



SUBJECT: Approval of revisions to the City's General Fund-Fund Balance Policy to increase the reserve range from 8-12% to 14-22%.

SUBMITTING DEPARTMENT: Finance

CITY MANAGER APPROVAL:

The City of Novi reserve policy for the General Fund – Fund Balance is 8-12% of budgeted expenditures. This policy is utilized during the budget process to determine the amount of General Fund – Fund Balance the City plans for at the end of the budgeted fiscal year. This policy has no impact on actual fund balance, it is simply a tool for the budget and financial planning process.

Two of the State Revenue Sharing payments are received from the State *after* the end of the City's fiscal year (\$1,181,623 in the fiscal year ended June 30, 2007). Property tax collections are not significant until after the second week in August, with collections of approximately 90% of property taxes (over \$14,000,000 for the General Fund in 2007-8) the last two weeks in August. For these reasons, we recommend that the City's undesignated, unreserved General Fund-Fund Balance (reserve) policy be adjusted to a range of 14-22% of budgeted expenditures.

To put this in perspective, if expenditures were reasonably equal throughout the year (with personal services being the greatest cost), the City could operate 7-11 weeks using the 14-22% reserve. This range will give the greatest flexibility in these uncertain times with regards to the State's budget and State Revenue Sharing distributions. For the **2007-8 budget** the estimated undesignated, unreserved General Fund-Fund Balance was \$5,135,730 or approximately 15% of the budgeted expenditures for the 2007-8.

At the completion of each fiscal year the General Fund-Fund Balance is reviewed and compared to the budgeted estimate. For the last several years the City has seen a greater than anticipated actual fund balance as a result of savings, revenues better than anticipated and conservative estimates. For 2006-7 fiscal year the fund balance was 22% of 2007-8 budgeted expenditures. This also included a higher than anticipated reserve fund balance for construction code fees (originally estimated at \$601,600 , actual \$1,037,182 due to the certain fees being deposited sooner than anticipated. Generally, the City does not program any additional funds as a result of an increases above the estimate. Instead the actual fund balance is used in the programming of the subsequent year's budget. For the last couple of years, the accumulated savings from the prior year's estimate as compared to the actual results, has been primarily programmed for non-recurring items and reduction of liabilities.

While rating agencies like to see high reserves, it is also not fiscally responsible to reserve excess funds not designated for a specific purpose. Attached is an excerpt from the City's Budget which contains the Financial Policies, and the recommended change.

RECOMMENDED ACTION: Approval of revisions to the City's General Fund-Fund Balance Policy to increase the reserve range from 8-12% to 14-22%.

	1	2	Y	N
Mayor Landry				
Mayor Pro Tem Capello				
Council Member Crawford				
Council Member Gatt				

	1	2	Y	N
Council Member Margolis				
Council Member Mutch				
Council Member Staudt				

Financial Policies

The City of Novi's financial policies, as compiled below, set forth the basic framework for the overall fiscal management of the City. Operating independently of changing economic circumstances and conditions, these policies help the decision making process of the City Council and administration. These policies provide guidelines for evaluating both current activities and proposals for future programs.

Most of the policies represent long-standing principles (i.e. traditions and practices) that have guided the City in the past and have helped maintain financial stability.

The City's financial policies serve the administration in the preparation of a balanced operating budget and management of the City's financial affairs.

Operating Budget Policies

The City will attempt to maintain its present service level for all priority and essential services within the existing property tax millage limits.

- The City will maintain a budgetary control system to ensure adherence to the budget and will prepare periodic reports comparing actual revenues and expenditures with budgeted amounts.
- The City will emphasize efforts to reduce expenditures in major cost centers (i.e. energy, medical insurance premiums, street lighting, pension cost and Worker's Compensation payments).
- The Ice Arena, Senior Housing and Water and Sewer Funds will be self-supporting.
- The City will protect against catastrophic losses through a combination of insurance and maintaining a Judgment Trust Fund.

