a specific enterprise fund cannot operate at the minimum and still maintain the reserves described above, the following will apply:

- 1) At least annually a report will be given to the City Council regarding the financial status of that fund.
- 2) As part of the annual budget process for that fund, all revenues and expenses will be reviewed in detail to evaluate all potential opportunities for financial improvement of the operations.
- 3) Any type of subsidy plan, ongoing or one-time, must be reviewed and approved by the City Council in a City Council meeting. Also, any ongoing subsidy must be reevaluated by the full City Council annually.

2. **Equity Balance Decline Policy**

One of the main indicators of the financial health of any operation is whether the equity balance is increasing or decreasing. The GFOA has stated: "The key consideration in analyzing net position is not so much the amount itself, as the direction and speed at which it is either increasing or decreasing." *GAFFR page 807*

As an additional safeguard against financial deterioration, an annual fund balance and net position trend analysis will be performed, and a report given to the City Council. Any City fund that has three consecutive fiscal years of declining fund balance or net position will go through the following:

- i. Management shall create a detailed financial plan to reverse the negative trend within two (2) fiscal years. The plan will be prepared and submitted for City Council approval in conjunction with the annual budget.
- ii. Progress toward trend reversal will be provided at least annually to the City Council.

Under no circumstances is any fund of the City allowed to have more than five consecutive years of declining equity balance.

3. **Negative Equity Balance Policy**

The guidance of State Code 10-6-117 will be implemented if any fund of the City should have a negative equity position at the close of the fiscal year. That guidance requires that 5% of the total revenue of that fund's last completed fiscal year be budgeted in the subsequent year to remediate the deficit position.

4. **Equity Balance & Reserves Policy Adoption**

The City's policy shall be adopted by ordinance of the City Council. Any modifications to the policy must also be approved by the City Council

5. **Statement of Target Reserve Rationale**

RES 25-30 Exhibit 1

i. **General Fund**

The City's General Fund is the chief operating fund of the City and provides essential services such as: executive, legislative, and administrative roles; street maintenance and snowplowing; public safety; etc.. As this fund is of such a critical nature to the overall operations of the City and potential interfund dependence on its operations, the reserve policy must be more demanding than other funds of the City.

The GFOA recommends that governments maintain a minimum unrestricted equity balance (i.e. ACFR categories of "assigned", "committed", and "unassigned" fund balance) in the General Fund of "no less than two months of regular general fund operating revenues or regular general fund operating expenditures". *GFOA Best Practice: Fund Balance Guidelines for the General Fund*. Additionally, Utah State code requires a General Fund minimum fund balance of 5% and a maximum fund balance of 35% of total General Fund revenues for the current fiscal period (U.C. 10-6-116(2) & (4))

ii. **Capital Projects Fund**

The Capital Projects fund is an extension of the General Fund operations as it funds the major infrastructure and equipment needs of all the General Fund departments. This fund's revenue is almost exclusively derived from sales tax revenues, which is subject to significant year-to-year fluctuations depending upon the economy and potential legislation.

Due to the critical nature to the overall operations of the City and potential interfund dependence on its operations, the reserve policy for the Capital Projects Fund must be more robust than other funds of the City.

iii. **Enterprise Funds**

The City's enterprise funds (e.g. Water, Sewer, Storm Drain, etc.) are used to account for the City's operations that are financed and operated in a manner like private businesses. The goal of each enterprise fund is to cover all operating and capital expenses with customer/user fees. Occasionally, this financial self-reliance goal cannot always be achieved due to economic and market factors; however, working towards these targeted reserves should be a part of the annual budgeted process.

6. **Target Reserve Calculation Examples**

To illustrate the intent behind the reserve policies outlined, the following calculated examples are provided:

iv. **General Fund**

For Fiscal Year 2024 (FY2024) the 25% to 35% range of reserve would have been from \$1,022,524 to \$1,431,533. For FY2024, the 5% minimum would have been \$204,505.

v. **Capital Projects Fund**

For FY2024, the 10-year average of capital projects expenditures was \$450,000.

vi. **Enterprise Fund**

For FY2024, 180 days operating expenses and the 10-year average of capital project expenditures were as follows:

- Water Fund 180-day reserve – \$837,406 (50% of \$1,674,812 annual operating expenses)
- Water Fund capital reserve – \$357,340

RES 25-30 Exhibit 1

- Sewer Fund 180-day reserve – \$547, 211 (50% of 1,094,423 annual operating expenses)
- Sewer Fund capital reserve – \$8,463
- Sanitation Fund reserve – \$292,324
- Sanitation Fund capital reserve – \$0
- Storm Drain Fund reserve – \$284,975 (50% of \$569,950 annual operating expenses)
- Storm Drain Fund capital reserve - \$9,938
- Total six-month (180 days) operating reserve across all Enterprise Funds was \$1,9,61,917.

**Information gathered from FY2024 Budget Audit, Statement of Revenues, Expenses.*

7. Policy Definitions & Implementation Clarifications

- vii. For the General and Capital Projects Funds, “unrestricted fund balance” includes the Annual Comprehensive Financial Report (ACFR) categories of “committed”, “assigned”, and “unassigned” fund balance.
- viii. The General Fund and Capital projects fund reserves would show up in the ACFR as “committed” fund balance. This follows GASB statement 54.
- ix. The General Fund “Total Revenues” are already calculated in the annual ACFR and would exclude “Other Financing Sources” such as the Light & Power transfer, sale of capital assets, etc.
- x. The Capital Project’s reserve policy refers to the “average fiscal years of Capital Projects Fund total expenditures”. This will be calculated using a rolling average of total actual expenditures of the current and past nine fiscal years (i.e. ten-year average). We will exclude from this average 75% of capital expenditures that are funded entirely by one-time revenue sources (e.g., bonding, donations, or grants). The remaining 25% will be included in the average to ensure future replacement of those assets can be properly funded.
- xi. The Enterprise Funds reserve policy refers to the “Unrestricted Net Position”. This is a segment of each fund’s equity balance (i.e. net position) and is the “Unrestricted Net Position” balance as calculated in the annual ACFR.
- xii. The Enterprise Funds reserve policy refers to the “average fiscal year capital expense”. This will be calculated using a rolling average of actual capital expenses of the current and past nine fiscal years (i.e. ten-year average). We will exclude from this average 75% of capital expenditures that are funded entirely by one-time revenue sources (e.g., bonding, donations, or grants). The remaining 25% will be included in the average to ensure future replacement of those assets can be properly funded.
- xiii. When calculating any of the reserve amounts and presenting them in the ACFR, the reserves will be rounded to the nearest thousandth.