

RESOLUTION NO. 2018-68

**RESOLUTION ESTABLISHING FUND BALANCE POLICY
FOR THE CITY OF FOREST GROVE'S GENERAL FUND**

WHEREAS, best practices established by the Government Finance Officers' Association (GFOA) recommend that a City establish a policy on the level of unrestricted fund balance that should be maintained in the General Fund for budgetary and generally accepted accounting principles (GAAP) purposes; and

WHEREAS, GFOA states it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (revenue shortfalls and unanticipated expenditures); and

WHEREAS, the City Council and Budget Committee have discussed what minimum amount of unrestricted fund balance would be appropriate for the General Fund; and

WHEREAS, the Council and Budget Committee have discussed what would happen if fund balance is above or below the minimum level of unrestricted fund balance; and

WHEREAS, the Council is ready to establish a policy to set the minimum level of unrestricted fund balance in the General Fund for budgetary and GAAP purposes.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF FOREST GROVE AS FOLLOWS:

Section 1: In the General Fund, the minimum amount of unrestricted fund balance that will be maintained in the General Fund will be twenty-five (25%) of regular General Fund operating expenditures which will be set each year during budget preparation.

Section 2: If unrestricted fund balance is above the minimum amount, amounts in excess of the minimum amount will not be used to fund ongoing recurring expenditures without prior Council approval which will include a plan for revenues to replace the fund balance when excess fund balance is no longer available.

Section 3: If unrestricted fund balance goes below the minimum amount, staff will develop a plan to replenish the unrestricted fund balance to the minimum amount in not more than a three-year period taking into account the reason(s) that the unrestricted fund balance fell below the minimum amount.

Section 4: Annually, staff will develop a five-year financial projection of revenues and expenditures for the General Fund and will present the projection to the City Council and Budget Committee. The projection will forecast ending fund balance to assist the Council and Budget Committee in making future funding decisions.

Section 5: This resolution is effective immediately upon its enactment by the City Council.

PRESENTED AND PASSED this 25th day of June, 2018.


Anna D. Ruggles, City Recorder

APPROVED by the Mayor this 25th day of June, 2018.


Peter B. Truax, Mayor



A place where families and businesses thrive.

CITY RECORDER USE ONLY:	
AGENDA ITEM #:	17
MEETING DATE:	6-25-18
FINAL ACTION:	290020818

CITY COUNCIL STAFF REPORT

TO: City Council

FROM: Jesse VanderZanden, City Manager

MEETING DATE: June 25, 2018

PROJECT TEAM: Paul Downey, Administrative Services Director

SUBJECT TITLE: Establishing Fund Balance Policy for the General Fund

ACTION REQUESTED: Ordinance Order Resolution Motion Informational

X all that apply

ISSUE STATEMENT: The City has been discussing establishing General Fund reserve policies. Staff has developed a proposed Fund Balance Policy for the General Fund that establishes a minimum unrestricted fund balance in the General Fund. A resolution for Council consideration is attached to this report.

The Fund Balance Policy would establish 25% of annual operating expenditures in the General Fund as the minimum fund balance. As part of that process, the City reviewed the fund balance in the General Fund. That would require a minimum fund balance in the General Fund for FY 2018-19 of \$4,816,000. Beginning Fund Balance for the General Fund on July 1, 2018, is projected to be \$7,567,914. The \$900,000 of fund balance that would be set aside would be from funds above the minimum required fund balance.

BACKGROUND: Staff has made several presentations to the Council and the Budget Committee to discuss the need for establishing a fund balance policy including setting a minimum unrestricted fund balance amount. A staff presentation that was made at a City Council work session on March 19, 2018, on establishing a fund balance is attached. After discussing various minimum unrestricted fund balance amounts, Council's direction was to propose a minimum unrestricted fund balance of 25% of the General Fund's annual regular operating expenditures. The proposed policy includes setting the minimum unrestricted fund balance in the General Fund at that amount in addition to policies to address if the actual unrestricted fund balance is above or below the minimum amount.

Another resolution for Council consideration tonight will propose assigning \$900,000 in fund balance in the General Fund for the purposes of smoothing future contributions to the City's Defined Benefit Retirement Plan. The fund balance that is proposed to be used for this purpose is fund balance that is in excess of the proposed minimum fund balance to be established by this proposed resolution.



General Fund Reserves Policy

Paul Downey, Director of Administrative Services

Jesse VanderZanden, City Manager

Work Session, March 19, 2018

(Council Retreat March 3, 2018)

Purpose of Presentation

- To lay the groundwork for discussions toward generating a General Fund fiscal reserves policy.
 - This discussion is focused only on the General Fund. Eventually reserves for the Enterprise Funds will be discussed.
 - On setting a minimum amount of reserves.
 - If reserves are over the targeted level, can the reserves over the targeted amount be spent? And if they can be spent, what can the reserves be used for?
 - If reserves go below the targeted level of reserves, will reserves be brought back up to the targeted amount? If so, how and over what time frame?

