MONROE WASHINGTON

MONROE CITY COUNCIL
Finance & Human Resources Committee Meeting
Tuesday, February 12, 2019, 6 P.M.
Monroe City Hall, Council Conference Room

2019 Committee
Councilmembers
Patsy Cudaback
Jason Gamble
Kirk Scarboro

AGENDA

I. Call to Order

II. Special Orders of the Day

A. Selection of 2019 Committee Chairperson

III. Approval Minutes (Meeting of Tuesday, December 11, 2018) [Page 2]

IV. Unfinished Business

V. New Business

A. Review 2019 Finance Director Work Plan (Finance) [Page 3]

B. DRAFT 2019 Committee Work Plan [Page 5]

C. Confirmation of 2019 Regular Meeting Date/Time

D. Reserve Policy (Finance) [Page 7]

E. Annual Performance Review Update (Human Resources)

VI. Other

VII. Next Committee Meeting (March 12, 2019)

VIII. Adjournment

MONROE CITY COUNCIL
Finance & Human Resources Committee Meeting
Tuesday, December 11, 2018, 5:30 P.M.
Monroe City Hall

2018 Committee
Councilmembers
Jason Gamble
Kevin Hanford
Kirk Scarboro

MINUTES

I. Call to Order

A regular meeting of the Monroe City Council Finance & Human Resource Committee was held on December 11, 2018, at Monroe City Hall. The Meeting was called to order by Chairperson Gamble at 5:39 p.m.

Committee Present:	Councilmembers Jason Gamble, Kevin Hanford and Kirk Scarboro
Staff Present:	Elizabeth Adkisson, City Clerk; Becky Hasart, Finance Director; and Deborah Knight, City Administrator
Citizens Present:	Heather Rousey, Planning Commissioner

II. Approval Minutes (Meeting of Tuesday, November 13, 2018)

Councilmember Scarboro moved to approve the Finance & Human Resources Committee Meeting minutes of Tuesday, November 13, 2018; the motion was seconded by Councilmember Hanford. Motion carried (3-0).

III. Unfinished Business

A. YMCA Contract/Survey (Administration)

Ms. Hasart provided background information on the requested survey regarding the YMCA Contract and voucher usage; and corresponding results.

General discussion ensued regarding number of vouchers provided; number of persons included in the survey; providing cards to voucher holders in the future to allow for scanning and tracking; facilities, pool, and program usage; providing vouchers per household as opposed to per person; future of partnership and continuation of program; and 2019 program scope of services.

IV. New Business - NONE

V. Other – NONE

VI. Next Committee Meeting (January 8, 2019)

Councilmember Gamble noted he will be absent on January 8, 2019.

VII. Adjournment

There being no further business, the Tuesday, December 11, 2018, Monroe City Council Finance & Human Resource Committee meeting adjourned at 6:19 p.m. (3-0).

MONROE CITY COUNCIL
Finance & Human Resources Committee Meeting
Tuesday, January 8, 2019, 6:00 P.M.

Agenda Bill

2019 Committee
Councilmembers
Patsy Cudaback
Jason Gamble
Kirk Scarboro

SUBJECT:	***Information Only – 2019 Finance Work Plan***

DATE:	**DEPT:**	**CONTACT:**	**PRESENTER:**	**ITEM:**
02/12/2019	Finance	Becky Hasart	Becky Hasart	**New Business A.**

Discussion: 02/12/2019
Attachments: 1. 2019 Finance Work Plan

REQUESTED ACTION: Information only.

DESCRIPTION/BACKGROUND

Each year, the Director for each City department develops a work plan to help identify and organize chronologically the various tasks identified to be completed for that year. These tasks align with the City's six year strategic plan and with the goals which were identified in the current year's budget.

The attached is the work plan developed by and for the Finance Director. This work plan will also help to inform the work plan which will be developed by Committee later this evening.

City of Monroe Departmental Work Plans

Task	Description	Carry Over Yes/No	Department/Staff	Committee(s)	Start	End
funding strategy recommendations	for streets & code enforcement	no	Becky for CA & Mayor	Finance	1/1/2019	4/30/2019
2018 Annual Report	Required Reporting	yearly	Becky		1/1/2019	5/30/2019
2018 TBD Annual Report	Required Reporting	yearly	Becky/PW Engineering		1/1/2019	5/30/2019
Annual JLARC LTAX report	Required Reporting	yearly	Becky		1/1/2019	5/30/2019
2018 Street Report	Required Reporting	yearly	Becky		1/1/2019	6/30/2019
Compensation & Classification Study	support to HR	no	HR/Executive/Becky	Finance	1/1/2019	6/30/2019
Development Fees Direct Billing	cost recovery for DCD activity	yes	Becky/Ben/Consultant	Finance & P4?	4/1/2019	6/30/2019
Support - Police Operational Structure Analysis	overview of organizational structure	no	Police/Finance in support	P4?	1/1/2019	6/30/2019
6 year projections: water & stormwater	fiscal sustainability tool/rate setting	no	Becky (PW input & review)	Finance & P4?	3/1/2019	7/31/2019
Impact Fees Reconciliation	Historical Analysis and recon	no	Becky		1/1/2019	7/31/2019
sustainable funding for stormwater (streets)	fiscal sustainability tool/rate setting	no	Becky/PW	Finance	3/1/2019	7/31/2019
6 year capital budget document	Required Reporting	yearly	Becky-others as needed	Finance/P4?	12/1/2018	8/31/2019
Review allowable TBD costs/recommend changes if	"charter" review	no	Becky/Executive	Finance/P4?	1/1/2019	9/30/2019
review/update (if needed) reserve policy	policy recommendation	no	Becky	Finance	4/1/2019	9/30/2019
2020 LTAX funding cycle	staff work with LTAC	yearly	Becky	LTAC	4/1/2019	10/31/2019
2020 LTAX rating critera development	staff work with LTAC	yearly	Becky	LTAC	4/1/2019	10/31/2019
2020 TBD Budget	Required Reporting	yearly	Becky/PW		7/1/2019	10/31/2019
review/update (if needed) travel policy	policy recommendation	no	Becky	Finance	5/1/2019	10/31/2019
Support - ECPRD park bond	ECPRD bond measure	no	Parks/Becky	P4?	1/1/2019	11/30/2019
2020 Budget	Required Reporting	yearly	Becky-all staff		5/31/2019	12/31/2019
Collective Bargaining - Teamsters	support to HR	no	HR/other directors as needed	Finance	6/1/2019	12/31/2019
Support - Court Strategic Plan development	fiscal support & analysis	no	Becky/Court	Finance	1/1/2019	1/1/2020
continue internal & external outreach re: Budget 101 presentations	educational outreach	no	Becky		ongoing	
expand operations budget document	add info and usability	yearly	Becky		ongoing	
provide ongoing support to Chamber & DMA	enhance partnerships	no	Becky		ongoing	

