

RULE 1.3 – RESERVE POLICY

Adopted Date: 12/10/2020

Revised Date: 05/16/2022

PURPOSE

The purpose of this fiscal accountability rule is to document the City and County of Denver's reserve policies to ensure the city's financial sustainability.

This fiscal accountability rule shall be read in conjunction with, and users shall comply with, all applicable provisions of the following Denver Revised Municipal Codes, TABOR Amendment, and all Fiscal Accountability Rules, to ensure compliance and understanding:

- [Denver Revised Municipal Code, Charter, Section § 7.1.4](#)
- [Denver Revised Municipal Code – Chapter 20, Article II, Section 20-22](#)
- [TABOR Amendment](#)

DEFINITIONS

Assigned Fund Balance – Unappropriated funds in the General Fund that are intended by the Department of Finance to be used for specific purposes but are neither restricted nor committed.

Balanced Budget – A budget in which appropriated expenditures do not exceed estimated opening balances and projected revenues.

Contingency Reserve – An appropriated reserve, included in the annual appropriation ordinance, equal to no less than two percent of General Fund operating expenses (per the City Charter). The Contingency Reserve is intended for the payment of unforeseen expenses that are not otherwise appropriated in the annual appropriation ordinance.

Unassigned Fund Balance – Unappropriated funds in the General Fund. The city's target is to maintain unassigned fund balance (fund balance) at 15 percent of operating expenditures. It should not go below 10 percent of operating expenditures, except in response to a severe economic or other crisis.

TABOR Reserve – A State-mandated emergency reserve equal to three percent of all covered funds. This requirement may be met through a combination of cash reserves and real estate assets in Special Revenue Funds. The funds can only be used for extreme

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disasters; they cannot be used for economic conditions, revenue shortfalls, or salary and benefit increases. Any use of the TABOR reserve must be replaced within one year.

RULES

The City Charter states the mayor shall not propose a budget in which expenditures are in excess of estimated opening balances and anticipated revenue. The city's objective is to achieve structural balance between operating revenues and expenditures; however, both can fluctuate without advance notice. Therefore, it is financially prudent to have reserve funds and a policy for their use.

- 1.** The city's proposed budget shall contain a contingency reserve for the General Fund equal to no less than two percent of total estimated expenditures, per the City Charter. At year-end, any unspent contingency reserve rolls into the unassigned fund balance for the following budget planning year.
 - A.** Criteria for spending contingency reserve to increase operating budgets are:
 - a.** An unexpected event such as a natural disaster or an accident.
 - b.** Large unappropriated retirement payouts or unrealized vacancy savings.
 - c.** A change in work program initiated or approved by the Mayor's Office.
 - d.** Prior year budget for a specific item that lapsed before the purchase.
 - e.** A technical correction of the original budget.
 - f.** A change in legislation creating an unfunded mandate.
 - g.** Planned one-time expenditures advancing a programmatic or financial outcome.
 - B.** The contingency reserve shall be the first reserve used for any revenue shortfall or unanticipated expenditures.
 - C.** Any rescission from the contingency reserve to re-appropriate budget must be approved by City Council ordinance.
- 2.** The city has a target of maintaining a 15 percent of expenditures undesignated fund balance reserve, due to the volatility of sales tax revenue and TABOR restrictions. The fund balance reserve should not go below 10 percent of expenditures, except in response to a severe economic or other crisis.
 - A.** Fund balance reserves above 15 percent can be used for one-time or capital expenditures and debt reduction.
 - a.** Reserves in this sub-category are flexible and available for use.

- B. Any use of the TABOR reserve must be replaced within one year.
 - C. Use of the TABOR reserve is limited to extreme disasters, because of the constitutional restrictions and the requirement to repay this reserve by the end of the next fiscal year.
 - D. This requirement may be met through a combination of cash reserves and real estate assets in Special Revenue Funds.
4. The amount and intended specific purpose of Assigned Fund Balance will be designated by the Chief Financial Officer.

AUTHORITY AND ACCOUNTABILITY

The **Budget and Management Office** and the **Controller's Office** are responsible for this fiscal accountability rule and any procedures, guides, job aids, forms, and one-page summaries associated with this rule.