Defining Reserves

- What is meant by the term “reserves?”
 - Reserves are essentially a term used to describe the unrestricted fund balance (in this case the General Fund) that is measured at a particular point in time. Fund Balance is the correct technical term but the term “reserves” is more understandable.
 - Simply put – after paying operational expenses, how much money is there in the General Fund’s “savings”.

Why Have Reserves

- The Government Finance Officer Officers Association (GFOA) has published a best practice titled Fund Balance Guidelines for the General Fund that states it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (revenue shortfalls and unanticipated expenditures).
- GFOA recommends that governments establish a policy on the level of unrestricted fund balance that should be maintained in the General Fund for budgetary and generally accepted accounting principals (GAAP) purposes.

Reserve Balance History

Beginning Fund Balances

Fiscal Year	Amount	% of Expenditures
2005-06	\$ 2,325,557	22%
2006-07	\$ 2,492,045	22%
2007-08	\$ 2,602,689	23%
2008-09	\$ 3,160,112	26%
2009-10	\$ 3,645,834	29%
2010-11	\$ 4,373,806	33%
2011-12	\$ 4,434,289	34%
2012-13	\$ 4,764,277	32%
2013-14	\$ 4,238,415	30%
2014-15	\$ 6,189,715	40%
2015-16	\$ 6,156,805	38%
2016-17	\$ 6,359,048	38%

Moody's Comments on City's Finances

- Moody's is the rating agency that rates City's bonds
- Current bond rate is Aa3 which is equivalent to median rating of Aa3 for cities nationwide
- Moody's stated the City has a robust financial position which is a strength for its Aa3 rating and comments:
 - The City's fund balance as percent of operating revenue (38.5%) is slightly above other Moody's-rated cities nationwide
 - Cash balance as a percent of operating revenues (41.6%) is slightly stronger than the US median
 - However, the pension liability of Forest Grove is higher than other cities and is unfavorable in comparison to the assigned rating of Aa3

Level of Reserves

- Amount should take into account a government's own circumstances.
 - Factors include volatility of revenue sources, vulnerability to natural disasters, and potential cuts in state aid and/or federal grants.
- The GFOA recommends that at a minimum, general-purpose governments, such as Forest Grove, maintain reserves in their general fund of not less than two months (16%) of regular general fund operating expenditures or regular general fund operating revenues.

Level of Reserves

- GFOA further recommends that level of reserves should be applied within the context of long-term forecasting to avoid placing too much emphasis upon the level of reserves in the general fund at any one time.
- Factors to consider in setting reserves should include
 - Predictability of revenue or volatility of its expenditures
 - Perceived exposure to significant one-time outlays
 - Helping meet cash flow needs until major revenues come in each fiscal year
 - Potential impact on bond ratings and corresponding costs of borrowing
 - Have any commitments or assignments of fund balance or revenues been made

Levels of Reserves

- Using best practices, at a minimum, general fund reserves should be 16% of regular operating revenues or expenditures.
- Should reserves have an additional amount for operational contingencies on an annual basis?
- Currently, the City's General Fund's Reserves are at 38% of annual regular operating expenditures.
- Reserve policies should include policies for using reserves in excess of the minimum and policies for replenishing reserves if they fall below the minimum amount.

Level of Reserves: Excess Reserves

- City should be able to articulate the reason(s) for the level of reserves established
- For spending reserves in excess, some of the factors to consider include:
 - Over time, expenditures will increase resulting in higher level of reserves required on an annual basis.
 - Can reserves be used to fund ongoing expenditures? If this is allowed, the City needs to have a plan for new revenue when reserves are no longer usable.
 - GFOA recommends prohibiting the use of reserves as a funding source for ongoing recurring expenditures.
 - Predictability of future increases – defined benefit costs are continuing to increase.
 - Are expenditures such as facility maintenance occurring or being deferred?

Level of Reserves: Deficit Reserves

- If reserves fall below the minimum, policy should how reserves will be replenished including:
 - Time frame to replenish reserves – GFOA recommends replenishment over one to three years
 - Consideration for reasons for falling below minimum – for example, recovering from an extreme event or a structural change in revenues or expenditures
 - Long-term forecasts and economic conditions
 - How will reserves be replenished – for example, non-recurring revenues, budget surpluses, or excess resources in other funds (if legally defensible and there is a defensible rationale).

Discussion Points

- Level of Reserves
 - Use of Excess Reserves
 - Replenishment of Reserves
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FISCAL IMPACT: The fiscal impact of establishing a minimum fund balance in the General Fund will depend on the level of future revenues received and the expenditure of those future available resources. Staff will incorporate the minimum fund balance and proposed usage restrictions into the annual budget process.

STAFF RECOMMENDATION: Staff recommends the City Council approve the attached resolution.

ATTACHMENT(s):

Attachment A: Copy of PPT (March 19, 2018)
Resolution