

TOWN OF MCCORDSVILLE, INDIANA

Reserves and Liquidity Policy

RESERVES POLICY

1. Policy Statement

The Town of McCordsville, Indiana (the “Town”) desires to maintain a prudent level of financial resources to guard its stakeholders against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. This policy is intended to document the appropriate reserve level to protect the Town’s credit worthiness (the “Reserves Policy”). All fund reserves are accumulated and maintained to provide stability and flexibility to respond to unexpected adversity and/or opportunities, to address emergencies, and to address temporary revenue shortfall or provide stability during economic cycles. Sufficient reserve funds will be managed to provide adequate cash flow, stabilize the Town’s interest rates, and provide continuity in service delivery.

The objective of a Reserves Policy is to provide adequate working capital for cash flow and contingency purposes, while maintaining reasonable tax rates. This Reserves Policy shall refer to both cash and investments owned by the Town. All reserves shall be in accordance with all applicable Federal, State, Town policies, and the Town Municipal Code (Code of Ordinances) requirements and laws governing cash reserves. The Town shall maintain adequate cash reserves in each fund to maintain a positive cash position at any time during a fiscal year and at year-end.

This Reserves Policy is the guideline for Town staff to use in creating and maintaining the proper reserves for all Town financial accounts. The Reserves Policy shall be reviewed on an annual basis by the Town Clerk Treasurer or his or her designee. Any substantive modifications made to the policy must be approved by the McCordsville Town Council (the “Town Council”) and will be submitted accordingly and updated by the Town Clerk Treasurer or his or her designee.

2. Authority

Under the authority granted by the I.C. 5-36; the McCordsville Municipal Code (Code of Ordinances); and the Town Council; the Town is authorized to maintain certain levels of fund reserves. It is the Town Council's intent to responsibly use this authority in order to fulfill the objectives of the Town and its agencies and departments.

Management responsibility for this Reserves Policy is hereby delegated to the Town Clerk Treasurer. Pursuant to the conditions, regulations, and procedures in this Reserves Policy and aforementioned laws and policies, it shall be the sole responsibility of the Town Clerk Treasurer to monitor and manage reserves on behalf of the Town. Only the Town Council is authorized to establish the maximum reserve levels.

3. Ethics and Conflict of Interest

Officers and employees involved in the reserves process shall refrain from personal business activity that could conflict with or which could impair their ability to make impartial financial decisions.

Employees and officials shall disclose to the Town Clerk Treasurer any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial positions that could be related to the Town's reserves or other financial portfolio.

All matters of conflict of interest and ethics shall be governed and handled in accordance with the Town of McCordsville, Indiana, Employee Personnel Policy Manual.

4. Objectives

a. Maintain fiscal soundness. The Town will attempt to maintain an average General Fund cash balance of at least Ten percent (10%) of the annual budgeted general fund expenditures. All revenue sources and projected expenditures will be monitored and forecasted to the best of staff's ability to ensure accurate and reliable information to the Town Council. Adequate information on the financial impact of major, non-reoccurring expenditures will be given to the Town Council prior to requesting action.

To the extent that unusual contingencies exist because of state or federal aid uncertainties, or other highly variable factors, a balance larger than this minimum amount may be maintained. These funds will be used to avoid cash flow interruptions, generate interest income, avoid the needs for short-term borrowing, and assist in maintaining the Town's current bond rating.

b. Supported by a diverse source of revenues. The Town will evaluate all Town fees and charges for services to ensure that the current fee reflects the increased cost of executing those services. The enterprise funds will be completely funded by user fees and these fees will reflect not only operating costs, but future capital replacement costs, except for capital needs that will require long term financing to complete.

c. Annual budget will be implemented by using sound budgeting practices. The annual budget of the Town will be based on and implemented by departmental goals and objectives for the fiscal year and as approved by the Town Council. Current operating revenues will be sufficient to support current operating expenditures. Department heads will be responsible for managing their budgets within the amount they have been appropriated. All Town departments will share in the responsibility of meeting policy goals and ensuring long-term financial health.

d. Financial Revenues will remain sufficient to support public services. Annual operations of the Town will be funded by current revenues, in keeping with the Town's best efforts to maintain a balanced budget. The General Fund will be supported by a balanced tax structure. The Town will follow an aggressive and professional policy of collecting applicable revenues. All future service plans and program initiatives will be developed to reflect current policy directives, projected resources and future service requirements. The Town will strive to maintain cash balances as described in Section 4 Objectives. Enterprise fund operations will be supported by user fees.

e. Capital Funds. Appropriate capital fund reserves shall also be maintained for emergency improvements relating to new regulations, or emergency needs for capital repair or replacement. Cumulative Capital Funds should be reviewed annually to assure funds are maintained at their legal maximum.

