DRAFT

BURTON, MICHIGAN

FINANCE COMMITTEE MEETING

FEBRUARY 18, 2015

MINUTES

Council Chambers	Special Meeting	3:00 PM

4303 S. CENTER ROAD
BURTON, MI 48519

This meeting was opened by Chairman Vaughn Smith at 3:28 PM.

A. ROLL CALL

Attendee Name	Title	Status	Arrived
Tom Martinbianco	Councilman	Present	
Dennis O'Keefe	Councilman	Present	
Vaughn Smith	Chairman	Present	

B. STAFF PRESENT

Rik Hayman, Chief of Staff
Teresa Karsney, Clerk
Ginger Burke-Miller, Controller

C. AUDIENCE PARTICIPATION

None

D. COMMITTEE DISCUSSION ON THE FOLLOWING ITEMS:

A. Discussion and possible recommendation of General Fund, Sewer and Water Fund Balance Policy.

Mr. Smith asked the Controller, Mrs. Burke-Miller if she had anything to offer on this matter.

Mrs. Burke-Miller stated that she did a little bit of research on General Fund, Fund Balance policies and best practices. She found some verbiage that was quite fitting for the City from the Government Finance Officer Association. "The City shall maintain a minimum fund balance to provide reserves for unforeseen emergencies or revenue shortfalls and eliminate a need for short term borrowing for cash flow needs." She then took and applied it to the City of Burton, our operating expenditures for June 30, 2014 was 6.4 million, divided that by number of business days in a year and multiply by a minimum of 45 days working capital for the City and came up with around 17%. She stated that would be a bare bones minimum to operate. She is not comfortable with that as a minimum for the City. She would feel more comfortable with something higher than that. So she took our total fund balance as of June 30, 2014 and divided that by the operating expenses and we are currently at 33.8% or 4 months. If you take a look in the Comprehensive Annual Financial Report (CAFR) for the year ending June 30, 2014 our unassigned is just over 2 million so the bulk of that is set as unassigned and we are at 31%. We had discussion at the Council of Whole meeting on February 2, 2015 that 40% may be too high. She feels comfortable as the controller with around 33% to 35%. If you remember in my budget letter to City Council in the past we were running around 3 1/2 months worth of expenditures. Over the years we have been at 3 1/2 to 4 months worth of expenditures pretty consistently. You can set the floor wherever you want, I wouldn't recommend going any lower than 17% and as we talked before 3 months seems to be the amount that schools tend to use or 25%.

Mr. Martinbianco said new qualifying standard under GASB 54 that may or may not impact general fund specifically. Is that going to present a problem if we limit ourselves to that 31% or 3 months calculation? As per GASB 54 the Cities policies shall be that when multiple classifications are available and appropriate for a specific purpose, fund balance will be used first from the most restrictive category which is non spend able in order to the least restricted which is unassigned. Of our general fund, there is nothing that has any restrictions.

Mrs. Burke-Miller said there was a portion in this CAFR that was non spend able, it was $150,216. Which might be prepaid expenses.

Mr. Martinbianco stated he is only concerned about if we had some guarantee loans that general fund made to water, sewer or road whatever the case was, that we had to guarantee that amount of money first to be set aside.

Mrs. Burke-Miller stated generally the best practices according to the Government Fiance Officer Association is to set a policy based on your unrestricted or unassigned. The bulk of ours is sitting in the unassigned category. She said the policy should state that we don't allow the unassigned portion to dip below a certain amount.

Mr. Smith asked Mrs. Burke-Miller if he understands what she said, that the fund balance policy would only apply to the unassigned portion of general fund.

Mrs. Burke-Miller said that in the best practices there is a difference between your budget fund balance and what you put on the CAFR. For budgeting process you could say you don't want to dip below a certain amount.

Mr. Martinbianco stated that he felt 4 month of expenses or 33% is a good start. He feels this won't tie future council hands. We can discuss more or less at the budget talks. He feels we should also have a reserve for Capital projects such as road, water and sewer.

Mr. O'Keefe said preparing for the meeting thought the most discussion would be around the minimum fund balance. He agrees with Mr. Martinbianco that we have other issues that we need to set money aside for. He feels that Mrs. Burke-Miller's narrative was a great start and now we need to put in a dollar amount or a percentage. The City has a lot of items on its plate and we don't want to tie our hands. His comfort level was about 30% but he would agree to 33%. He feels we need to cautious but not to restrict ourselves too much. He thinks a percent would be better than a dollar amount. We have had a lot of discussion on general fund but we also need to discuss water and sewer fund. Is there enough through the billing of water and sewer for them to support themselves. This hasn’t been done in the past and now we are looking to see how to pay for the repairs that are needed now and in the future.

