



**City of Rochester Hills
AGENDA SUMMARY
NON-FINANCIAL ITEMS**

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Legislative File No: 2009-0132

TO: Mayor and City Council Members
FROM: Keith Sawdon, Finance Director, Ext 2535
DATE: July 16, 2009
SUBJECT: Fund Balance Policy

REQUEST:

We are requesting that City Council consider adoption of a Fund Balance Policy as we enter into our budget adoption cycle.

BACKGROUND:

The topic of a City's Fund Balance Policy was discussed at the Team Building Session held on January 24, 2009 at the Oakland University Incubator and again at the City Council's meeting of March 30, 2009. At the Incubator meeting the following discussion took place relevant to fund balance policy:

- Is it still appropriate to strive for 15-20% of annual operating fund expenditure for each fund's, Fund Balance?
- When should we use Fund Balance? What constitutes a rainy day to start use? Metrics?
- At what level will we stop using Fund Balance? (what %)
- Should we use fund balance when we have not maxed out our millage?
- What should be the priority use of fund balance? One time Capital projects? Annual operating and maintenance expenses?
- City Council will change every two years, how do we ensure a long term Fund Balance strategy for the administration?

At the March 30th meeting there was further discussion about 1) what is the proper minimum level that fund balance(s)/retained earnings should be maintained at, 2) what would be a proper use of fund balance/retained earnings, and, if this policy was adopted, what excess or under funding exists in our current fund balances/retained earnings levels.

Based on the March 30th discussions, we have updated the Fund Balance Policy (2nd Draft) to reflect that discussion. Based on the discussion we have incorporated the following changes:

- Used a more conservative minimum percentage level for fund balances and retained earnings.
- Removed any reference to a fund name and instead have listed them by fund type.
- Listed those funds which would be exempted from the policy based on the nature and or purpose of the fund.
- Incorporated a new percentage for water and sewer retained earnings that reflects the established goal used in rate setting by the Technical Review Committee.
- Refined what issue would cause the use of fund balance/retained earnings.

RECOMMENDATION:

We are recommending that City Council adopt this 2nd draft of the Fund Balance Policy.

APPROVALS:	SIGNATURE	DATE
Department Review		
Department Director		
Mayor		
City Council Liaison		