

# City of Rochester Hills

## Governmental Fund Balance Reserve Policy

### Recommended May 23, 2018

#### **Governmental Fund Balance Reserve Policy Purpose:**

Sound financial management policies and practices are of vital importance in maintaining and strengthening the long-term financial future of the City of Rochester Hills.

The City of Rochester Hills believes a Governmental Fund Balance Policy is essential to:

- Plan for contingencies from temporary revenue shortfalls or extreme weather events
- Maintain good credit standing with rating agencies
- Avoid unnecessary interest expenses by funding capital projects from reserves
- Generate investment income
- Ensure cash flow availability throughout the year
- Create a transparent and shared understanding of fund balance reserves between City Council, City Administration, and City stakeholders

Governmental Fund Balance Reserves are to be accumulated and maintained to provide stability and flexibility, and to respond to unexpected challenges and/or opportunities in order to help the City achieve its primary goals.

#### **Governmental Fund Balance Reserve Policy Statement:**

This policy establishes the desired funding levels under normal operating conditions that the City of Rochester Hills will strive to maintain in various governmental fund balance reserves, the specific conditions under which the reserves may be used, and how the reserves may be funded. This policy shall serve as a benchmark, or frame of reference, against which current and future decisions related to the use of governmental fund balance reserves can be made.

#### **1. Governmental Fund Balance Reserve Levels:**

Governmental Fund Balance Reserve Levels as a percentage of annual operating expenditures for the following funds shall be targeted at:

- |                              |        |
|------------------------------|--------|
| • General Fund               | 70-80% |
| • Local Street Fund *        | 20-25% |
| • Fire Operating Fund        | 20-25% |
| • Special Police Fund        | 20-25% |
| • Pathway Maintenance Fund   | 20-25% |
| • Green Space Operating Fund | 20-25% |

*\* = Target Range as a percentage of total expenditures, including capital outlay*

Governmental Fund Balance Reserve Levels as a percentage of annual operating expenditures for the following funds shall maintained at minimum:

- Major Road Fund 25%
- Tree Fund 25%
- Water Resources Fund 25%

Certain other governmental funds with special purposes (RARA Millage, OPC Millage, Debt Service Funds, Capital Project Funds, Permanent Funds, etc...) are not included and are exempted from this policy due to the unique nature of their individual functions.

The use of governmental fund balance reserve balances **above** the target or minimum levels as stated in (1) above will be allowed as directed by City Council. Under normal operating conditions, General Fund balance reserve levels **above** the target level as stated in (1) shall be transferred-out to the Capital Improvement Fund (CIF) to provide a funding source for future citywide capital improvements.

As part of both the annual Budget Presentation and the 4<sup>th</sup> Quarter Budget Amendment processes, the Chief Financial Officer shall prepare reports documenting the status of the governmental fund balance reserves with regard to this policy.

## **2. Governmental Fund Balance Reserve Usage:**

The use of governmental fund balance reserves to fund on-going recurring operational activities is to be avoided under normal operating conditions. If at any time the utilization of governmental fund balance reserves is necessary to maintain or improve the quality or level of current services, an explanation of the circumstances along with a strategy to replenish the governmental fund balance reserves in the future must be presented and authorized by City Council.

Use of governmental fund balance reserves may be considered for City Council authorization if any of the following reasons exist:

- Capital Improvement projects
- Opportunity to leverage City funds as a matching funds with external funding sources including grants or donations for potential projects
- Opportunity to advance construct projects prior to the availability of external funding sources
- Opportunity to reduce future operational expenditures
- Loss of a significant budgeted item(s)
- Economic downturn
- Local disaster
- Monetary judgment against the City
- Unfunded mandates
- Temporary gap in funding

Usage of Capital Improvement Fund (CIF) fund balance reserves is limited to no more than 50% of the available fund balance reserves in the CIF in one particular year. City Council is authorized to permit the usage of over 50% of CIF fund balance reserves in one particular year pending City Administration presenting an explanation of the circumstances.

**3. Governmental Fund Balance Reserve Restoration:**

Should a governmental fund balance reserve level fall *below* the prescribed target or minimum levels stated in (1) above, City Administration shall present a Fund Balance Reserve Financial Recovery Plan before City Council within 90 days including a prudent financial plan to restore the governmental fund's reserve balance to the prescribed target or minimum level, stated in (1) above, within three (3) budget years of its occurrence. The restoration of governmental fund balance reserves will generally come from excess revenues over expenditures or from one-time revenue sources.

**4. Governmental Fund Balance Reserve Review:**

This Governmental Fund Balance Reserve Policy should be reviewed by City Administration and reaffirmed by the City Council Strategic Planning and Policy Technical Review Committee on an annual basis prior to the budget development cycle.

## **Fund Balance Definitions:**

### **Fund Balance:**

- The accumulated difference between (a) fund assets and deferred outflows of resources and (b) fund liabilities and deferred inflows of resources in a governmental fund.

### **Fund Balance Reserves:**

- Includes components of fund balance which are considered available and spendable
  - The four (4) combined fund balance components of Restricted, Committed, Assigned, and Unassigned are considered as Fund Balance Reserves.

### **Fund Balance Components (per GASB Statement No. 54):**

- **Non-Spendable:**
  - Includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
    - Not in spendable form includes items that are not expected to be converted to cash, for example, inventories and prepaid items.
- **Restricted:**
  - Includes amounts when constraints are placed on the use of resources by either:
    - Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
    - Imposed by law through constitutional provisions or enabling legislation
- **Committed:**
  - Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council
    - Committed amounts cannot be used for any other purpose unless the government removes or changes the specific use by taking the same type of action it employed to commit those amounts
- **Assigned:**
  - Includes amounts that are constrained by City Council *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the City Council to assign amounts that are to be used for specific purposes.
- **Unassigned:**
  - Includes residual General Fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.
    - The General Fund should be the only fund that reports an unassigned fund balance amount