

RESOLUTION NO. 2020-62

A Resolution Adopting a Reserve and Fund Balance Policy

RECITALS:

Whereas, the City of McMinnville’s Audit Committee met three times during the summer of 2020 to discuss the City’s approach to reserves and fund balance and review a draft Reserve and Fund Balance Policy; and

Whereas, the City of McMinnville’s City Council discussed the draft policy and wishes to consider a resolution adopting a Reserve and Fund Balance Policy; and

Whereas, this policy will supersede the existing Fund Balance Policy for the General Fund, Resolution 2011-30; and

Whereas, this policy allows for specific fund or program reserve targets adopted by City Council via separate actions that exceed the minimum levels identified in this policy.

NOW, THEREFORE, THE COMMON COUNCIL FOR THE CITY OF MCMINNVILLE ORDAINS AS FOLLOWS:

1. That the attached Exhibit A - Reserve and Fund Balance Policy is hereby adopted.
2. That this Resolution shall take effect immediately upon passage and shall continue in full force and effect until revoked or replaced.

Adopted by the City Council of the City of McMinnville at a regular meeting held the 13th day of October 2020 by the following votes:

Ayes: Drabkin, Garvin, Geary, Menke, Peralta, Stassens

Nays: _____

Abstain: _____

Approved this 13th day of October 2020.



MAYOR

Attest:

Approved as to form:



CITY RECORDER



CITY ATTORNEY

EXHIBIT:

A. Reserve and Fund Balance Policy

Exhibit A to Resolution 2020-62

Reserve and Fund Balance Policy

Policy Adoption Date: 10-13-2020 Last Revision: _____

Principle

Align our fiscal policies and practices to MacTown 2032’s strategic priority of *City Government Capacity* to strengthen the City’s ability to prioritize and deliver municipal services with discipline and focus.

Purpose

The City of McMinnville desires to establish a Reserve and Fund Balance Policy for all city funds that promotes responsible financial management by adhering to best practices and maintaining adequate levels of fund balance to mitigate current and future risks while assuring the delivery of quality, meaningful services to the community. This policy is intended to make the city more resilient and well positioned to:

- 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
- 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

Scope

This policy outlines reserve and fund balance targets for all City funds. It recognizes the unique needs and characteristics of each fund and includes summary information by fund type along with information regarding each individual fund.

The policy does not address the reserve and fund balance targets for the related financial entity of McMinnville Water and Light as it is managed by a separate governing body.

Policy Guidance

The Government Finance Officers Association (GFOA), founded over 100 years ago, is the premier organization providing guidance and best practices in various areas of public finance to municipal governments. Its published Best Practices are approved by the GFOA executive board and identify policies and procedures that contribute to improved government management.

The GFOA’s Fund Balance Guidelines for the General Fund recommends that jurisdictions:

- Maintain a minimum of two months of regular general fund operating revenues or general fund operating expenses

- Take into consideration the government’s own unique circumstances and risk exposures
- Evaluate commitments and assignments and focus on unassigned fund balance rather than unrestricted fund balance
- Define use and replenishment of fund balance

The Governmental Accounting Standards Board (GASB) is the source of Generally Accepted Accounting Principles (GAAP) used by state and local governments in the US. The GASB issues pronouncements designed to provide tax payers, legislators, municipal bond analysts and others useful information for decision-making. GASB’s major guidance related to fund balance is found in Statement No. 54, which defines five classifications of fund balance, summarized in the table below:

Governmental Accounting Standards Board
Statement No. 54 Fund Balance Classifications

	Classification	Definition	Degree of Spendability
Restricted Fund Balance	Nonspendable	Resources that are not in a spendable form (inventories, prepaid items, or items required to be maintained intact).	Nonspendable
	Restricted	Resources constrained to specific purposes by external providers (creditors, grantors, contributors, and other levels of government) through laws and regulations.	
Unrestricted Fund Balance	Committed	Resources constrained by limitations the City imposes upon itself at its highest level of decision-making authority (City Council); limitations remain binding unless removed in the same manner.	
	Assigned	Resources a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates authority.	
	Unassigned	Resources available for any purpose; these resources are reported only in the General Fund.	Spendable

This policy focuses on the unrestricted fund balance categories as the City has direct control over these balances.

Policy

Fund balance targets and related policy considerations are described for each of the City’s funds based on the specific characteristics and purposes of those governmental and proprietary funds in the sections that follow.

Fund Balance is defined as the difference between assets and liabilities in a governmental fund (General Fund, Special Revenue Funds, Debts Service Funds, and Capital Project Funds).

Working capital is defined as the difference between current assets and current liabilities for non-governmental funds (Proprietary Funds that include Enterprise Funds and Internal Service Funds).

This policy formally adopts the GASB 54 hierarchy of fund balance classifications that the City has been utilizing, as required, in its annual financial statements.

- Committed fund balance is established, modified or rescinded by the City Council upon adoption of the annual budget or by resolution during a public meeting at any time in the year
- Assigned fund balance may be consigned for a specific purpose by the City Manager or his/her designee at any time during the year; budgeted assigned fund balance is included in City Council's annual budget adoption
- The City considers restricted balances to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available
- The City considers committed spent first, assigned spent next and unassigned fund balance spent last when an expenditure is incurred for purposes that may be used in more than one of these unrestricted fund balance classifications

General Fund

The General Fund has an unassigned fund balance target of two months operating expense. In the budget, this amount is calculated as 2/12ths of general fund categories (1) personnel and (2) materials and services annual budgets. The reserve will be budgeted in the general fund's contingency and unassigned ending fund balance categories.

The City of McMinnville seeks to fund this reserve target over the next three to five years (in or prior to the FY2025-26 budget cycle).