Reserve Policies

- The City will establish a reserve to pay for expenditures as a result of unforeseen emergencies or for shortfalls caused by revenue declines. For the General Fund, the reserve will be maintained at an amount that represents approximately 8-~~14~~¹⁴⁻²² percent of the proposed budget for the resulting year. Additional reserves can be designated for a specific purpose as identified by City Council during the budget process.
- The City will seek to maintain a diversified and stable revenue system to shelter itself from short-run fluctuations in any one revenue source. The City will attempt to obtain additional revenue sources to insure a balanced budget.
- The City will follow an aggressive policy of collecting revenue.
- The City will establish all user charges and fees at a level considering the cost (operating, direct, indirect and capital) of providing the service.
- The City will establish reserves to comply with the terms and conditions of the debt instruments used to finance capital improvement projects.

Revenue Policies

- The City will estimate its annual revenue by a conservative, objective and analytical process.
- The City will review fees and charges annually. It will attempt to design and/or modify revenue systems to include provisions that automatically allow charges to grow at a rate that keeps pace with the cost of providing the service.
- Non-recurring revenue will be used only to fund non-recurring expenditures.
- All grant applications shall be authorized by the City Council.

Capital Improvements Policies

- The City will develop a multi-year plan for capital improvements, update it annually and make all capital improvements according to the plan. The City Charter was adopted with a low operating millage, with the understanding that major capital expenditures would be financed by bond issues and related special millage.
- The City's plan will include large capital purchases and construction projects costing more than \$25,000. A Capital Improvement, as defined in this document, includes real property expenditures greater than \$25,000 that has a life expectancy of at least five years and personal property items more than \$25,000 and a life expectancy of at least one year.
- The City will maintain its physical assets at a level adequate to protect the City's capital investment and to reduce future maintenance and replacement costs. The budget will provide for the adequate maintenance and the orderly replacement of the capital plant and equipment from current revenues where possible.
- The City will use the following criteria to evaluate the relative merit of each capital project:
 - Projects specifically included in an approved replacement schedule will receive priority consideration.
 - Projects will be evaluated as to the impact on the operating budget; those that reduce the cost of operations or energy consumption will receive priority consideration.

Debt Policies

- The City will confine long-term borrowing to capital improvements.
- When the City finances capital projects by issuing debt, it will repay the debt within a period not to exceed the expected useful life of the project.
- When possible, the City will use special assessment, revenue, tax increment, or other self-supporting bonds.
- The City will maintain a sound relationship with all bond-rating agencies and will keep them informed about our current capital projects.

- General obligation debt will not be used for enterprise activities.

Investment Policies

- The City's investment objectives in priority order are: Safety, Liquidity, and Yield.
- Disbursement, collection, and deposit of all funds will be managed to insure that all cash is invested promptly until needed.
- The City will strive to maximize the return on the portfolio, with the primary objective of preserving capital by prudent investment practices.

Accounting, Auditing and Financial Reporting Policies

- An independent audit will be performed annually.
- The City will produce annual financial reports following Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB).
- The City will maintain strong internal audit controls.

Purchasing Policies

- Purchases will be made in accordance with federal, state and municipal requirements.
- Purchases will be made in an impartial, economical, competitive and efficient manner.
- Purchases under \$1,000: Department's responsibility to obtain best price possible and to foster competition.
- Purchases between \$1,000 and \$14,999: Requires at least three (3) written quotations submitted with the purchase order.
- Purchases over \$15,000: Formal sealed bids must be obtained. All invitations for bids are advertised at least once in a newspaper of general circulation in the City. Performance bonds and/or bid bonds and insurance may be required on some projects. When required, it should be included in the bid specifications. All bid openings will be public. No late or faxed bids will be accepted. All bids and/or written quotations and request for proposals are awarded by the City Council. All bids are to be received by the office of the Purchasing Official.
- The City's primary mechanism for soliciting bids is the **Michigan Inter-Governmental Trade Network**, a collaboration of public entities through out the State that collectively advertises bid opportunities through a web site.