Mrs. Burke-Miller stated that we are currently at 31% and we would have to add to it if we want to go to 33% this coming year, but she feels it is doable. Another item she wanted to bring up in the example from GFOA is addition verbiage about what would you do if you needed to dip into it for an emergency. "Recognize that unforeseen events may cause short-term breaches of these fund balances reserves. However, if such a breach occurs, or is expected to occur with the five year planning cycle, the budget balancing strategies will be invoked to determine corrective actions. When necessary, the following budget-balancing strategies will be used in order of priority." 1) reduce expenditure through improved productivity. 2) shift expense to other parties. 3) create new service fees or increase existing fees. 4) see tax rate increases. 5) reduce or eliminate services." This is an example from the City of Sidney, Ohio. The City has looked to reduce expenses wherever possible and has done so pretty well in the past.

Mr. Smith stated he doesn’t want a policy that they are going to have to break all the time. The question becomes at what level is a good percent that this Council can work with. What are we doing with the citizens dollars, is that we are making their life's better. This will be a tool for future council’s to use. A sinking fund is what we want but that may not be the proper term.

Mrs. Burke-Miller said she would like to call Doug Deeter and check with him. Not sure if you can just take an amount and set it aside with a project in mind.

Mr. Martinbianco said he feels like sometimes the tax payers don’t understand. That it is all one large pot of money. They don’t realize that we collect for the schools, college and the county, that all their tax money doesn’t all stay with the city.

Mrs. Burke-Miller stated that for the enterprise funds they use the word working capital as the measure of available margins or buffer for these type funds. Working capital is defined as current assets minus current liabilities. The target for working capital should be no less than forty-five days’ worth of annual operating expenses.

Mrs. Burke-Miller stated that she is going to talk with Doug Deeter about the 30 to 33%, also about the excess fund balance and about a plan for water and sewer.

Finance Committee
4303 S. Center Road
Burton, MI 48519

SCHEDULED

Meeting: 02/18/15 03:00 PM
Department: Clerk's Office
Category: Discussion
Prepared By: Teresa M. Karsney
Department Head: Teresa M. Karsney

AGENDA ITEM (ID # 1396)

DOC ID: 1396

Discussion and possible recommendation of General Fund, Sewer and Water Fund Balance Policy.

ATTACHMENTS:

- FUND BALANCE POLICY_City of Burton (DOC)
- Fund Balance Policy FINAL Grand Blanc (DOCX)
- Sample Fund Balance Policy (DOCX)

City of Burton
County of Genesee, State of Michigan

Fund Balance Policy (Governmental Funds)

Background:

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54 regarding the classification of fund balance in governmental funds. The City of Burton will comply with this Statement effective in the fiscal year beginning July 1, 2010 and ending June 30, 2011.

Fund Balance Classification:

Governmental funds in the City of Burton accounts and financial statements will include the following classifications of fund balance:

1. Non-spendable fund balance: represents those resources that cannot be used to liquidate current liabilities because the related assets are either not in spendable form (e.g. prepaids, inventory) or are required to be maintained intact (e.g. the principal of an endowment).

2. Restricted fund balance: represents amounts that can be spent only for the specific purposes stipulated by external resource providers or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers.

3. Committed fund balance: represents amounts that are designated to be used for specific purposes determined by formal action of the City's highest level of decision-making authority. Such action must occur prior to the end of the fiscal year for which such amounts are being reported. Commitments may be changed or lifted only by the same formal action that imposed the constraint originally.

The City Council, as the City's highest level of decision-making authority, is the only entity capable of designating a committed fund balance for a specific purpose. Such action shall be performed in a properly called and conducted meeting of the Council and shall require a majority vote of Council members.

4. Assigned fund balance: In the General Fund represents amounts that are intended to be used for specific purposes, but have not been so designated by the governing body. Such designations shall be the prerogative of the City Treasurer or the Mayor.

In governmental funds other than the General Fund, assigned fund balance includes all residual amounts not restricted or committed. This indicates that resources in funds, other than the General Fund, are intended to be used to support a specific purpose (e.g. Sidewalk, Property Replacement, Building Department).

5. Unassigned fund balance: represents all residual amounts, not restricted, committed or assigned in the General Fund, and are available for any purpose.

Fund Balance Spending Order Prioritization

As required by GASB 54, the City's policy shall be that when multiple classifications are available and appropriate for a specific purpose, fund balance will be used first from the most restrictive category (Non-spendable) in order, to the least restrictive (unassigned fund balance).

Minimum Fund Balance:

For the General Fund, the budget shall be prepared and activities managed to result in an ending unassigned fund balance of at least $ 500,000, except in case of emergency or financial distress. Circumstances of emergency or distress shall be reported to the City Council at the earliest practical time. Upon such reports, Council may direct that additional action be taken to preserve the minimum fund balance.

Status of this Policy: The terms and conditions of this policy shall supersede and replace other statements by the City of Burton on this subject. This policy shall remain in force and effect until replaced or contradicted by later action of the Burton City Council or other competent authority.

City of Grand Blanc
Fund Balance Policy

Purpose

The purpose of this policy is to specify the size and composition of the City's desired fund balance and to identify certain requirements for classifying fund balance in accordance with GASB Statement No. 54. It is essential that the City maintain adequate levels of unreserved fund balance to mitigate risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations and working capital for community development and improvement projects.