5. Annual Review

An annual review of cash flow requirements and appropriate fund balances shall be undertaken to determine whether modifications are appropriate for this Reserves Policy.

LIQUIDITY POLICY

1. Policy Statement

Liquidity is the amount of cash and/or "near cash" (which refers to assets or security that can easily and quickly be converted to cash), available to be utilized to meet obligations and/or pay commitments. The marketability or ability to buy or sell an asset without incurring unacceptable large losses thus determines the liquidity of an asset or defines it as near cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations; examples of liquid assets generally include cash, general and other fund reserves, and municipal debt.

In order for the Town to remain viable, it must have sufficient liquid assets to meet its obligations. This policy establishes minimum risk management measures that the Town must implement and adhere to in order to ensure that its current and future liquidity position is managed in a prudent manner (the "Liquidity Policy"). As such, this Liquidity Policy is implemented to provide guidance on the minimum liquidity level that the Town must maintain in order to comply with required State, County, and local regulations or laws.

2. Authority

This Liquidity Policy follows the same guidelines and policy in this area as Section 1 of the Reserves Policy.

3. Ethics and Conflict of Interest

This Liquidity Policy follows the same guidelines and policy in this area as Section 3 of the Reserves Policy.

4. Key Components of Minimum Required Liquidity

The following constitutes the key elements to take into consideration when determining the liquidity requirement of the Town:

- a. To comply with statutory requirements all Town funds or funds of its agents, reserves, and provisions must be fully covered by unencumbered cash and investments.
- b. All commitments resulting from the legally entrenched rights and benefits employees have, with specific reference to the Town Council's commitment to staff retirement benefits, the employee health care fund, and other employee related funds.
- c. The Town Clerk Treasurer must be aware of external loan commitments and the servicing of capital and interest on these loans. Therefore, provision should be made that the Town can meet external loan/financial commitments together with the normal operational expenditure, as well as its liabilities to staff.
- d. All investments ceded as security against long term loans need to be excluded from total cash and investment balances for calculation of the minimum liquidity level required (i.e. debt service reserve funds as required for bonds).
- e. A level of cash available for normal operation expenditures needs to be held in cash to ensure that, notwithstanding fluctuations in the monthly income levels of the Town, the Town will be in a position to meet its financial requirements. In this respect, the average monthly operational expenditure needs to be used as a guide of the minimum buffer required. Two (2) months operational expenditure, excluding debt impairments, depreciation and other non-cash expenses should be available for liquidity cover.
- f. The Town will strive to have adequate liquid assets (those that can be made into cash within 24 hours, weekly or monthly as the requirement might be) to meet its short-term financial commitments.

5. Management and Oversight

The minimum liquidity requirements must be determined, at least, on a semi-annual basis by the Town Clerk Treasurer. Compliance with this policy will be monitored by the Town Clerk Treasurer. The Town Clerk Treasurer shall present a liquidity compliance report annually to the Town Council. This report can be part of a broader financial report covering all fiscal policy requirements. Where compliance has been breached the Town Clerk Treasurer must present an action plan to correct the non-compliance. The Town Clerk Treasurer must monitor the successful implementation of the corrective action plans and report progress to the Town Council.

This Liquidity Policy is the guideline for the Town staff to ensure the Town has sufficient liquid assets to meet its obligations. This Liquidity Policy shall be reviewed on a bi-annual basis by the Town Clerk Treasurer. Any substantive modifications made to this Liquidity Policy must be approved by the Town Council and will be submitted accordingly and updated by the Town Clerk Treasurer's Office.

ADDITIONAL ENTERPRISE FUND POLICY

1. User Rate Assessments

In order to ensure good risk management, the Town will examine the enterprise fund (i.e. sewer and stormwater utilities) user rates annually. This will be done during the Town's municipal budget preparation which includes both the operating budget and the capital improvement plan (CIP) budget. The user rates will be assessed to ensure ongoing operating revenues are adequate to meet the enterprise fund operating needs.

2. Cash Reserves

In order to ensure sufficient operating expenses, the Town's minimum reserve policy requires the enterprise operating funds to have sufficient cash for a minimum of ninety (90) days operating expenses. However, as a best practice, the Town will strive to maintain sufficient cash in these funds of at least one hundred eighty (180) days of operating expenses. In alignment with the general practices of the Reserves Policy, the Town Clerk Treasurer will provide a report to the Town Council and oversee the utility related policies in conjunction with the Town Engineer as set forth under Additional Enterprise Fund Policy.

Approved this 12th day of November 2024 by the McCordsville Town Council