



City of Dublin

Office of the City Manager

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Memo

To: Members of Dublin City Council

From: Dana L. McDaniel, City Manager

Date: September 8, 2016

Initiated By: Angel L. Mumma, Director of Finance

Re: Ordinance No. 32-16 – Authorizing the Adoption of a General Fund Balance Policy

Summary

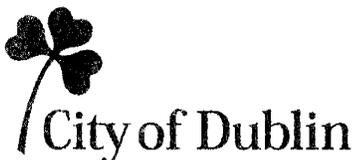
During the first reading of Ordinance No. 32-16, City Council expressed a desire to include language that would provide for deviations from the requirements of the Policy with Council approval.

Both a redline and a clean version of the revised Policy is attached for Council consideration.

Recommendation

Staff recommends adoption of the General Fund Balance Policy at the second reading/public hearing on September 12, 2016.

Attachments



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Memo

To: Members of Dublin City Council
From: Dana L. McDaniel, City Manager 
Date: August 18, 2016
Initiated By: Angel L. Mumma, Director of Finance
Re: Ordinance No. 32-16 – An Ordinance Authorizing the Adoption of a General Fund Balance Policy

Summary

During City Council's 2016 goal setting meeting, held March 10-11, 2016, staff made a presentation to Council regarding financial sustainability and General Fund reserves. As Council is aware, it has been the City's practice and stated policy to prepare the operating budget with the goal of maintaining an actual year-end General Fund balance equal to 50 percent of the actual General Fund expenditures. However, no formal policy has been adopted by Council that states such.

The two rating agencies the City utilizes, Moody's Investors Service and Fitch Ratings, both consider the General Fund balance as part of their rating methodology to determine the City's overall credit worthiness. While our General Fund balance is very strong and significantly higher than the general percentage that Aaa/AAA rated entities generally have, both agencies are specifically looking for adopted policies as opposed to standard operating practices. As such, it was staff's recommendation during goal setting to formally adopt a General Fund Balance policy.

During the Finance Committee of the Whole meeting held Wednesday, August 10, 2016, staff presented to City Council a formal General Fund Balance Policy for consideration and requested adoption at a future Council meeting.

The proposed General Fund Policy articulates the City's practice of maintaining a General Fund balance of no less than 50% of the General Fund expenditures. It also addresses the General Fund balance that exceeds the 50% level. Staff recommends that at the end of each fiscal year, to the extent that the General Fund Balance exceeds 75% of the year's General Fund expenditures, 25% of the amount in excess of 75% will be transferred to the Capital Improvement Tax Fund. The use of the transferred funds shall be consistent with the goals and policies of the Capital Improvement Tax Fund.

Recommendation

Staff recommends adoption of the General Fund Balance Policy at the second reading/public hearing to be held on September 12, 2016.

Attachments

RECORD OF ORDINANCES

Ordinance No. 32-16 Passed _____, 20____

AN ORDINANCE AUTHORIZING THE ADOPTION OF A GENERAL FUND BALANCE POLICY

WHEREAS, it has been the City of Dublin's (the "City") practice and stated policy to prepare the operating budget with the goal of maintaining an actual year-end General Fund balance equal to 50% of the actual General Fund expenditures; and

WHEREAS, the General Fund balance is intended to provide the City with sufficient liquidity to support one-time emergency costs and non-recurring shortfalls, and not be used to fund recurring operating expenses; and

WHEREAS, establishing a minimum General Fund balance is a mechanism the City can utilize to help insure adequate levels of fund balance to mitigate current and future risks; and

WHEREAS, the rating agencies the City utilizes, Moody's Investors Service and Fitch Ratings, monitor and consider the General Fund balance as part of their rating methodology to determine the City's overall creditworthiness; and

WHEREAS, the rating agencies desire adopted policies as opposed to standard operating practices; and

WHEREAS, financial decisions that impact the City's credit rating should be taken into account as one consideration as higher ratings obtained by the City result in lower costs of borrowing for the City, and thus the taxpayers save money; and

WHEREAS, the City wishes to have a formal policy adopted by Council stating the City's General Fund Balance Policy; and

WHEREAS, the purpose of the General Fund Balance Policy is to provide guidelines to Council and the City Administration for establishing, maintaining, and reviewing the General Fund balance for the City; and

WHEREAS, the General Fund Balance Policy will serve to allow Council and the Administration to recognize and react to warning indicators of financial stress and set guidelines for proactive financial management measures.

NOW THEREFORE, BE IT ORDAINED, by the Council of the City of Dublin, State of Ohio, ____ of the elected members concurring:

Section 1. City Council hereby adopts the attached General Fund Balance Policy.

Section 2. This Ordinance shall take effect and be in force upon the earliest date provided by law.

