

Borough of Forest Hills
Budget Reserve Policy

General Fund

It is the policy of Forest Hills council that the borough seek to maintain a budget reserve (sometimes known as a “rainy day fund”) of at least 5% but no more than 10% of its general fund budget for a given year.

It is Forest Hills council’s policy that the budget reserve for the general fund will be used as follows:

1. All funds will be invested in the highest yielding instrument possible that is consistent with the borough’s investment policy.
2. Any capital reserve funds will be invested separately and remain segregated from general fund or other reserve funds.
3. Interest earned on the budget reserve investment will be devoted to reinvestment in the reserve account.
4. Council authorizes the use of the general fund budget reserve funds only in the following instances:
 - a. Staff may draw from this fund to use for ready cash in the fourth quarter of a given year should the cash position of the borough be in need of such infusion or if the general fund is in deficit
 - b. Otherwise funds will only be used at the discretion of council by simple majority vote.
5. It is the intent of council that the general fund budget reserve fund be maintained as a tool only for emergencies and not as a method for reducing taxes or increasing spending.
6. Should any or all of the budget reserve be needed to handle an emergency or a fourth quarter deficit council will seek to return the reserve to its recommended level as stated above within the next two years following the use of reserve funds.
7. Council intends to maintain the general fund budget reserve at an average amount of 7% of the total budget for a given year and may choose to use any funds in excess of that amount for additional expenditures, funding of the capital reserve fund, or tax relief by simple majority vote of council.

Capital Reserve Funds

It is the policy of Forest Hills council that the borough seek to maintain a budget reserve in the capital improvements fund of at least \$250,000. Council may decide to fund the capital reserve by contributing general fund dollars to the fund each year as determined during the budgeting process until such time as the fund meets the dollar goal established here. After that time, interest will be used to increase the size of the fund and general fund dollars will only be used to fund the capital reserve in the future when the balance in that account drops below the goal established here. In an emergency as defined by council, council may determine that as much as 75% of the fund may be spent in a given year. Following such spending, council will work to return the fund to its recommended level within the succeeding five years.

Council may consider establishing a reserve for other capital funds as part of this policy.

1. Interest earned on any capital reserve investments will be devoted to reinvestment of funds in the capital account until such time as council may determine that such interest may be used to fund a current year's capital purchases.
2. It is the intent of council that any capital reserve funds be maintained to fund future capital purchases. To that extent, such funding will be limited to no more than 25% of the fund during a given year.

*DRAFT – MARCH 19, 2008
Revised Draft – July 4, 2008
Approved: August 20, 2008*