



CITY OF CENTER LINE CITY POLICY
Subject- Fund Balance Policy
Number- 101-2015-002
Effective Date- July 6, 2015

1.0 Purpose

The purpose of this fund balance policy is to maintain an adequate level of financial resources to protect against the need to reduce service levels or raise taxes because of temporary revenue shortfalls or unpredicted one-time expenditures.

2.0 Scope

This policy shall apply to the city as a whole.

3.0 Policy

3.1 MINIMUM TARGET FUND BALANCES

3.1.1 Council shall establish and maintain minimum target fund balances as follows:

- 3.1.1.1 The General Fund shall hold fund balances equal to 20 percent of General Fund department expenses plus 20 percent of Public Safety Fund operating and labor expenses. Department expenses shall not include interfund activity (i.e., transfers out) or voluntary contributions to the city's other postemployment benefit trust.
- 3.1.1.2 The Public Safety Fund shall hold fund balances equal to the sum of prepaid expenditures in the Public Safety Fund at fiscal year-end plus 16.67 percent – or two months – of Police and Fire Retirement System expenditures.
- 3.1.1.3 The Debt Service Fund shall hold fund balances equal to 2.25 percent of annual debt service obligations.
- 3.1.1.4 The Water and Sewer Fund shall hold an unrestricted net position of at least 25 percent of annual operating expenses.
- 3.1.1.5 The Solid Waste Disposal Fund shall hold an unrestricted net position of at least 25 percent of annual operating expenses.
- 3.1.1.6 In accordance with Michigan Public Act 2 of 1968, *The Uniform Budgeting and Accounting Act*, all other funds not specifically noted above shall maintain a fund balance of zero or greater.

CONTINUED

3.2 FUND BALANCE USES

3.2.1 Council may use fund balances for the following purposes:

3.2.1.1 Emergencies

3.2.1.2 Unanticipated economic downturns

3.2.1.3 One-time opportunities

3.2.2 In the event fund balances drop below minimum target levels, fund balances shall be restored as part of the following year's budget, or, if not practically feasible, within three fiscal years of use.

3.2.2.1 A 12-month plan or a three year plan to restore fund balances shall be created by management and approved by council as part of the subsequent year's budget process when fund balances have been used that drop them below minimum target levels.

3.2.3 Use of fund balances in excess of minimum target levels, where no other council action governing their use exists, shall be as follows:

3.2.3.1 Additional contributions to the other post-employment benefits trust in amounts up to 100 percent of the fund's allocated share of the trust's annual required contribution as determined by the trust actuarial valuation.

3.2.3.2 Additional contributions to the city's non-public safety pension system administered by the Municipal Employees Retirement System of Michigan (MERS) in amounts up to 100 percent of the fund's allocated share of the system's actuarial accrued liability (AAL) as determined by the annual MERS actuarial valuation.

3.2.3.3 Additional contributions to the city's capital improvement fund to finance future unforeseen capital equipment or infrastructure improvements/replacements.

3.2.4 In the event of an emergency or unforeseen event that would cause fund balances to be used in a way that would cause them to fall below fund balance target levels, the following funds must be used first (and in the order presented):

3.2.4.1 Budgeted voluntary contributions to the other post-employment benefits trust.

3.2.4.2 Budgeted voluntary / accelerated contributions to the city's non-public safety pension system administered by MERS in excess of the annual required contribution as determined by the annual MERS actuarial valuation.

3.2.4.3 Budgeted contributions to the capital improvement fund.

CONTINUED

- 3.2.4.4 Withdrawal of funds from the other post-employment benefits trust for the purpose of using such funds to pay for retiree healthcare expenses in lieu of using city funds to cover the cost of monthly premiums.
- 3.2.5 Throughout the course of the year, the city will spend fund balances on services or personnel that have a restricted funding source. When this occurs, the city considers restricted, committed, and/or assigned fund balances to have been spent before unassigned fund balances.
- 3.2.6 The city council is the City of Center Line's highest level of decision-making authority and therefore has the authority to commit fund balance within any fund via a council resolution.
- 3.2.7 For assigned fund balances, the city council has delegated authority for establishing assigned fund balances to the city treasurer and finance director.