Becky Hasart:
includes "annual report" document similar to school district

MONROE CITY COUNCIL
Finance & Human Resources Committee Meeting
Tuesday, February 12, 2019, 6:00 P.M.

Agenda Bill

2019 Committee
Councilmembers
Patsy Cudaback
Jason Gamble
Kirk Scarboro

SUBJECT:	***Information Only – 2019 Finance/HR Committee Work Plan***

DATE:	**DEPT:**	**CONTACT:**	**PRESENTER:**	**ITEM:**
02/12/2019	Finance	Becky Hasart	Becky Hasart	**New Business B.**

Discussion: 02/12/2019
Attachments: 1. Draft 2019 Committee Work Plan

REQUESTED ACTION: Discuss and finalize.

DESCRIPTION/BACKGROUND

Each year, the Director for each City department develops a work plan to help identify and organize chronologically the various tasks identified to be completed for that year. These tasks align with the City's six year strategic plan and with the goals which were identified in the current year's budget.

Many of the items on the Finance Director's work plan has policy implications. It is suggested these items are vetted through the Finance/HR Committee prior to presentation to the full Council. The attached is a suggested work plan for the committee, which aligns with the Finance Director's work plan for 2019.

2019
MONROE CITY COUNCIL
Finance & Human Resources Committee

Councilmembers
Patsy Cudaback
Jason Gamble
Kirk Scarboro

2019 WORK PLAN*

February	Finance	Work Plan Begin Reserve Policy review/update
	HR	Annual Performance Review Update
March (5:30 p.m.)	Finance	Reserve Policy continued Review 2018 annual report Street & Code Enforce funding strategies
	HR	Comp Class Study
April (5:30 p.m.)	Finance	Reserve Police continued (if needed) Development Fees Direct Billing kick off 2019 Budget Amendment
	HR	Bargaining Discussion
May	Finance	Finalize Reserve Policy (if needed)
June	Finance	
July	Finance	TBD allowable costs review 6 year utility funds projections
August (5:30 p.m.)	HR Finance	Mid-Year Performance Review Update Begin Travel/Expense Reimbursement Policy review/update
September	Finance	Travel/Expense RI policy continued
October	Finance	Finalize Travel/Expense RI policy
November	Finance	Old business close out
December	Finance	

**The work plan items are subject to change as needed; and Regular Meetings held the second Tuesday of each month at 6 p.m.; unless otherwise noted.*

MONROE CITY COUNCIL
Finance & Human Resources Committee Meeting
Tuesday, February 12, 2019, 6:00 P.M.

Agenda Bill

2018 Committee
Councilmembers
Jason Gamble
Kirk Scarboro
Patsy Cudaback

SUBJECT:	***Reserve Policy Introduction***

DATE:	**DEPT:**	**CONTACT:**	**PRESENTER:**	**ITEM:**
02/12/2019	Finance	Becky Hasart	Becky Hasart	**New Business D.**

Discussion: 02/12/2019

Attachments:
1. Resolution No. 008/2015 Current City Reserve Fund Policy
2. GFOA Best Practice Guidelines for General Fund
3. GFOA Best Practice – Working Capital
4. RCW 35A.33.145
5. 2019 Current Reserve Levels (Budgeted)
6. City of Elgin, Illinois article (cite: GFOA website)

REQUESTED ACTION: None - information only. Further discussion and review of staff recommendations will occur at a subsequent committee meeting.

DESCRIPTION/BACKGROUND

{The terms fund balance and reserves will be used interchangeably throughout this agenda bill.}

The City Council is responsible for all fiscal policies. The City's current fund balance policy was last updated in 2015. While it is a best practice that is viewed favorably by both the State Auditors and debt ratings services to have an adopted policy, it is also a best practice to periodically review the policy and update if needed.

A strong reserve fund balance policy will address the following areas:
- Why we should maintain a fund balance;
- What is the appropriate level of fund balance;
- How a fund balance may be used; and
- How to replenish a fund balance if it goes below the policy level.