Passed this _____ day of _____, 2016.

Mayor - Presiding Officer

Attest:

Clerk of Council

CITY OF DUBLIN, OHIO GENERAL FUND BALANCE POLICY

I. Purpose

The purpose of this General Fund Balance Policy is to provide guidelines to City Council and the Administration for establishing, maintaining, and reviewing the General Fund Balance for the City of Dublin. It is designed to take a proactive approach to financial management in the City and allows the Administration and City Council to recognize and react to warning indicators of financial stress and set guidelines for proactive measures.

II. Background

Establishing a minimum General Fund balance is a mechanism that governments can implement to help insure adequate levels of fund balance are available to help mitigate current and future risks. A minimum fund balance policy is generally considered a prudent and conservative fiscal policy to deal with unforeseen situations.

The Government Finance Officers Association (GFOA), is an organization whose mission is to enhance and promote the professional management of governmental financial resources for the public benefit. The GFOA recommends governments establish a formal policy that maintains a minimum unreserved fund balance in the General Fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. 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.

In addition to the benefits of having a formal policy that provides a level of reserve that mitigates current and future risks, credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government's General Fund to evaluate a government's continued creditworthiness.

III. Policy

At the time of budget preparation, the annual appropriations shall be adjusted to ensure that the estimated year-end General Fund balance is no less than 50% of the budgeted General Fund expenditures.

Throughout any fiscal year, the General Fund balance may be used to fund the cost of capital improvements in which the ultimate funding source will be a grant or the issuance of notes or long term bonds. In this instance, the General Fund balance may temporarily fall below the minimum funding level in anticipation of a future financing. If the funds are to be reimbursed through notes or bonds, the Administration will work with appropriate legal and financial advisors to assure that the funds that are to be expended are eligible to be reimbursed through such financings prior to any expenditures.

IV. Application

The anticipated year-end General Fund balance will be calculated as part of the budget preparation process and will be reported to City Council along with the Budget. It will be calculated by taking the budget year's projected beginning fund balance less appropriations plus anticipated revenue. The resulting fund balance must comply with the minimum fund balance established in this Policy.

Throughout the course of the fiscal year, any amendments to the appropriations approved by City Council as part of the annual budget process must comply with the restrictions established in this Policy, unless such amendment is for an approved purpose as noted in this Policy and approved by the majority of City Council.

V. Conditions for Use

The General Fund balance is intended to provide the City with sufficient liquidity to support one-time emergency costs and other non-recurring operating shortfalls such as:

- Natural disaster or other emergency
- Economic recession/depression
- Unexpected decline in revenue
- Unexpected large one-time capital expenditures

The General Fund balance shall not be used to fund recurring operating expenses. An exception may be made for winding down a program or service which must be eliminated in order to provide sufficient notice and reduce the impact to the community. This action shall have a definite end date of not more than one fiscal year.

A majority vote of the City Council will be required to use the General Fund balance in a manner that would reduce the balance below the 50% minimum requirement.

VI. Replenishment

In the event that the use of the General Fund balance would result in a balance below the 50% target (other than when paying the costs of capital improvements in which the ultimate funding source will be grants or the issuance of notes of long term bonds as noted in Section III), City Council shall approve a plan for replenishment at the same time the use of the balance is approved. If feasible, replenishment to bring the General Fund balance back to the minimum 50% level should occur within the following fiscal year.

VII. Excess fund balance

At the end of each fiscal year, to the extent that the General Fund Balance exceeds 75% of the actual expenditures for the year, the Director of Finance will transfer 25% of the amount in excess of 75% to the Capital Improvement Tax Fund. Upon the recommendation by the City Manager, City Council may elect to transfer an amount in excess of 25%. The use of the transferred funds shall be consistent with the goals and policies of the Capital Improvement Tax Fund.

VIII. Reporting and Review Provisions

As part of the annual operating budget review process, the Director of Finance shall provide a report to City Council containing 1) the projected year-end General Fund balance for the current fiscal year and 2) the proposed year-end General Fund balance for the next budget year. The resulting fund balance must comply with the minimum fund balance established in the scope of this Policy.

On a monthly basis, the Director of Finance shall provide a report to City Council containing year-to-date revenues and expenditures, budget versus actual revenues and expenditures, and the current General Fund balance (as of the last day of the preceding month). These monthly reports will be followed by quarterly financial updates which will provide a detailed analysis of the activities of the quarter. The quarterly financial update will also include current and projected year-end General Fund balances.

The City's General Fund Balance Policy shall be adopted by Ordinance by City Council. City Council shall review and reaffirm this Policy every three years, or more frequently if recommended by the Director of Finance, the City Manager, and/or City Council.