Policy

Fund balance is created from excess revenues over expenditures. It is a fund's net assets, mostly made up of cash and investments and, unless otherwise restricted, available for investment spending such as real estate or may be used for interfund loans. There are five components of fund balance, namely:

1. **Nonspendable Fund Balance**. This portion of fund balance is *nonspendable* because of its form, for example inventory and non-financial assets, or because of legal or contractual requirements.

2. **Restricted Fund Balance**. This portion of fund balance is *restricted* due to external limitations placed on the use of the funds. The restriction typically comes from outside the local government as a condition of the revenue source.

3. **Committed Fund Balance**. Fund balance is *committed* if a limitation is set in place by formal action of the City Council prior to the end of the fiscal year. The limitation remains binding until the City Council takes formal action to remove it.

4. **Assigned Fund Balance**. Fund balance may be *assigned* to reflect the intended use of the resource. The assignment of funds may come from the City Council or from a designee of the City Council. Less formality is needed to impose, remove, or modify a constraint reflected in *Assigned Fund Balance*. No funds other than the General Fund may have Unassigned Fund Balance, therefore any amounts remaining in excess of Nonspendable, Restricted, or Committed funds in funds other than the General Fund will automatically be reported as *Assigned Fund Balance*. If any portion of existing fund balance will be used to eliminate a projected deficit in the subsequent year's budget, this amount will also be categorized as *Assigned Fund Balance*.

5. **Unassigned Fund Balance**. The General Fund, and no other governmental fund, may have resources that cannot be classified in one of the four categories described above. Only the General Fund can report a surplus, an *Unassigned Fund Balance*.

Because Nonspendable and Restricted fund balances are not available for spending due to external enforceable conditions, this fund balance policy is focused on the appropriate level of General Fund Unrestricted fund balances, those classified as Committed, Assigned and Unassigned.

Proceeds of any real estate sales must be returned to fund balance to be recorded in the fund income statement (this could be a net against the general fund expenditure should the sale occur during the year of a deficit budget).

Utilization of Fund Balance

The policy regarding fund balance shall be that when multiple classifications are available and appropriate for particular expenditures, fund balance will be utilized first from the most restrictive category working toward unassigned fund balance. Relative "restrictiveness" of fund balance shall proceed from the most to least in order of the five classifications listed in this policy, from one to five above.

Minimum Fund Balance

For the General Fund, the budget shall be prepared and activities managed to result in an ending unassigned fund balance of at least 50% of the average of the past three (3) fiscal year general fund expenses, except in the case of emergency or financial distress. Circumstances of emergency or financial distress shall be reported to the City Council at the earliest practical time.

When fund balance approaches its minimum threshold the following measures, in priority order, shall be used to build up fund balance:

1. Cut or delay pay-as-you-go capital improvements.
2. Cut general operating expenses.
3. Increase rates and charges funding specific services to make them self-sufficient where possible.
4. Increase millage.

Maximum Fund Balance

In the event that Unassigned Fund Balance exceeds the maximum of 100% of the general fund expenses, the excess may be utilized for a one-time millage reduction utilizing the excess within the fund in which it was generated. In order to minimize the long term effect of such use, the excess shall be appropriated to fund one time expenditures or expenses which do not result in reoccurring operating costs, or other one-time costs including the establishment or increase in legitimate reservations or designations of fund balance.

Other Provisions

Maintenance. In the event the unassigned general fund balance is so calculated to be less than the policy anticipates, the City shall plan to adjust the budget resources in the subsequent fiscal years to restore the balance. Except in extraordinary circumstances, unassigned fund balance should not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the

City. It should be used to primarily insure adequate assigned balances, to respond to unforeseen emergencies, to provide cash flow and overall financial stability.

Administrative Responsibilities. The Finance Director shall be responsible for monitoring and reporting the City's various assignments. The City Manager is directed to make recommendations to the Finance Committee of the City Council on use of the unassigned funds both as an element of the annual budget submission and from time to time throughout the year as needs may arise.

Annual Report. The Finance Director shall annually submit a report to the Finance Committee of the City Council outlining the status of the City's various components of the fund balance. This report shall be submitted within thirty days of receipt of the annual financial audit. The Finance Director shall also provide status reports at other times to the Finance Committee or the City Council as may be requested.

May 9, 2012

Let it be resolved that the goal of the Council shall be to maintain a minimum unassigned fund balance of no less than 40% of General Fund expenditures. For purposes of this calculation, "expenditure" will be the annual budgeted expenditures amount less non-recurring capital expenditures.

If unassigned fund balance levels fall below 40% of expenditures, the General Fund budget for the following year will be adjusted to restore fund balance to the 40% level. If unassigned fund balance approaches a level that greatly exceeds 60% of expenditures, the City Council will consider using unassigned fund balance for the following purposes: funding OPEB Trust, funding pension, pay down future debt, transfer funds to Capital Projects fund for future Capital improvements and other future obligations of the City. Fund balance levels will be analyzed each fiscal year after the financial statement audit.