As we review our current policy, it is recommended that we address all four areas (if not already in the policy) in our update. The first and third bullet points are pretty straight forward. The bulk of our discussion will occur in the second and fourth bullet points.

What is the appropriate level of fund balance?

When establishing an appropriate level of fund balance, there are many guidelines which can help inform our analysis. The General Finance Officers Association (GFOA) is a national organization which publishes many guidelines and best practices that meet generally accepted accounting principles for use by all types of governments. Attachment 2, GFOA Best Practice Guidelines for General Fund, is a good starting point as we discuss appropriate reserves for our General Fund and general revenue fund types, such as Fund 105 Streets Operations and Maintenance (O&M).

In the Guidelines for General Fund, the GFOA recommends consideration of the following items when determining an appropriate reserve balance (page 2 of Attachment 2):
- The predictability of revenues and volatility of expenditures;
- The perceived exposure to significant one-time outlays;
- The potential drain on the general fund by other funds;

- The potential impacts to our bond ratings; and
- Our various contractual commitments and assignments.

GFOA does recommend that at a minimum, regardless of the government's size, that an unrestricted fund balance be at least two months of our general fund expenditures, which is our current policy (two months equals seventeen percent).

For our utility funds, fund balance is defined by the GFOA as working capital. Attachment 3, GFOA Best Practice – Working Capital, is a good starting point for discussion regarding an appropriate fund balance level for water, sewer, and storm O&M.

As with the general type funds, GFOA recommends specific items to consider when determining an appropriate fund balance (page 2-3 of Attachment 3). For our purposes, the following are the items most related to our operations:

- Support from the General Fund;
- Transfers out;
- Cash cycles;
- Customer concentration;
- Demand for services;
- Control over rates and revenues;
- Separate targets for operating and capital needs; and
- Debt position.

GFOA does recommend that at a minimum a target of forty-five days of working capital would be the minimum we should target in our policy (forty-five days equals twelve percent). Our current policy does target twelve percent for the three utility O&M funds.

Other required reserves.

In addition to the targeted reserves for the General Fund and utility O&M funds, the City's current reserve fund policy also requires funding a Contingency Fund. RCW 35A.33.145 allows for the ability to have a contingency fund, but does cap the amount at thirty seven and one half cents per each one thousand of assessed value for the entire city ($0.375 per $1,000 AV). Per our policy, this is in addition to the seventeen percent held in the General Fund.

Other policy required reserves include Risk Management (Fund 622), Employee Sick Leave (Fund 621), Information Technology Services (Fund 510), Equipment & Fleet Management (Fund 520, Facilities Management (Fund 530), General City Capital (Fund 307), and utility capital funds.

How to replenish a fund balance if it goes below the policy level.

As part of the adopted policy, GFOA recommends that the policy address how reserves would be replenished should the balance fall below target. Various potential sources of replenishment could include prior year excess reserve over target, banked property tax capacity, rate increases, transfers from non-restricted funds, one-time revenue sources such as construction related sales taxes, etc. When determining the appropriate sources of reserve replenishment (and priority of the sources), we should use the same considerations that are recommended for determining an appropriate reserve level (listed above).

POLICY CONSIDERATIONS

As we work toward reviewing and potentially updating the City's reserve policy, the following are the policy questions under consideration:

- Which funds should be included in the reserve policy?
- What is an appropriate level of reserves for each fund? Appropriate measurement?
- What is an appropriate level of reserves for the City as a whole?
- How does each individual fund level relate to the level for the City as a whole?
- How and when can reserves be used?

- If fund levels fall below target, how will the reserves be replenished?

It is a goal of this administration to work with the Council toward adoption of an appropriate updated reserve policy no later than May 2019.

CITY OF MONROE
RESOLUTION NO. 008/2015

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MONROE, WASHINGTON, AMENDING THE CITY'S ADOPTED RESERVE FUND POLICY BY CLARIFYING PROVISIONS CONCERNING THE CITY'S CONTINGENCY FUND

WHEREAS, the City Council of the City of Monroe finds that the establishment of reserve requirements are an important element of a fiscally sound financial policy; and

WHEREAS, the City Council of the City of Monroe adopted a Reserve Fund Policy through Resolution No. 2012/018; and

WHEREAS, the City Council of the City of Monroe intends for the policy to remain aligned with common practice concerning the amount of the City's Contingency Fund while maintaining the intent of the policy.

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF MONROE AS FOLLOWS:

Section 1. Amendment of Reserve Fund Policy. The Reserve Fund Policy originally adopted pursuant to Resolution No. 2012/018 is hereby amended to provide as set forth in the attached Exhibit A. The Contingency Fund's (002) minimum amounts are hereby designated as goals as indicated by said amendment.

Section 2. Effective Date. This resolution shall take effect immediately upon passage.

ADOPTED by the City Council of the City of Monroe, at its regular meeting thereof, and APPROVED by the Mayor this 21 day of April, 2015.

EFFECTIVE: April 21,2015

CITY OF MONROE, WASHINGTON

(SEAL)

Geoffrey Thomas, Mayor

ATTEST:

Elizabeth M. Smoot, CMC, City Clerk

EXHIBIT A

MONROE WASHINGTON

Finance

806 West Main Street
Monroe, WA 98272-2198
(360) 794-7400 Fax: (360) 794-4007
www.monroewa.gov

Reserve Fund Policy

PURPOSE:

Establish recommended minimum reserve levels. Reserve should be adequate to moderate the impact of temporary fluctuations in the economy, manage risk and enhance external agencies' evaluation of the City's financial strength.