In any year that the unassigned fund balance target is not met, the circumstances and financial implications of the target shortfall will be discussed and approved by Council during the annual budget process. Once the City has achieved the targeted reserve level described above, any subsequent budget year that projects a shortfall in the general fund's combined contingency and unassigned reserve balance standard must include a plan for rebuilding the reserve within one to three years of use.

Circumstances that impact reserve levels may arise at times that do not coincide nicely with the budget planning cycle which merit discussion with the executive team and governing body as well as taking mid-year adjusting actions. Examples of conditions which will trigger such action include changes to the city's credit rating, external situations which negatively impact significant revenue streams or drive extraordinary costs (natural disasters, economic downturns) and year-end reserve actuals with a significant positive or negative variation from budget estimates.

In addition to unassigned fund balance and budgeted contingency, the City's reserve calculation may include or exclude other specific committed and/or assigned fund balances. At the time of the drafting of this policy, the General Fund's only assigned fund balance is for the volunteer firefighter's Length of Service Award Program. These funds will no longer be included in the city's budgeted reserve calculation or actual ending fund reserve analysis.

Discrete committed or assigned fund balance categories may be added to the city's financial planning model and included in budgeted and actual reserve calculations. Typically these specially designated unrestricted fund balance categories are for purposes to set aside excess reserves or one time funds for special initiatives such as creation of a capital replacement fund,

rainy day fund, retirement rate stabilization fund, etc. New fund balance categories will be calculated in the reserve according to the methodology defined when established; presented in budget section(s) that discuss fund balance purpose, levels and trends; and programmed for expenditure in the manner defined at the reserve fund's inception.

Special Revenue Funds – no reserve requirement

A handful of City Funds are grants based or exist to provide transparency on particular revenue streams that are fully expended over a given time period. In these cases, reserves are not appropriate to expect or budget.

- 05 Special Assessment Fund
- 07 Transient Lodging Tax Fund
- 10 Telecommunication Fund

Special Revenue Funds – two month operating reserve requirement

Some special revenue funds are on-going concerns with staffing and other monthly and seasonal operations costs. In these cases, the standard to target a two months operating cost reserve budgeted in contingency and ending fund balance budget categories is merited.

- 20 Street Fund
- 70 Building Fund

Special Revenue Funds – variable reserve requirement

Other special revenue funds base reserve requirements on the functional and capital planning needs associated with its activities. Frequently these funds will have restricted funding sources that are associated with particular projects or activities. These funds may have a variable committed or assigned reserve level that is optimal for its circumstances over time so a specific reserve target cannot realistically be set by policy.

The City's debt service fund includes bonded debt that is funded with property tax but has debt service payments scheduled prior to the annual property tax cycle. These reserve commitments will vary according to the various payment schedules associated with the debt obligations.

These funds will calculate and discuss reserve needs as a part of the annual budget process. Reserve levels will be approved by the Council in its annual budget appropriation.

- 15 Emergency Communication Fund
- 25 Airport Maintenance Fund
- 45 Transportation Fund
- 50 Park Development Fund
- 60 Debt Service

Enterprise Fund

Wastewater Services' operating fund is designed to manage the on-going utility operation and, as such, includes staffing and materials and services costs. Its working capital needs will mirror the general fund's fund balance target of a two month minimum operating expense level to set aside in contingency and ending fund balance categories each year. Its integrated Wastewater

Capital Fund has strategically built up funds to address capital replacement needs and large capital infrastructure investments planned to keep the district

- 74 Wastewater Services Fund
- 77 Wastewater Capital Fund

A Storm Water Utility will be required as a result of changing federal and state regulatory guidelines to meet long-term environmental and risk mitigation objectives. Its budgeted and actual reserve calculations and levels will be consistent with Wastewater Services' standards to assure on-going operations as well as meet capital planning needs for this new critical infrastructure resource.

Internal Service Funds

The two internal service funds have characteristics that make a prudent working capital level for these two funds significantly distinct from each other.

- 80 Information Services Fund
- 85 Insurance Services Fund

The Information Services fund does have staffing and operating costs but in its case maintaining a two month operating reserve is not in the interest of the City because it would unnecessarily inflate the cost of services delivered to all the departments in the organization. Internal service funds such as this one seek to roughly offset annual costs with annual departmental contributions and maintain an inflation-based annual cost increment so that the cost levels are stable and predictable across the city. To this end, the Information Services fund will incorporate a reserve target to include capital investments and begin to fund this reserve in the next five years (in or prior to the FY2025-26 budget cycle).

Insurance Services reserves should be tied to our workers comp experience rate and combined deductible and out of pocket cost trends for the general liability cost. Insurance industry standards require 8% to 10% of annual revenue held in reserve. Using 10% of Insurance Services Fund costs as a guide, this internal service fund has been holding excess reserves at more than 10 times that minimum. In the budget cycles most proximate to this policy update (fiscal years 2018-19 through 2020-21) strategies to reduce excess reserves have been enacted including returning dollars to the funds that contribute annually for insurance services and paying for City positions that play risk mitigation roles serving the entire organization. For both internal service funds, distributions back to the departments that fund their operations may be made in the event either holds cash in excess of reserve needs. These distributions are based on proportions the departments pay in. Any distribution will be discussed as part of the annual budget process.

Internal Service Fund reserve levels and any annual distributions back will be approved by the Council in the annual budget appropriation.

Policy Review

On occasion, funds are added to the City's financial footprint to meet the needs of new projects, new debt issuances and new services. Specific minimum fund balance targets or reserve requirements may also change with time. The Reserve and Fund Balance policy will be revised periodically to remain current and relevant. An annual review of the status of fund balance levels will be included in annual budget documents. This review may spark proposals from staff or the Budget Committee for the Council to consider changes to the policy as needed.