



Audit Committee Reserve and Fund Balance Discussion

Council Work Session

September 16, 2020

Work Session



Feedback from this work session is sought to give guidance to staff on the Reserve Fund Balance Policy draft in order to bring a final version to Council for consideration and adoption at an upcoming public meeting

Background

The Audit Committee met

7/14/2020

8/5/2020

8/26/2020



to review the City's budgeted and actual fund balance trends as well as best practices and literature regarding municipal reserve policies to give staff parameters for updating McMinnville's reserve and fund balance policy

McMinnville Reserve Review Considerations



Credit Impact

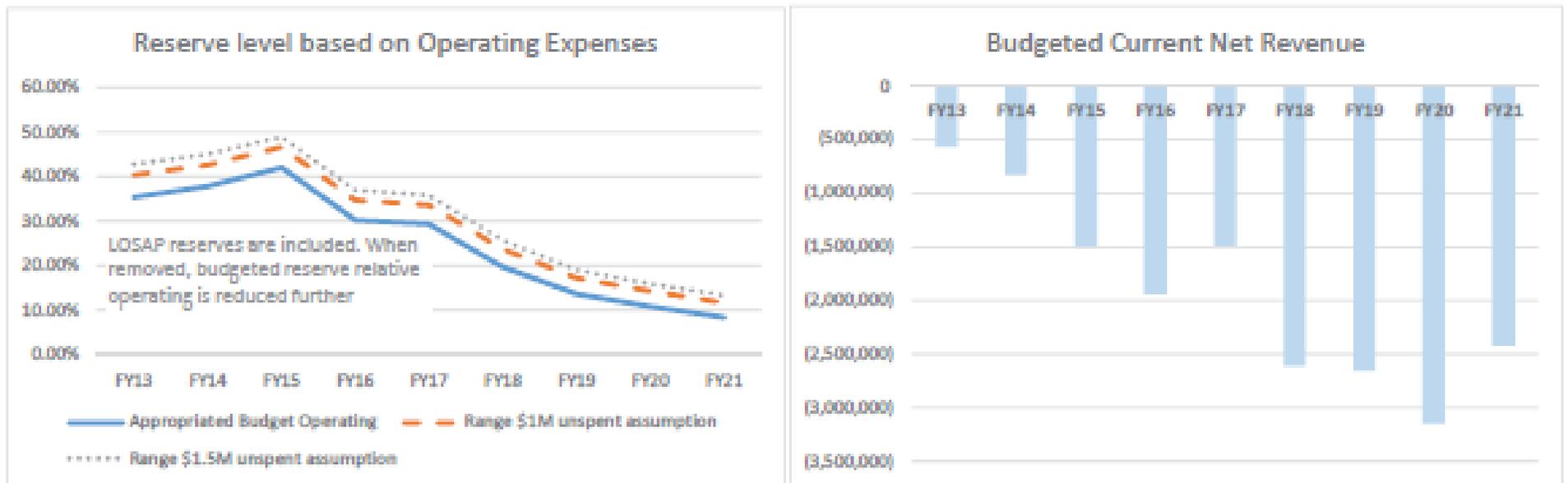
Moody's Local Government Rating Scorecard

- Moody's uses a "scorecard" approach to provide a composite score of a local government's credit profile based on weighted factors as well as potential "below the line" notching factors
- Of the rating factors, only some are directly controllable by actions or inactions of the City

Broad Scorecard Factors	Sub-Factors	Sub-Factor Weighting	Level of Control
Economy/Tax Base (30%)	Tax Base Size (Full Value)	10%	Less/No Direct Control
	Full Value Per Capita	10%	Less/No Direct Control
	Wealth (Median Family Income)	10%	Less/No Direct Control
Finances (30%)	Fund Balance (% of Revenues)	10%	More Direct Control
	Fund Balance Trend (5-year Change)	5%	More Direct Control
	Cash Balance (% of Revenues)	10%	More Direct Control
	Cash Balance Trend (5-year Change)	5%	More Direct Control
Management (20%)	Institutional Framework	10%	Less/No Direct Control
	Operating History	10%	More Direct Control
Debt/Pensions (20%)	Debt to Full Value	5%	More Direct Control
	Debt to Revenue	5%	More Direct Control
	Moody's-Adjusted Net Pension Liability (3-Year Average) to Full Value	5%	Less/No Direct Control
	Moody's-Adjusted Net Pension Liability (3-Year Average) to Revenue	5%	Less/No Direct Control