DEFINITIONS:

Fund Balance: difference between funds' current assets and liabilities.

- Fund Balance <u>Reserved</u>: legally set aside for a specific purpose. Some examples include:
  - Petty Cash (General)
  - Paths & Trails (Street) RCW 47.30.030/050
  - Contributions
- Fund Balance Unreserved <u>Designated</u>: self-imposed limitation by the City.
  - Replacement (Internal Service)
  - Risk Management
  - Personnel Liabilities
  - Contingency Fund RCW 35A.33.145/146
  - Real Estate Excise Tax Funds RCW 82.46.010/035
  - Police Drug and Seized Asset Fund
  - Continuing Appropriation, Project, Grants – established as needed.
- Fund Balance Unreserved <u>Available</u>: may be appropriated as necessary.

Beginning Fund Balance: accumulated funding from prior years available for use in the current year.

Ending Fund Balance: the excess of beginning fund balance plus current revenues minus current expenditures.

POLICY:

1. Allowable uses of designated, reserved or restricted fund reserves are limited to:
   a. <u>One-time</u>
      i. Non-budgeted required expenditures,
      ii. Non-budgeted expenditures that present a unique opportunity,
      iii. Revenue shortfalls of a non-recurring nature, such as an economic recession lasting not more than two years,

b. Temporary response
   i. Termination of revenue sources from other governmental bodies,
   ii. Emergency financing,
   iii. Adverse changes in the economy,
   iv. Utility rate stabilization,

c. Planned
   i. Maintenance or replacement of facilities and equipment,
   ii. Additions to assets of the City,
   iii. Expenditures for insurance and other significant items,
   iv. Security provisions of debt agreements,
   v. Appropriation of revenues to next budget year beginning fund balance.

2. Reserves shall not be used as a continuing supplement to the operating budget.
3. City Council shall approve all expenditures of designated, reserved or restricted reserves by ordinance or resolution.
4. During a declared emergency the Mayor may approve expenditures of available reserves. Per the City of Monroe's Comprehensive Emergency Management Plan, the Proclamation of Emergency shall at the earliest practicable time be presented to the City Council for ratification and confirmation, modification, or rejection, and if rejected, shall be void.
5. Reserves shall be replenished at a rate that does not impair established programs or create undue hardship.
6. The Finance Director shall administer the policy:
   a. Develop and implement procedures for administering this policy,
   b. Ensure compliance with policy and state law.

TARGETED RESERVE BALANCES:

001 - General Fund

This fund is used for all basic governmental services and operations.

- **Fund Type** – General Fund only
- **Monroe Policy** – 17% of budgeted operating expenditures. This target reserve balance shall be met before any reserve is set aside in the Contingency Fund.
- **Why the policy is set to this amount** – This is the equivalent of two months of operating expenditures. While the rule of thumb for personal finances is to have three month's salary in savings, since property tax revenue is virtually guaranteed through RCW, less than three month's is needed for governmental operations.
- **Can funds from here by used for other purposes?** Yes, provided the used is approved by the city council.

002 - Contingency Fund

This fund is used for one-time only (non-operational) fiscal opportunities for the city, at the City Council's discretion.

- **Fund Type –** General Fund only

- **Monroe [~~POLICY~~]Goal** – minimum of 8% of operating expenditures of the General Fund. This reserve shall not be funded until the ending fund balance requirement of the General Fund is met.
- **Why the [~~POLICY~~]goal is set to this amount** - per RCW 35A.33.145, shall not exceed 37.5 cents per thousand dollars of assessed valuation of property within the city. Maintained to meet unusual or catastrophic uninsured loss, or to take advantage of unforeseen opportunities.
- **Can funds from here by used for other purposes?** Yes. RCW 35A.33.145 requires (i) an ordinance or resolution passed by a majority of the whole Council, (ii) containing a statement explaining the reason for the release/transfer, and (iii) where applicable, specifying identity of the recipient fund.

622 - Risk Management Fund
This fund is used to cover claims against the city that are not covered by the city's liability insurance policy.

- **Fund Type** – General Fund only
- **Monroe Policy** – minimum amount equal to 1% of the current year's General Fund expenditure budget.
- **Why the policy is set to this amount** – most cases are covered by insurance, very few would fall in this category. There is a $1,000 deductible for each claim, and if the city had a large amount of claims, those deductible can come from this reserve.
- **Can funds from here be used for other purposes?** No.

621 - Employee Sick Leave Reserve
This fund is used to cover payouts of accrued sick leave amounts to employees leaving employment with the city.

- **Fund Type** – Both General Fund and Utilities based on employees
- **Monroe Policy** – amount equal to 1% of the current year's General Fund revenue budget.
- **Why the policy is set to this amount** – the level of this reserve is based on a review of the past ten years' worth of payouts.
- **Can funds from here be used for other purposes?** No.

510 - Info Technology Services Fund
This fund is used for all operations, equipment replacements, upgrades and acquisitions for anything related to information technology. It includes all computers, servers, printers, photocopiers, and phone systems among other items.