4.0 Definition

- 4.1 **FUND BALANCE** – the funds as expressed on the modified accrual basis of accounting as required by the Governmental Accounting Standards Board (GASB), which the city holds at a given time that will be used on future obligations. In accordance with GASB, the General Fund and all other governmental funds must be reported on the modified accrual basis of accounting.
- 4.2 **MINIMUM TARGET FUND BALANCE** – the minimum level of reserves the city is attempting to hold in order to create a stable municipal environment, which encourages business and individual investment in all types of properties within the city.
- 4.3 **NET POSITION** – the funds as expressed on the full accrual basis of accounting as required by the Governmental Accounting Standards Board (GASB), which the city holds at a given time that will be used on future obligations. In accordance with GASB, all enterprise funds (such as the city's Water and Sewer Fund as well as the Solid Waste Disposal Fund) must be reported on the full accrual basis of accounting.
- 4.4 **ANNUAL REQUIRED CONTRIBUTION** – Also known as the "ARC", this is amount of funds the city is required to contribute in order to meet future obligations as calculated by an actuarial. The ARC is comprised of two parts, (1) the normal cost, which is the cost for benefits attributable to the current year of service, and (2) an amortization payment, which is a 'catch-up' payment for past service costs to fund the unfunded actuarial accrued liability (UAAL) over a set period of time as defined by the actuarial valuation.
- 4.5 **ACTUARIAL ACCRUED LIABILITY** – Also known as the "AAL", this is the present value of the projected benefits payable to retirees plus a portion of expected benefits that have been earned by current employees but are not yet payable.
- 4.6 **RESTRICTED FUND BALANCE** – As defined by the Governmental Accounting Standards Board Statement Number 54, restricted fund balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

CONTINUED

- 4.7 COMMITTED FUND BALANCE – As defined by the Governmental Accounting Standards Board Statement Number 54, committed fund balances includes amounts that can be used only for the specific purposes determined by a resolution of the city council.
- 4.8 ASSIGNED FUND BALANCE – As defined by the Governmental Accounting Standards Board Statement Number 54, assigned fund balance represents funds intended to be used by the city for specific purposes that do not meet the criteria to be classified as restricted or committed.

5.0 Responsibilities

- 5.1 The city finance director and treasurer has the responsibility of monitoring fund balance levels and reviewing proposed budget amendments for potential fund balance short falls.
- 5.2 Council has the responsibility to review proposed budget amendments throughout the year as well as the triennial budget each year with these fund balance targets in mind.

6.0 Procedures

- 6.1 Each year, city management shall prepare the triennial budget by setting fund balances to at least the levels prescribed in this policy.
- 6.2 A financial review shall be completed for each agenda item brought before council where the city's budget is impacted. This section shall be completed by the department head completing the agenda item and shall be reviewed by the city finance director and treasurer. The review outlining any modifications to budgeted amounts, as approved by the finance director and treasurer shall be outlined in a "finances section" within an agenda item brought before council.
- 6.3 Upon the completion of the city's annual audit, the city finance director and treasurer will present to council a proposal for uses of excess fund balances if any exist. The proposal will be developed in accordance with section 3.2.3 under "Fund Balance Uses".

7.0 Authority

- 7.1 This policy was adopted by City Council at a regular meeting on July 6, 2015. Certification of said adoption is documented at the bottom of the policy.

-----**Employees are not responsible for information below this line.**-----

8.0 References

- 8.1 The following references were utilized in preparation of this policy.
 - 8.1.1 Michigan Public Act 2 of 1968.
 - 8.1.2 Fund balance policy for the City of Yellowknife, Northwest Territories, Canada.

8.1.3 Fund balance policy for the Town of Atherton, California.

8.1.4 Governmental Accounting Standards Board Statement Number 54

8.1.5 Government Finance Officers Association (GFOA) Best Practice, *Replenishing General Fund Balance*. Approved by the GFOA executive board, February 2011.

8.1.6 Government Finance Officers Association (GFOA) Best Practice, *Appropriate Level of Unrestricted Fund Balance in the General Fund*. Approved by the GFOA executive board, October 2009.

9.0 Revisions

9.1 This policy shall be reviewed every three years.

9.2 Revision history:

9.2.1 First issued July 6, 2015.

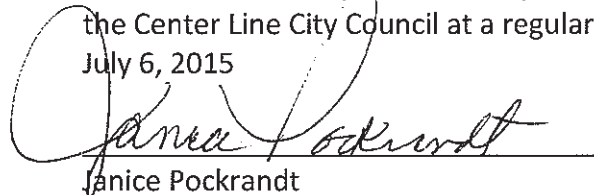
Motion by: Councilperson Chakur

Supported by: Councilperson Lapham

Ayes: 5 Nays: 0

POLICY DECLARED ADOPTED

I, Janice Pockrandt, Deputy Clerk for the City of Center Line, County of Macomb, State of Michigan, do hereby certify that the attached is an exact copy of the city policy governing the establishment of city-wide and department policies adopted by the Center Line City Council at a regular meeting thereof held on July 6, 2015



Janice Pockrandt
Deputy Clerk
City of Center Line