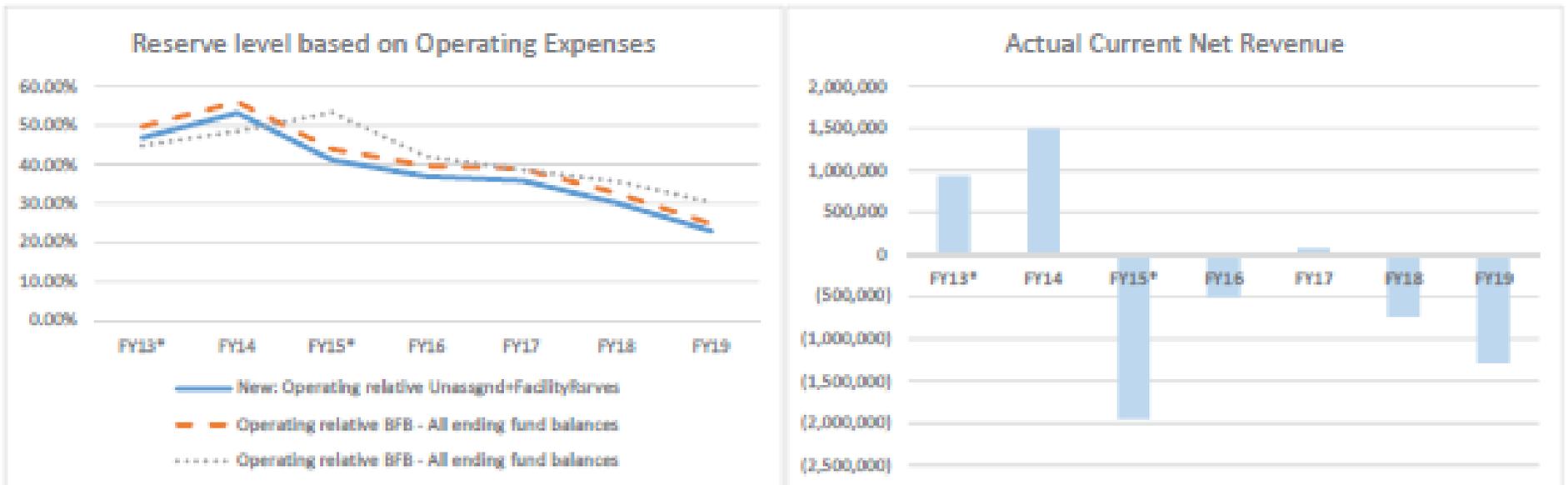
General Fund Reserve Trends

Appropriated Budget for Combined General Fund and Ambulance Fund



General Fund Reserve Trends

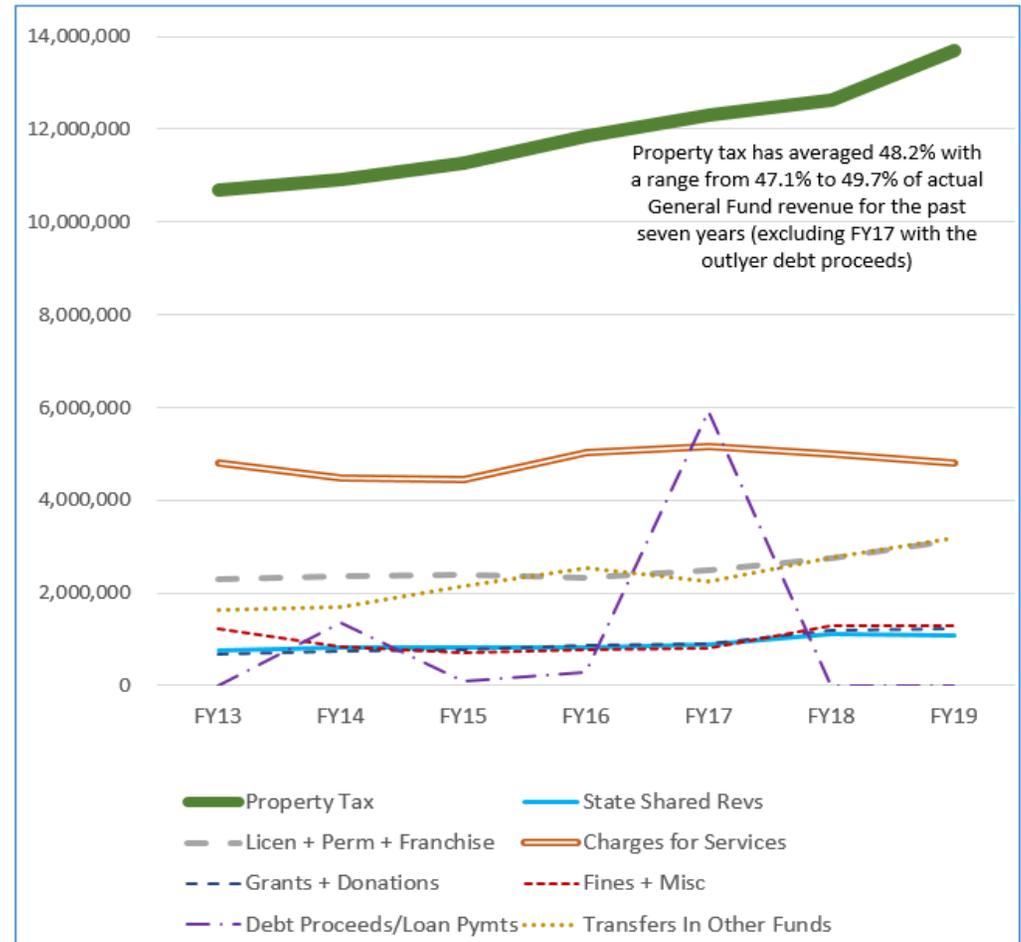
Actuals for Combined General Fund and Ambulance Fund



* Fiscal year data is based on CAFR restatements

General Fund Revenues

Approximately 75% of revenues are inelastic, sheltering the City from the immediate impacts of economic downturns



Property Tax Focus

The top ten property tax payers make up less than 9% of all revenues collected; revenue diversification is a good thing.

City of McMinnville, Oregon Principal Property Tax Payers Current Year and Nine Years Ago

Taxpayer	Type of Business	Fiscal Year Ended June 30, 2019		
		Assessed Value	Percentage	Rank
Cascade Steel Rolling Mills, Inc.	Steel production	\$ 63,015,704	2.30 %	1
Willamette Valley Medical Center, LLC	Health care	56,962,762	2.08	2
The Falls at McMinnville LLC	Developer/event center	22,821,998	0.83	3
HCP SH ELP1 Properties LLC (a)	Retirement community	19,946,151	0.73	4
Jackson Family Wines INC	Commercial wine producer	16,525,239	0.60	5
Lowe's Home Improvement Warehouse, Inc.	Home improvement retail store	14,615,482	0.53	6
Cooperative Regions of Organic Producer	Organic consumer produce	13,714,166	0.50	7
March Hare LLC & McMincenter, LLC (b)	Commercial real estate management	12,948,690	0.47	8
Michelbook Estates INC	Recreation organization	12,609,470	0.46	9
Lafayette Place Apartments LLC	Residential real estate management	11,283,371	0.41	10
Comcast Corporation	Cable television	-	-	
Air Liquide Industrial U.S., LP	Liquid oxygen, nitrogen, argon	-	-	
Hillside Senior Living Community LLC (a)	Retirement community	-	-	
Verizon, Inc.	Telephone communication	-	-	
Homette (Skyline Corporation and Nomad)	Mobile home and RV manufacturing	-	-	
NBS-McMinnville Plaza	Commercial real estate management	-	-	
Northwest Natural Gas Co.	Natural gas distributor	-	-	
Total principal property tax payers		244,443,033	8.91	
All other property tax payers		2,498,014,811	91.09	
Total		\$ 2,742,457,844	100.00 %	