- **Fund Type** – Both General Fund and Utilities based on equipment usage ratio
- **Monroe Policy** – amount equal to the greater of next year's 'Info & Tech Replacement Plan' and the average of the next 3 years. This reserve shall not be funded until the General Fund reserve balance is met.
- **Why the policy is set to this amount** – One of the concerns of this account was that purchases would keep getting deferred into "next year" and eventually the

city would be left with an unrealistic amount when it all came due. By taking the greater of the next year amount and the average of the next three years, funds should always be put aside ahead of time and not wait until the last minute.

- **Can funds from here be used for other purposes?** No.

520 - Equipment & Fleet Management Fund

This fund is used for all operations, replacements and acquisitions of all city vehicles and major equipment.

- **Fund Type** – Both General Fund and Utilities based on equipment and fleet usage ratio
- **Monroe Policy** – amount equal to the greater of next year's 'Equipment & Fleet Replacement Plan' and the average of the next 6 years. This reserve shall not be funded until the General Fund reserve balance is met.
- **Why the policy is set to this amount -** One of the concerns of this account was that purchases would keep getting deferred into "next year" and eventually the city would be left with an unrealistic amount when it all came due. By taking the greater of the next year amount and the average of the next six years, funds should always be put aside ahead of time and not wait until the last minute.
- **Can funds from here be used for other purposes?** No.

530 - Facilities Management Fund

This fund is used for operations, repairs and improvements to all city owned buildings.

- **Fund Type** – Both General Fund and Utilities based on square footage
- **Monroe Policy** – amount equal to the greater of next year's 'Facilities Replacement Plan' and the average of the next 6 years. This reserve shall not be funded until the General Fund reserve balance is met.
- **Why the policy is set to this amount -** One of the concerns of this account was that purchases would keep getting deferred into "next year" and eventually the city would be left with an unrealistic amount when it all came due. By taking the greater of the next year amount and the average of the next six years, funds should always be put aside ahead of time and not wait until the last minute.
- **Can funds from here be used for other purposes?** No.

307 - Capital Improvement Projects Fund

This fund is used for tracking capital construction projects for municipal facilities or infrastructures that are not parks or street related.

- **Fund Type –** Portion of fuel tax revenue from Street Fund
- **Monroe Policy –** 0.42% fuel tax collected from previous year is added each year to the reserve.
- **Why the policy is set to this amount** – per RCW 47.30.030/050, amount credited to the reserve each year shall be at least 0.42 percent of the total amount of funds received from the motor vehicle fuel tax. These funds must be used for capital expenses for paths or trails. Must be expended within ten years of receipt. Use determined by the Parks Director in accordance with the City's budget.

- **Can funds from here be used for other purposes?** No.

411 - Water Fund
This fund is used for all operations of the water utility.

- **Fund Type** - Utilities
- **Monroe Policy** – 45 days operating expense, 12% of budgeted operating expense.
- **Why the policy is set to this amount** – this represents 45 days of operating expenses. Most emergencies would be covered by insurance or FEMA. Rates can be adjusted at any time per city council action to meet the needs of operations and comply with debt requirements. This reserve would most likely be used as interim funding until insurance or permanent funding was in place.
- **Can funds from here be used for other purposes?** No.

412 – Water CIP Fund
This fund is used to track capital construction projects for the water utility.

- **Fund Type** - Utilities
- **Monroe Policy** – minimum of 1% of net fixed assets.
- **Why the policy is set for this amount** – this amount is for unforeseen contingencies on capital construction projects. Most costs are known for construction projects before they are started. All construction project budgets carry a small percentage for contingencies. This reserve would cover any needs in excess of the budgeted contingency, and is not anticipated to be used.
- **Can funds from here be used for other purposes?** No.
- **Restricted for debt** – as determined by lending agreements, frequently 1.25 coverage ratio on revenue bonds.

421 - Sewer Fund
This fund is used for all operations of the sewer utility, both collection and treatment.

- **Fund Type** – Utilities
- **Monroe Policy** – 45 days operating expense, 12% of budgeted operating expense.
- **Why the policy is set to this amount** – this represents 45 days of operating expenses. Most emergencies would be covered by insurance or FEMA. Rates can be adjusted at any time per city council action to meet the needs of operations and comply with debt requirements. This reserve would most likely be used as interim funding until insurance or permanent funding was in place.
- **Can funds from here be used for other purposes?** No.

422 – Sewer CIP Fund
This fund is used to track capital construction projects for the sewer utility.

- **Fund Type** - Utilities
- **Monroe Policy** – minimum of 1% of net fixed assets.

- **Why the policy is set for this amount** – this amount is for unforeseen contingencies on capital construction projects. Most costs are known for construction projects before they are started. All construction project budgets carry a small percentage for contingencies. This reserve would cover any needs in excess of the budgeted contingency, and is not anticipated to be used.
- **Can funds from here be used for other purposes?** No.
- **Restricted for debt** – as determined by lending agreements, frequently 1.25 coverage ratio on revenue bonds.

431 - Stormwater Fund
This fund is used for all operation of the stormwater utility.

- **Fund Type** – Utilities
- **Monroe Policy** – 45 days operating expense, 12% of budgeted operating expense.
- **Why the policy is set to this amount** – this represents 45 days of operating expenses. Most emergencies would be covered by insurance or FEMA. Rates can be adjusted at any time per city council action to meet the needs of operations and comply with debt requirements. This reserve would most likely be used as interim funding until insurance or permanent funding was in place.
- **Can funds from here be used for other purposes?** No.

432 – Stormwater CIP Fund
This fund is used to track capital construction projects for the stormwater utility.

