

RESOLUTION NO. 50-2020

A RESOLUTION ADOPTING A FUND BALANCE RESERVE POLICY.

WHEREAS, fund balance is the difference between what the City owns (its “assets”) and what the City owes (its “liabilities”); and

WHEREAS, this Fund Balance Reserve Policy takes a proactive approach to financial management; sets guidelines and establishes procedures that help identify and provide appropriate responses to warning signs of financial stress.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF MONROE, STATE OF OHIO, THAT:

SECTION 1: The Fund Balance Reserve Policy marked Exhibit “A” attached hereto and made a part hereof is hereby adopted.

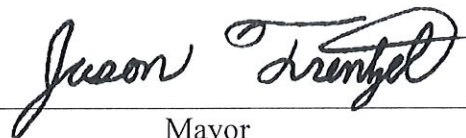
SECTION 2: This measure shall take effect and be in full force from and after the earliest period allowed by law.

PASSED: August 11, 2020

ATTEST:

APPROVED:


Clerk of Council

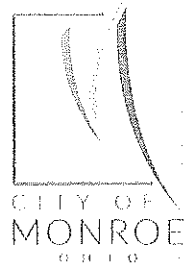

Mayor

First Reading: July 28, 2020

This legislation was enacted in an open meeting pursuant to the terms and provisions of the Sunshine Law, Section 121.22 of the Ohio Revised Code.

I, the undersigned Clerk of Council of the city of Monroe, Ohio, hereby certify the foregoing (ordinance or resolution) was published as required by Section 7.16 of the Charter of the City of Monroe.


Clerk of Council
City of Monroe, Ohio



FUND BALANCE RESERVE POLICY

Definition & Purpose

Fund balance is the difference between what the City owns (its "assets") and what the City owes (its "liabilities"). Fund balance describes the City's ability to finance its operations in the future.

This policy takes a proactive approach to financial management; the policy sets guidelines and establishes procedures that help identify and provide appropriate responses to warning signs of financial stress. This policy will establish, and ensure that the City maintains, a reasonable level of financial resources to:

- Provide sufficient cash flow for daily financial needs,
- Limit the need for and cost of short-term borrowing,
- Secure and maintain investment grade bond ratings as appropriate,
- Offset significant economic downturns or temporary revenue shortfalls, and
- Provide funds for unanticipated expenditures related to emergencies.

Additional Definitions:

- Carryover balance = The amount of money left in a fund of the City at the end of the fiscal year after all revenue has been received and all expenditures have been paid.
- Appropriations = The amount "reserved" and/or "earmarked" by City Council to pay for the City's expenses.

Reserve Target Levels

Fund balance levels fluctuate from year to year due to normal City operations and necessary capital expenditures, so this policy expresses target levels as goal ranges. The City of Monroe primarily utilizes expenditures as its basis of calculation because City Council directly controls the appropriation of expenses, thereby making expenditures more predictable than revenues.

GENERAL FUND:

As an industry standard, the Government Finance Officers Association (GFOA) recommends, at a minimum, that the City maintain unrestricted budgetary fund balance in their General Fund of no less than two months of regular General Fund operating revenues or expenditures.

Additionally, the City's primary source of revenue in the General Fund is income tax (approximately 70-80%). This significant reliance on income tax revenue makes the City vulnerable to economic slowdown. As such, the City strives to maintain a carryover balance sufficient to cover a 3-month equivalent of income tax collections plus two months of regular operating expenditures.

Specifically, the City shall maintain a carryover balance in the General Fund equal to or exceeding 33% or a 4-month equivalent of adopted annual appropriations. However, the carryover balance shall not exceed 50% or a 6-month equivalent of adopted annual appropriations.

If the City experiences a natural disaster, pandemic, other emergency, or an economic recession/depression, City Council may approve a temporary reduction in the General Fund carryover balance. That balance should not be less than the GFOA recommended balance for the General Fund.

FIRE & POLICE LEVY FUNDS

The Fire & Police Levy Funds are primarily funded by voter-approved, designated property taxes, as well as subsidies from the General Fund. Residents of the City of Monroe value and prioritize public safety services, and a disruption in service could be detrimental to the community. Therefore, the target carryover balances in the Fire & Police Levy Funds shall equal or exceed 25% (approximately a 3-month equivalent) of adopted annual appropriations.

CAPITAL IMPROVEMENT FUNDS

The City will maintain a carryover fund balance in the Capital Improvement Funds to, at a minimum, fully fund the projects identified in the appropriate budget year of the City's Council-approved Capital Improvement Plan and, at a maximum, to fund all projects identified in the plan. The City shall also maintain appropriate capital fund reserves for emergency improvements relating to new regulations or emergency needs for capital repair and replacement.

For the purposes of this policy, any projects to be financed by new debt will be excluded from this calculation.

TIF/RID FUNDS

No minimum fund balance is set for the City's TIF/RID funds. These funds account for resources reserved for capital infrastructure construction and maintenance within or to the benefit of the TIF/RID districts.

DEBT SERVICE FUNDS

The City will maintain a minimum carryover fund balance in the Debt Service Funds equal to 50% of debt service payments due within the next 12 months. Debt service reserves are restricted for debt payments of the specific debt issuance that was established. Residual amounts within the fund when the debt is paid in full shall be transferred back to the General Fund.

