

ATTACHMENT A TO ORDINANCE No. 2022-03
VILLAGE OF ESTERO
RESERVE POLICY

The Village hereby establishes and shall maintain a Reserve Policy.

The adoption of a Reserve Policy by the Village of Estero will assist in ensuring the fiscal well-being of the Village by establishing a minimum level at which reserves are to be maintained or increased, as well as the mechanisms by which the policy may be amended, which are critical to the continued delivery of services to citizens of and the visitors to the Village.

The Village desires to maintain prudent levels of financial resources to guard its stakeholders against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted expenses. In addition, this policy is intended to document the appropriate reserve levels to protect the Village's credit worthiness.

This policy establishes the amounts the Village will maintain in, or contribute to, its various reserve accounts, how the reserves will be funded, the conditions under which the reserves may be used and the replenishment requirements.

The specifically adopted reserve accounts are as follows:

- Operating Reserve
- Litigation Defense Reserve
- Major Road Maintenance Reserve

The reserve allocation amounts can be used only for the specific purposes determined by this Attachment A to Ordinance No. 2022-03.

The reserve policy may be changed or lifted only by the Council taking the same formal action that imposed the constraint originally, which in this case, is an ordinance approved by a supermajority vote of the entire Village Council (a minimum of five Councilmembers). This must include publicly noticing and advertising the proposed change consistent with Florida Statutes 166.041 (3)(a), though the proposed ordinance must be noticed once in a newspaper of general circulation in the municipality at least 21 days prior to adoption (this is greater than the 10-day requirement mandated by Florida Statute 166.041 (3)(a)). Additionally, the second hearing for the ordinance to amend or nullify the Reserve Policy shall take place after 5:01pm on a non-holiday weekday.

Any Ordinance approved, which calls for a reduction in the reserve level, must include a detailed plan for how the reserve will be replenished.

The Operating Reserve, Litigation Defense Reserve, and Major Road Maintenance Reserve, once fully funded, are to be maintained at final intended levels and may be spent as provided herein. The fund levels may be increased above this required threshold at any time by the Village Council, without supermajority approval of an Ordinance amendment.

If the use of any of the reserve accounts is deemed to be completed or no longer necessary and is approved by supermajority Council approval of an Ordinance amendment stipulating such, then the reserve account shall be closed.

1. Operating Reserve:

A. Accumulation of funds:

The following accumulation will be calculated and allocated during the budget process:

- Fiscal Year 2018-2019: Reserves equal to, or greater than, ten (10) months of budgeted operating expenses as calculated at time of budget adoption.
- Fiscal Year 2019-2020: Reserves equal to, or greater than, twelve (12) months of budgeted operating expenses as calculated at time of budget adoption.

Reserves equal to or greater than ~~twelve (12)~~ **three (3) months** of budgeted operating expenses is the intended final level for this reserve, and it is intended that the reserve, as provided herein, shall be maintained at this level, or higher, unless directed otherwise by a supermajority Council approval of an Ordinance amendment which orders a change in this policy. The amount of budgeted operating expenditures will be established annually during the budget process and the level of operating reserves will be recalculated at that time.

B. Use of funds:

The Operating Reserve funds are only to be used for the following:

- *Disaster Response.*
A Disaster Response is defined as a State of Emergency as declared by the Village of Estero, State of Florida or Lee County. Under these conditions, the funds may be used for the preservation of life and property within the Village.
- *Revenue interruption.*
Revenue interruption may occur when the State, County or Village can no longer operate to provide revenue to the Village of Estero.
- *Debt reserve.*
Debt Reserves are defined as an amount of reserves that may be required as part of debt or loan agreement.
- *Budgeted to expend to provide funding in the event of an economic downturn.*
For application of the Reserve Policy, a qualifying economic downturn is a drop in budgeted general fund revenue of 10% or higher from the prior year budget.

Use of the Operating Reserve funds will be determined by the Village Manager, subject to the foregoing requirements.

C. Replenishment of funds:

In the event that funds are expended from the Operating Reserve, a plan to replenish the funds will be adopted in the following fiscal year during the budget process. The plan will provide a timeline to fully restore the funds to a minimum ~~twelve (12)~~ **three (3) months** of budgeted operating expenses.

D. Budget Process and Presentation:

Funds will be allocated to the Operating Reserve during the budget process and if not expended will be presented as projected ending fund balance. If funds are budgeted to be expended during the fiscal year, a plan to replenish the funds will be adopted in the following fiscal year during the budget process.

2. **Litigation Defense Reserve:**

A. Accumulation of funds:

The Litigation Defense Reserve was established at \$670,000 for fiscal year 2018-2019. This is the intended final minimum level for this reserve, and the reserve shall be maintained at or above this level, unless directed otherwise by supermajority Council approval of an Ordinance amendment which orders a change in this policy.

B. Use of funds:

Funds may be expended from the Litigation Defense Reserve when the Village is a named party in an active lawsuit after having utilized its annual insurance contribution for such defense(s), if available. In addition, funds may be used for threatened litigation or to develop a settlement strategy designed to prevent extended litigation.

These funds may be expended in the legal defense of the Village, and not for the legal defense of any individual official, staff member, or otherwise affiliated individual, as determined by the Village Manager.

Use of the Litigation Defense Reserve funds will be determined by the Village Manager, subject to the foregoing requirements.

C. Replenishment of funds:

In the event that funds are expended from the Litigation Defense Reserve, a plan to replenish the funds will be adopted in the following fiscal year during the budget process. The plan will provide a timeline to fully restore the funds to the initial \$670,000 level.

D. Budget Process and Presentation:

Funds will be allocated to the Litigation Defense Reserve during the budget process and if not expended will be presented as projected ending fund balance. If funds are budgeted to be expended during the fiscal year, a plan to replenish the funds will be adopted in the following fiscal year during the budget process.

3. Major Road Maintenance Reserve:

A. Accumulation of funds:

The Major Road Maintenance Reserve annual contribution will be \$300,000 for fiscal year 2019-2020, with 3% annual growth adjustments, unless directed otherwise by supermajority Council approval of an Ordinance amendment which orders a change in this policy.

B. Use of funds:

Each fiscal year, the Village Staff may identify specific roads, experiencing road surface deterioration, and initiate road resurfacing and/or mill and overlay projects to address the identified issues. In addition, funds may be expended in the event that resurfacing is recommended during a planned road improvement project.

Use of the Major Road Maintenance Reserve funds will be determined by the Village Manager, subject to the foregoing requirements.

C. Replenishment of funds:

The Major Road Maintenance Reserve fund will be funded each fiscal year with an annual contribution of \$300,000, which shall be increased by 3% each year. In the event that funds are expended, the reserve will receive the next annual contribution in the following fiscal year during the budget process.

D. Budget Process and Presentation:

Annual contributions will be allocated to the Major Road Maintenance Reserve during the budget process and if not expended will be presented as projected ending fund balance as an addition to any reserve balance carried forward from the prior year. If all of the Major Maintenance Reserve funds are budgeted to be expended during the fiscal year, funding of the annual contribution will be completed in the following fiscal year during the budget process.

E. Annual Contribution Calculation:

The annual contribution was determined via calculation of road repair costs for each Village road. Given Florida's weather conditions, it has been determined that road repairs and resurfacing must occur every seventeen years, on every Village road, in order to ensure that the Village road network remains in excellent condition. By providing an annual allocation increase of 3%, the Village will retain sufficient funds in this reserve to maintain Village roads at an excellent level.