- **Fund Type** - Utilities
- **Monroe Policy** – minimum of 1% of net fixed assets
- **Why the policy is set for this amount** – this amount is for unforeseen contingencies on capital construction projects. Most costs are known for construction projects before they are started. All construction project budgets carry a small percentage for contingencies. This reserve would cover any needs in excess of the budgeted contingency, and is not anticipated to be used.
- **Can funds from here be used for other purposes?** No.
- **Restricted for debt** – as determined by lending agreements, frequently 1.25 coverage ratio on revenue bonds.

Consistency with State Law and Budget

- This policy is intended to be construed in a manner consistent with applicable provisions of State law and the City's adopted budget. In the event of any irreconcilable conflict between any provision of this policy and either State law or the City's budget, the provision of State law or the City's budget shall control.

Government Finance Officers Association

BEST PRACTICE

Fund Balance Guidelines for the General Fund

BACKGROUND:

In the context of financial reporting, the term *fund balance* is used to describe the net position of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis.[1] While in both cases *fund balance* is intended to serve as a measure of the financial resources available in a governmental fund; it is essential that differences between GAAP *fund balance* and budgetary *fund balance* be fully appreciated.

1. GAAP financial statements report up to five separate categories of fund balance based on the type and source of constraints placed on how resources can be spent (presented in descending order from most constraining to least constraining): *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.[2] The total of the amounts in these last three categories (where the only constraint on spending, if any, is imposed by the government itself) is termed *unrestricted fund balance*. In contrast, budgetary fund balance, while it is subject to the same constraints on spending as GAAP fund balance, typically represents simply the total amount accumulated from prior years at a point in time.
2. The calculation of GAAP fund balance and budgetary fund balance sometimes is complicated by the use of sub-funds within the general fund. In such cases, GAAP fund balance includes amounts from all of the subfunds, whereas budgetary fund balance typically does not.
3. Often the timing of the recognition of revenues and expenditures is different for purposes of GAAP financial reporting and budgeting. For example, encumbrances arising from purchase orders often are recognized as expenditures for budgetary purposes, but never for the preparation of GAAP financial statements.

The effect of these and other differences on the amounts reported as *GAAP fund balance* and *budgetary fund balance* in the general fund should be clarified, understood, and documented.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance in the general fund.

RECOMMENDATION:

GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.[3] Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period.[4] In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.

Appropriate Level. The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.[5] The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.[6] Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

2 mo = 17%

1. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
3. The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds;
4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;
5. Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

Use and Replenishment.

The fund balance policy should define conditions warranting its use, and if a fund balance falls below the government's policy level, a solid plan to replenish it. In that context, the fund balance policy should:

1. Define the time period within which and contingencies for which fund balances will be used;
2. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;

3. Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.

Generally, governments should seek to replenish their fund balances within one to three years of use. Specifically, factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets;
2. Recovering from an extreme event;
3. Political continuity;
4. Financial planning time horizons;
5. Long-term forecasts and economic conditions;
6. External financing expectations.

Revenue sources that would typically be looked to for replenishment of a fund balance include nonrecurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and there is a defensible rationale). Year-end surpluses are an appropriate source for replenishing fund balance.

Unrestricted Fund Balance Above Formal Policy Requirement. In some cases, governments can find themselves in a position with an amount of unrestricted fund balance in the general fund over their formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future. Amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed. Additionally, an education or communication strategy, or at a minimum, explanation of large changes in fund balance is encouraged. In all cases, use of those funds should be prohibited as a funding source for ongoing recurring expenditures.

Notes:

1. For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.
2. These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
3. Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.
4. See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).
5. In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.
6. In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the

decision has been made to compare unrestricted fund balance to either revenues and/or expenditures, that decision should be followed consistently from period to period.

This best practice was previously titled Appropriate Level of Unrestricted Fund Balance in the General Fund.

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Government Finance Officers Association

BEST PRACTICE

Working Capital Targets for Enterprise Funds (utilities)

BACKGROUND: working capital = reserves

Enterprise funds distinguish between current and non-current assets and liabilities. It is possible to take advantage of this distinction to calculate working capital (i.e., current assets less current liabilities). The measure of working capital indicates the relatively liquid portion of total enterprise fund capital, which constitutes a margin or buffer for meeting obligations.

It is essential that a government maintain adequate levels of working capital in its enterprise funds to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to ensure stable services and fees.

Working capital is a crucial consideration, too, in long-term financial planning. Credit rating agencies consider the availability of working capital in their evaluations of continued creditworthiness. Likewise, laws and regulations may speak to appropriate levels of working capital for some enterprise funds.

RECOMMENDATION:

GFOA recommends that local governments adopt a target amount of working capital to maintain in each of their enterprise funds. Ideally, targets would be formally described in a financial policy and/or financial plan.

GFOA recommends that governments use working capital as the measure of available margin or buffer in enterprise funds. Although as previously stated, working capital is defined as current assets minus current liabilities, government finance officers should be aware of certain characteristics of working capital that affect its use as a measure. Specifically, the □current assets□ portion of working capital includes assets or resources that are reasonably expected to be realized in cash (e.g., accounts receivable) or consumed (e.g., inventories and prepaids) within a year, which leads to two considerations for an accurate calculation of working capital:

- **Strength of collection practices**. An appropriate allowance for uncollectibles should be established and the amount of the receivable that is expected to be collected in cash within one year should be determined in a manner that is consistent with the collection practices of the government. If the accounts receivable collection practices of the enterprise fund are inconsistent or weak, then less of the accounts receivable amount should be reported as current assets.