Source: Yamhill County Assessor's Office

(a) Hillside Senior Living Community LLC has been acquired by another company, although the property and facilities are the same

(b) Reef McMinnville Plaza LLC has been acquired by March Hare LLC & McMincenter, LLC, although the property and facilities are the same

FY19 CAFR p. 147

Policy Guidance

Reserve and Fund Balance Policy based on reporting requirements and best practices from two organizations



About GFOA

The Government Finance Officers Association (GFOA), founded in 1906, represents public finance officials throughout the United States and Canada. The association's more than 20,000 members are federal, state/provincial, and local finance officials deeply involved in planning, financing, and implementing thousands of governmental operations in each of their jurisdictions. GFOA's mission is to advance excellence in public finance.



ABOUT THE GASB

Established in 1984, the Governmental Accounting Standards Board (GASB) is the independent, private-sector organization based in Norwalk, Connecticut, that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

The GASB standards are recognized as authoritative by state and local governments, state Boards of Accountancy, and the American Institute of CPAs (AICPA). The GASB develops and issues accounting standards through a transparent and inclusive process intended to promote financial reporting that provides useful information to taxpayers, public officials, investors, and others who use financial reports.

The Financial Accounting Foundation (FAF) supports and oversees the GASB. Established in 1972, the FAF is the independent, private-sector, not-for-profit organization based in Norwalk, Connecticut responsible for the oversight, administration, financing, and appointment of the GASB and the Financial Accounting Standards Board (FASB).

McMinnville Reserve and Fund Balance Policy Elements



Reserve Policy Purpose

- Ensure present and future municipal service levels
- Withstand the next economic downturn or fiscal stress (natural disaster, other emergency, revenue or cash short fall)
- Promote equitable and stable rate, charge and fee structures



Reserve Policy Purpose

- Protect the City's creditworthiness and bond rating
- Provide flexibility to respond to unanticipated opportunities
- Consider long-term financial planning needs, including retirement system rate increases



Prudent Reserve for General Fund

- **Realistic and achievable** – credit worthiness
- **Financial uncertainty** – ability to move quickly further constrained
- **Revenue comparatively stable** – less urgency to sequester resources beyond the GFOA minimum

Reserve Calculation

Reserves = budgeted contingencies + capital savings reserves + unassigned ending fund balance



Historically McMinnville has included all unrestricted fund balances, which incorporates LOSAP reserve. Excluding this assigned reserve from the calculation will reduce the reserve level percentage

Operating expenses = personnel cost + materials and services carrying costs

Reserve Communications

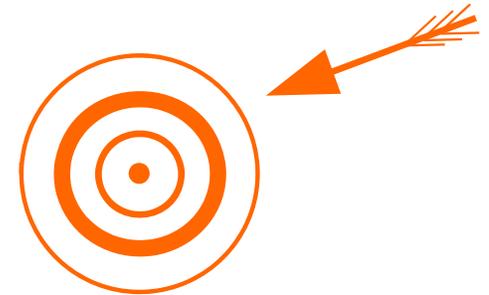
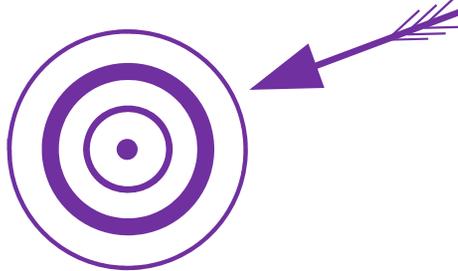
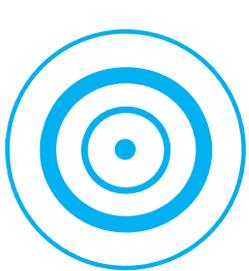
City Budget Process continues to be primary methodology

Criteria Established for off cycle discussions, like mid-year FY21 review given Covid-19 uncertainty