For the purposes of this policy, this section does not include the Special Assessments Bond Retirement Fund, a fund that collects special assessment revenue annually that the City forwards to the trustee of the applicable debt.

Funding the Reserves

Funding for carryover balances will generally come from excess revenues over expenditures or one-time revenues. The carryover balances will be funded in the following priority order:

- General Fund
- Debt service funds
- Other operational funds
- Capital improvement funds

Conditions for Use of Reserves

City Council may authorize the use of carryover balances for one-time emergency costs and other non-recurring operating shortfalls such as:

- Natural disasters, pandemics, or other emergencies
- Economic recessions/depression
- Unexpected decline in revenue
- Unexpected large one-time capital expenditures
- Capital expenditures for which the ultimate funding source will be a grant or the issuance of debt.

The reserve is not intended to fund consecutive operational shortfalls, recurring operational expenditures outside of the current fiscal year, or labor contract settlements.

Authority over Reserves

City Council shall authorize the use of reserves in the City's annual appropriation ordinance. The Finance Director will regularly provide both current and projected carryover balances to City Council.

Replenishment of Reserves

Whenever carryover balances are used, the balances will be replenished as soon as possible. In the event that carryover balances remain beyond the specified limits at the end of the fiscal year, City management will develop a plan to restore such balances and will present the plan to City Council during the annual budget process. If feasible, minimum fund balances shall be restored in the following year and, certainly, within five years of use.

Excess Reserves

To the extent that the unencumbered carryover balances exceed the target levels, the amount in excess may be transferred to the General Fund, Capital Improvement Funds, or the Debt Service Funds as appropriate.

Periodic Review of Reserves

The City will measure its compliance with this policy annually during the City's budgeting process. If, based on staff's analysis and forecasting, the target level of reserves will not be met during any one of the five years forecasted, the City Manager and Finance Department will develop an action plan to replenish the reserve levels as required in this policy.

SAMPLE ACTION PLAN

General Fund:

- A. Step 1 – Revenues(expenses) are expected to drop(increase) related to a catastrophic event, but projected reserves percentage change cannot be determined yet
 - 1) If the City anticipates reserves to drop but cannot determine the amount of change, City leadership will closely monitor revenues received and expenses paid until a percentage change can be adequately determined.
 - 2) City management should take proactive action to slow spending. Potential steps include:
 - i. Limit spending to essential purchases only.
 - ii. Temporarily modify approval limits for all purchases, including but not limited to p-card limits, to ensure appropriate spending.
 - iii. Limit travel and training. All travel and training must be pre-approved by an appropriate level of management.
 - iv. Eliminate non-essential encumbrances, and limit future encumbrances to a 30-day supply/cost.
 - v. Close all stale purchase orders that have had no activity for the last year.
 - vi. Review current-year capital improvement projects and defer projects as appropriate.

- vii. Reduce building costs by reducing hours of operation or closing specific buildings.
- viii. Enact a hiring freeze with the exception of essential personnel.
- ix. Suspend all increases to employee salaries and wages.
- x. Enact a temporary furlough for all personnel. Sample options on either side of the spectrum include:
 - 1. For three to six months, furlough all administrative and non-essential personnel one day out of the two-week pay period. The period of furlough can be divided equally throughout the employee's entire year of payroll.
 - 2. Furlough all employees one day per week. For administrative employees, furlough on the same day each week so that City building expenses will also be reduced.
- xi. Cancel or reduce contributions for City-sponsored recreational events.

B. Step 2 – Projected reserves drop between 20% and 25%

- 1) If the reserves drop in this range because of a one-time capital purchase, no action will be needed on the assumption that the reserves will be met within one year.
- 2) If the reserves fall into this range due to operational expenses, City management shall, during the budget process, reduce all possible appropriations. If this process brings the budget within the required 25% reserve, no further action is required.

C. Step 3 – Projected reserves drop between 15% and 20%

- 1) If the reserves drop into this range, the City must take additional measures to limit expenditures and increase revenues.
- 2) The City Manager shall review all charges and fees and seek additional revenue sources.
- 3) City Council shall meet and consider the necessary suggestions for revenue enhancements.
- 4) City officials shall work to make every effort to raise revenues to bolster their reserves and limit expenditures.
- 5) The use of contractual employees and/or consultants will be closely scrutinized and discouraged.
- 6) Purchase of capital items shall only be made if necessary provided that those purchases do not increase future operating costs.
- 7) The City will enact a hiring freeze for any additional personnel who are funded through this fund, unless there is a revenue generating program to pay for the individual(s).
- 8) All non-union wages may be frozen; a request for wage concessions from its union employees will be made.

D. Step 4 – Projected reserves drop below 15%

- 1) Discuss revenue enhancements, tax levies, and reductions in personnel.

- 2) All non-essential expenditures shall cease.
- 3) City management shall prepare a detailed two-year budget projection to determine the long-term financial plan for recovery in the form of a proposed action plan.
- 4) City Council as a whole will evaluate the proposed action plan and approve the action plan once finalized.

Policy Implementation

A five-year plan will be created to attain the minimum fund balances described in this policy.

Last Updated July 14, 2020