- **Historical consumption of inventories and prepaids**. The amount of inventories and prepaids included in current assets should be a realistic estimate of the amount that will be consumed in one year based on a historical usage pattern and current operating levels (inventories) or based on the time periods to which the items relate (prepaids).

Because the purposes, customers, and other characteristics of enterprise funds can vary widely, GFOA recommends that governments develop a target amount of working capital that best fits local conditions for each fund. However, GFOA recommends that under no circumstances should the target for working capital be less than forty-five (45) days worth of annual operating expenses[1] and other working capital needs of the enterprise fund.* A target of 45-days would only be appropriate for those enterprise funds with the least amount of need for cushion or buffer. 45 days = 12%

In order to arrive at a customized target amount of working capital, governments should start with a baseline of ninety (90) days worth of working capital and then adjust the target based on the particular characteristics of the enterprise fund in question (using 45 days as the minimum acceptable level). The primary characteristics to think about when customizing a working capital target are presented below. The appendix to this Best Practices provides more detailed considerations for these characteristics as they pertain to common types of government enterprise funds.

- **Support from general government.** Some enterprise funds may be supported by general taxes or transfers from a general government. These enterprise funds may require lower levels of working capital if they are supported by these contributors. For a heavily subsidized enterprise fund the 45-day minimum working capital recommendation contained in this Best Practice might be met through support from the general government, if a financial buffer or cushion for the enterprise fund is to be provided by the general government (or other outside contributor).
- **Transfers out.** If the enterprise fund is expected to make a transfer to the general government or to some other fund, then this sort of claim on the enterprise fund□s assets may call for higher levels of working capital to maintain flexibility. Transfers could include an enterprise fund□s contributions to overhead/support functions, subsidies granted to other operations, or any other transfer of resources. Regardless of the rationale of the transfer, governments should take into account the claim on working capital when setting a target amount.
- **Cash cycles**. Does the enterprise fund experience large peaks and valleys in its cash position during the year? For example, a water enterprise fund may experience significantly higher levels of cash on hand during the summer months compared to the winter. Volatile cash cycles call for higher levels of working capital. Another consideration is the length of the billing cycle. A longer billing cycle would call for higher levels of working capital because the enterprise fund will have longer durations between major infusions of cash.
- **Customer concentration.** Is the enterprise fund dependent on a few customers for a large portion of its revenues or is the customer base diversified? For example, a port enterprise fund may be dependent on a few major shippers or commerce in a niche product. Lower customer concentration may mean that the enterprise fund can safely operate with lower levels of working capital.
- **Demand for services.** Does the enterprise fund face a steady demand for service or is demand potentially volatile, thereby leading to volatility in of income? For example, the demand for utility services is steady compared to demand for air travel. Also consider the impact of competitive position on demand. Direct competitors or the availability of reasonable

substitutes could lead to greater volatility in demand for the enterprise fund□s services. More volatility implies greater need for working capital margins.

- **Control over rates and revenues**. Does the enterprise fund have the ability to change rates, implement new charges, or otherwise raise revenues from its customers in a simple fashion? For example, transit enterprise funds are often constrained from raising rates by political pressure. Other enterprise funds may be subject to a rate control board. Those that face competitors in their market may have less effective control over their rates and revenues. More revenue constrained enterprise funds may need higher levels of working capital.
- **Asset age and condition**. What is the age and condition of the enterprise fund's infrastructure? Older infrastructure has greater exposure to extraordinary repair needs. Enterprise funds with newer and/or well maintained capital assets may be able to operate with less working capital than other enterprise funds.
- **Volatility of expenses**. Are the expenses of the enterprise fund volatile or does the enterprise fund have a high degree of control over its expenses? For example, the expenses of a solid waste enterprise fund tend to be fairly stable throughout the year. In another example, water or sewer enterprise funds may be more vulnerable to large expense spikes from extreme weather. Enterprise funds with more stable expenses can safely operate with less working capital than other enterprise funds.
- **Control over expenses**. Consider the enterprise fund's level of fixed and variable costs and the ability to reduce variable costs in response to lower revenues. For instance, if a convention center does not book an event, it does not need to hire temporary help and incur other expenditures in support of the event. An enterprise fund with a high percentage of operational costs which vary depending upon revenues or operating levels may operate with lower levels of working capital.
- **Management plans for working capital**. Working capital includes assets, which can include both truly unrestricted resources and resources that have internal limitations placed upon them (e.g., board-designated) and/or that may be committed for future capital spending. These amounts may appear as unrestricted on the balance sheet but, in actuality, may be unavailable in the future to serve as a buffer or tool to help manage financial risk. If these types of limitations exist, the working capital target should be adjusted to arrive at an amount that represents a true amount available as a tool to manage financial risk.
- **Separate targets for operating and capital needs**. Depending on the nature of the enterprise fund, governments might also consider designating separate targets for operating and capital needs, especially when the enterprise fund is very capital intensive. For example, there might be a separate amount identified for equipment replacement or debt service. In such a case, targets should be separately evaluated based on the particular features of the isolated amounts.
- **Debt position**. Enterprise funds often carry significant amounts of debt, which is used to acquire capital assets. The amount and type of debt an enterprise fund carries can have important ramifications for working capital targets. For example, an enterprise fund with a large amount of variable rate debt may need additional buffer to manage the risk associated with interest rate volatility. In addition, uneven and increasing or lump-sum debt principal payments to be made in future years may raise the amount of working capital that the enterprise fund should maintain. Viewing the amount of working capital in this broader context will help ensure that resources are available to make debt payments as they come due.