Reserve Targets for all Funds

Reserve standards for all City funds based on purpose and characteristics of each fund



Governmental v. Enterprise funds reserve calculations

Fund Balance Definition

Difference between
assets and liabilities in
governmental funds

FY19 CAFR on p. 37



City of McMinnville, Oregon
Balance Sheet
Governmental Funds
June 30, 2019

	General	Airport Maintenance	Transportation	Debt Service	Urban Renewal Debt Service	Total Non- Major Governmental Funds	Total Governmental Funds
Assets							
Cash and investments	\$ 6,551,873	\$ -	\$ -	\$ -	\$ 226,961	\$ 2,620,686	\$ 9,399,520
Receivables	1,593,718	723,588	-	251,504	14,254	737,570	3,320,634
Due from other funds	2,079,554	-	-	-	-	-	2,079,554
Prepays	34,193	-	-	-	-	48,793	82,986
Advances to other funds	1,268,777	-	-	-	-	-	1,268,777
Due from component unit	-	-	-	-	-	-	-
Restricted cash and investments	-	97,859	6,566,337	1,407,279	-	1,519,434	9,590,909
Total assets	\$ 11,528,115	\$ 821,447	\$ 6,566,337	\$ 1,658,783	\$ 241,215	\$ 4,926,483	\$ 25,742,380
Liabilities							
Accounts payable	\$ 352,071	\$ 81,122	\$ 825,827	\$ -	\$ -	\$ 390,209	\$ 1,649,229
Due to other funds	-	-	-	-	2,079,554	-	2,079,554
Accrued payroll and other payroll liabilities	1,379,000	-	-	-	-	20,430	1,399,430
Retainage payable	-	6,698	41,494	-	-	-	48,192
Deposits	267,167	-	-	-	-	-	267,167
Advances from other funds	-	-	-	-	-	111,944	111,944
Unearned revenue	184,917	53,184	-	-	-	219,188	457,289
Total Liabilities	2,183,155	141,004	867,321	-	2,079,554	741,771	6,012,805
Deferred inflows of resources:							
Unavailable revenue - taxes	682,026	-	-	184,142	9,932	-	856,100
Unavailable revenue - other	100,214	714,221	-	-	-	38,857	853,292
Total deferred inflows of resources	782,240	714,221	-	184,142	9,932	38,857	1,709,392
Fund Balances							
Nonspendable	2,113,747	-	-	-	-	48,793	2,162,540
Restricted	-	-	5,699,016	1,474,641	-	3,775,356	10,949,013
Committed	-	-	-	-	-	174,734	174,734
Assigned	655,396	-	-	-	-	146,972	802,368
Unassigned	5,813,577	(33,778)	-	-	(1,848,271)	-	3,931,528
Total fund balances	8,582,720	(33,778)	5,699,016	1,474,641	(1,848,271)	4,145,855	18,020,183
Total liabilities, deferred inflows of resources and fund balances	\$ 11,528,115	\$ 821,447	\$ 6,566,337	\$ 1,658,783	\$ 241,215	\$ 4,926,483	\$ 25,742,380

Working Capital Definition

Difference between current assets and current liabilities in proprietary funds

FY19 CAFR on p. 43

(starting FY20, Building and Ambulance are reclassified as governmentals)

City of McMinnville, Oregon
Statement of Net Position
Proprietary Funds
June 30, 2019

