

Legislative File No: 2018-0229

TO: Mayor and City Council Members

FROM: Strategic Planning and Policy Technical Review Committee

DATE: June 4, 2018

SUBJECT: Governmental Fund Balance Policy

REQUEST:

The Strategic Planning and Policy Technical Review Committee recommends the adoption of the updated Governmental Fund Balance Policy.

BACKGROUND:

The Strategic Planning and Policy Technical Review Committee met in February and May 2018 to review and discuss the City's Governmental Fund Balance Policy.

The City's existing Governmental Fund Balance Policy was last updated in 2009 and calls for a minimum of 20% of annual operating revenues to be maintained for Governmental Funds including General Fund, Special Revenue Funds, and Capital Improvement Funds (note: Debt Service Funds are excluded due to the unique nature of those funds individual functions).

The revised Governmental Fund Balance Policy was developed by researching best practices in Fund Balance Policies per the Governmental Finance Officers Association (GFOA), examining Fund Balance Policy best practice examples from communities all across the country, communications and discussions with the City's Auditor, reviewing the best practices in context with the City of Rochester Hills unique financial structure, and finally by tailoring the most relevant of best practices researched into a comprehensive policy intended to serve the City in the future.

The revisions to the Governmental Fund Balance Policy were presented to the Strategic Planning and Policy Technical Review Committee first in February and then again in May. Through thoughtful and productive discussion, the Committee feels this proposed policy clearly and transparently defines the City's strategic intent regarding the management of prudent fund balance reserves moving forward.

In summary the updated Governmental Fund Balance Policy calls for:

- Fund Balance target ranges for the following funds:
 - o General Fund
 - o Local Street Fund

70-80% of annual operating expenditures 20-25% of annual expenditures *

- * = Including capital outlay (as there is an annual capital program)
- o Fire Operating Fund
- Special Police Fund
- o Pathway Maintenance Fund
- 20-25% of annual operating expenditures 20-25% of annual operating expenditures

20-25% of annual operating expenditures

- o Green Space Operating Fund
- 20-25% of annual operating expenditures

- Fund Balance minimum levels for the following funds:
 - o Major Road Fund
 - $\circ \quad \text{Tree Fund} \quad$
 - o Water Resources Fund

25% of annual operating expenditures 25% of annual operating expenditures 25% of annual operating expenditures

- 25% of annual operating expenditures
- Funds excluded due to the unique nature of their individual functions include:
 - RARA Millage & OPC Millage Funds
 - o Debt Service Funds
 - o Capital Project Funds
 - o Permanent Funds
- Funding in excess of 80% of annual expenditures in the General Fund shall be transferred to the Capital Improvement Fund to provide a funding source for future citywide capital improvements.
 - Usage of Capital Improvement Fund reserves is limited to no more than 50% of the available fund balance reserves in the Capital Improvement Fund in one particular year.
 - City Council is authorized to permit the usage of over 50% pending an explanation of the circumstances.
- Use of Governmental Fund Balance reserves above the prescribed target or minimum level are allowed as directed by City Council .
- If a Governmental Fund Balance reserve were to fall below the prescribed target or minimum level, Administration shall present a prudent financial plan to address the deficit within 90-days, and the reserve must be restored within 3-years.
- This policy shall be reviewed by Administration and the City Council Strategic Planning and Policy Technical Review Committee on an annual basis.

The Chief Financial Officer shall prepare reports documenting the status of governmental fund balances with regards to this policy as part of both the annual Budget Presentation, as well as the 4th Quarter Budget Amendment process.

RECOMMENDATION:

The Strategic Planning and Policy Technical Review Committee recommends the adoption of the updated Governmental Fund Balance Policy.

APPROVALS:	SIGNATURE	DATE
Department Review		
Department Director		
Mayor		
Deputy Clerk		