Notes:

[1] The recommendation is to use annual operating expenses which include depreciation expense. If, however, annual depreciation expense is significantly more or less than the anticipated capital outlays of the next period to be paid from working capital consideration should be given to adjusting

the benchmark. An appropriate adjusted benchmark may be annual operating expenses - annual depreciation expense + capital outlays of the next period to be paid from working capital.
* Subject to the exception for heavily subsidized enterprises, described later in this Best Practice.

This best practice was previously titled Determining the Appropriate Levels of Working Capital in Enterprise Funds.

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RCW 35A.33.145

Contingency fund—Creation.

Every code city may create and maintain a contingency fund to provide moneys with which to meet any municipal expense, the necessity or extent of which could not have been foreseen or reasonably evaluated at the time of adopting the annual budget, or from which to provide moneys for those emergencies described in RCW **35A.33.080** and **35A.33.090**. Such fund may be supported by a budget appropriation from any tax or other revenue source not restricted in use by law, or also may be supported by a transfer from other unexpended or decreased funds made available by ordinance as set forth in RCW **35A.33.120**: PROVIDED, That the total amount accumulated in such fund at any time shall not exceed the equivalent of thirty-seven and one-half cents per thousand dollars of assessed valuation of property within the city at such time. Any moneys in the contingency fund at the end of the fiscal year shall not lapse except upon reappropriation by the council to another fund in the adoption of a subsequent budget.

[**1973 1st ex.s. c 195 § 28; 1967 ex.s. c 119 § 35A.33.145.**]

NOTES:

Severability—Effective dates and termination dates—Construction—1973 1st ex.s. c 195: See notes following RCW **84.52.043**.

2019 Current Reserve Levels (Budgeted)					
Fund No.	Fund Name	Budgeted Amount	Meets Target?	Policy Required	Notes
F001	General Fund	2,875,083	Y	Y	Frequently exceeds targeted amount (For FY 2019, $331,764)
F002	Contingency	975,760	Y	Y	Changes each year based on assessed value. Is trued up with first amendment.
F105	Street O&M	292,801	NA	N	
F307	Capital Improvement Projects	0	N	Y	Target amount is the statutorily required hold for trails from gas taxes. Trails money in F317 (Parks CIP)
F317	Parks CIP	33,740	NA	N	While not required by our policy, is required by statute (0.42% of fuel tax collected) and fluctuates depending on use
F411	Water O&M	638,359	Y	Y	Each year, excess over reserve is tranferred to the corresponding capital fund.
F412	Water CIP	4,158,329	TBD	Y	
F421	Sewer O&M	847,945	Y	Y	Each year, excess over reserve is tranferred to the corresponding capital fund.
F422	Sewer CIP	6,990,247	TBD	Y	
F431	Stormwater O&M	235,178	Y	Y	Each year, excess over reserve is tranferred to the corresponding capital fund.
F432	Stormwater CIP	175,484	TBD	Y	
F510	Info Technology Services	152,069	NA	Y	Amount is 19% of budgeted expenses
F520	Equip & Fleet Management	4,548,489	Y	Y	Amount is $288,219 over target
F530	Facilities Management	75,911	NA	Y	Amount is 5% of budgeted expenses
	Subtotal	21,999,395			
F621	Employee Sick Leave	425,000	Y	Y	Fund is not budgeted (trust fund). Amount exceeds policy but is only about 1/3 of our potential liability.
F622	Risk Management	148,898	Y	Y	Fund is not budgeted (trust fund)
	Subtotal	573,898			
	Total all reserve	22,573,293			
	Total without capital funds	6,876,228			

General Fund Reserves Help Boost Bond Ratings

Thursday, January 14, 2016
Since the recession of 2008, economic conditions have fluctuated between adequate and poor for the City of Elgin, Illinois, but it has been able to stabilize its bond rating through strong financial policies – most notably, those governing its general fund reserve levels. In fiscal 2009, on the heels of the largest economic downturn in recent history, Elgin's revenue picture looked uncertain. The city had demonstrated sound financial stewardship but couldn't escape the impact of broader, nation-wide, economic conditions. And despite cutting spending by approximately 10%, as well as adopting a new service delivery model, Elgin was worried about its bond rating – the city simply wasn't in a position to absorb increased borrowing costs.

The Finance Department therefore identified several financial objectives for the coming years and drafted them into formally adopted financial policies. One objective was to maintain or upgrade Elgin's bond rating by Standard and Poor's (AA+), Fitch Ratings Services (AA+) and/or Moody's Investors Service (Aa2). Making such an explicit statement provided focus, giving the city a clear and easily quantifiable target.

Determining how to achieve this goal was the next step. The city met the challenge by creating additional policies requiring the city to keep cash reserves at 16% to 19% of annual expenditures. The commitment did not go unnoticed by the rating agencies, untimely resulting in the city gaining AAA status on its general obligation bonds from Fitch Ratings in 2015. Among the positive factors the agency noted were "very strong liquidity in unrestricted government cash and short-term investments" and "very strong budgetary flexibility [due to] available reserves." The rating agency's Financial Management Assessment methodology also found the city's management conditions to be very strong because of it financial policies and practices.

For more information on Elgin's financial policies and bond rating, please visit the city's website.

From GFOA website