	Business-Type Activities			Total	Governmental
	Wastewater Fund	Ambulance	Enterprise Funds Non-major Building		Internal Service Funds
Assets					
Current assets:					
Cash and investments	\$ 30,599,114	\$ -	\$ 1,282,061	\$ 31,881,175	\$ 2,142,063
Receivables, net of allowance for uncollectibles	968,878	1,328,763	1,883	2,319,524	-
Due from component unit	560,827	-	-	560,827	-
Prepays	2,160	6,000	-	8,160	-
Total current assets	32,150,979	1,334,763	1,283,944	34,769,686	2,142,063
Non-current assets:					
Capital assets:					
Non-depreciable capital assets	4,688,017	2,420	-	4,690,437	-
Depreciable capital assets	105,242,485	1,178,253	401,657	106,822,395	2,323,590
Accumulated depreciation	(54,416,942)	(642,612)	(168,146)	(55,227,700)	(1,909,509)
OPEB asset	12,614	25,201	926	38,741	2,438
Total non-current assets	55,526,174	563,262	234,437	56,323,873	416,519
Total assets	87,677,153	1,898,025	1,518,381	91,093,559	2,558,582
Deferred outflow of resources					
Deferred outflow of resources - pension	1,022,757	2,043,305	75,111	3,141,173	197,679
Deferred outflow of resources - OPEB	11,921	23,817	875	36,613	2,304
Total deferred outflows	1,034,678	2,067,122	75,986	3,177,786	199,983
Liabilities					
Current liabilities:					
Accounts payable	519,685	56,297	1,426	577,408	118,497
Advances from other funds	-	1,156,833	-	1,156,833	-
Retainage payable	142,652	-	-	142,652	-
Accrued payroll and other payroll liabilities	41,795	82,212	9,971	133,978	10,007
Other liabilities	-	-	-	-	91,848
Unearned revenue	1,300	11,959	-	13,259	15,091
Pension related debit - due in one year	23,944	47,833	1,758	73,535	4,627
Compensated absences	104,183	138,082	26,222	268,487	40,284
Total current liabilities	833,539	1,491,218	39,377	2,364,132	280,354
Non-current liabilities:					
Other post employment benefits	99,472	198,729	7,305	305,506	19,226
Net pension liability	1,976,865	3,949,459	145,150	6,071,474	362,089
Pension related debit	242,138	483,720	17,774	743,632	46,786
Total non-current liabilities	2,318,475	4,631,908	170,229	7,120,612	448,101
Total liabilities	3,152,014	6,123,124	209,606	9,484,744	728,455
Deferred inflow of resources					
Deferred inflow of resources - pension	670,353	1,339,257	49,230	2,058,840	129,586
Deferred inflow of resources - OPEB	104,459	208,692	7,671	320,822	20,190
Total deferred inflows	774,812	1,547,949	56,901	2,379,662	149,776
Net Position					
Net investment in capital assets	55,513,560	538,061	233,511	56,285,132	414,081
Restricted for:					
Building	-	-	1,094,349	1,094,349	-
Unrestricted	29,271,445	(4,243,087)	-	25,028,358	1,466,273
Total net position	\$ 84,785,005	\$ (3,705,026)	\$ 1,327,860	\$ 82,406,939	\$ 1,880,354

Budgeting Approach

Strategic priorities and Council goal setting activities are key

inputs for staff preparing annual budget proposals



STRATEGIC PRIORITIES

The following strategic priorities require special focus by the City in the next fifteen years. In order to move McMinnville toward its Vision, the City believes it will need to make disproportionate investments in time and financial resources in these areas.



CITY GOVERNMENT CAPACITY

Strengthen the City's ability to prioritize and deliver municipal services with discipline and focus



CIVIC LEADERSHIP

Encourage a variety of leadership development opportunities to foster a culture of civic pride and involvement



COMMUNITY SAFETY & RESILIENCY

Proactively plan for and responsively maintain a safe and resilient community



ECONOMIC PROSPERITY

Provide economic opportunity for all residents through sustainable growth across a balanced array of traditional and innovative industry sectors



ENGAGEMENT & INCLUSION

Create a culture of acceptance and mutual respect that acknowledges differences and strives for equity



GROWTH & DEVELOPMENT CHARACTER

Guide growth and development strategically, responsively, and responsibly to enhance our unique character



HOUSING OPPORTUNITIES (ACROSS THE INCOME SPECTRUM)

Create diverse housing opportunities that support great neighborhoods

Budgeting Approach

Add

- Core services analysis
- Reserve target as budget floor



Compliance Cleanup



GASB 54 Requirements

- Define process for establishing committed and assigned fund balance categories
- Expenditure hierarchy goes from reserved, committed, assigned and only then unassigned fund balances

Questions? Thoughts?

