



CITY of NOVI CITY COUNCIL

Agenda Item 1
January 24, 2011

SUBJECT: Approval of resolution to revise the City's General Fund-Fund Balance Reserve Policy to increase the reserve range from 14-18% to 18-22% of budgeted expenditures.

SUBMITTING DEPARTMENT: Finance

CITY MANAGER APPROVAL:

BACKGROUND INFORMATION: City Council at the January 8, 2011 goal setting session directed that the General Fund –Fund Balance Policy be revised to increase the targeted reserve range currently set at between 14% and 18% to 18% and 22% of budgeted expenditures. The City of Novi reserve policy for the General Fund –Fund Balance is utilized during the budget process to determine the amount of fund balance the City plans for at the end of the budgeted fiscal year. While this policy has no impact on actual fund balance, it is an important tool used for purposes of the budget and financial planning process.

The National Advisory Council on State and Local Budgeting (NACSLB) as well as the Government Finance Officers Association (GFOA) in 2009 updated its best practice on unreserved general fund balances to "recommend that general purpose governments maintain **at a minimum** an unrestricted general fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." According to the GFOA, this amounts to approximately 16.7% of General Fund **operating** expenditures which would not include one-time expenditures for capital outlay.

In January 2010, Standard & Poor's affirmed Novi's AA+ credit rating stating that "Novi financial management practices are considered good under Standard & Poor's Financial Management Assessment." These practices include the establishment of a formal General Fund –Fund Balance Reserve Policy (see attached **policy** currently in place).

Attached is a resolution for City Council's consideration establishing the City of Novi General Fund –Fund Balance Reserve Policy range to be between 18-22% of budgeted expenditures. Also attached for reference are pages from the most recent audit presentation by Andrews Hooper & Pavlik, including a more comprehensive presentation of "Fiscal Health Measures". The motion sheet from January 2008 when the policy was last modified (City Council approved a modified reserve range of 14 to 18% instead of the original 14-22% suggested range).

RECOMMENDED ACTION: Approval of resolution to revise the City's General Fund-Fund Balance Reserve Policy to increase the reserve range from 14-18% to 18-22% of budgeted expenditures.

	1	2	Y	N
Mayor Landry				
Mayor Pro Tem Gatt				
Council Member Fischer				
Council Member Margolis				

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

RESOLUTION

Approving the City of Novi General Fund –Fund Balance Reserve Policy to set the range to 18-22% of budgeted expenditures

WHEREAS, the City Council has agreed to maintain the City's General Fund – Fund Balance 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 18-22% of the proposed budgeted expenditures for the resulting year, and

WHEREAS, the City of Novi reserve policies are based on sound fiscal principles designed to maintain adequate fund balance levels which are an important component of the City's financial strength, and

WHEREAS, the City will seek to maintain a diversified and stable revenue system to shelter itself from short-run fluctuations in any one revenue source and will establish all user charges and fees at a level consistent with the cost of providing such services, and

NOW THEREFORE BE IT RESOLVED, that the City hereby adopts the General Fund – Fund Balance Reserve Policy to set the range to 18-22% of budgeted expenditures.

CERTIFICATION

I, Maryanne Cornelius, the duly appointed Clerk of the City of Novi, Oakland County, Michigan, hereby certify that the above is a true and complete copy of a resolution adopted by the City Council of the City of Novi at a regular meeting held on January 24, 2011 at which time a quorum was present.

Maryanne Cornelius
City Clerk

General Fund – Fund Balance Reserve Policy

- 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 14-18 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.

City of Novi

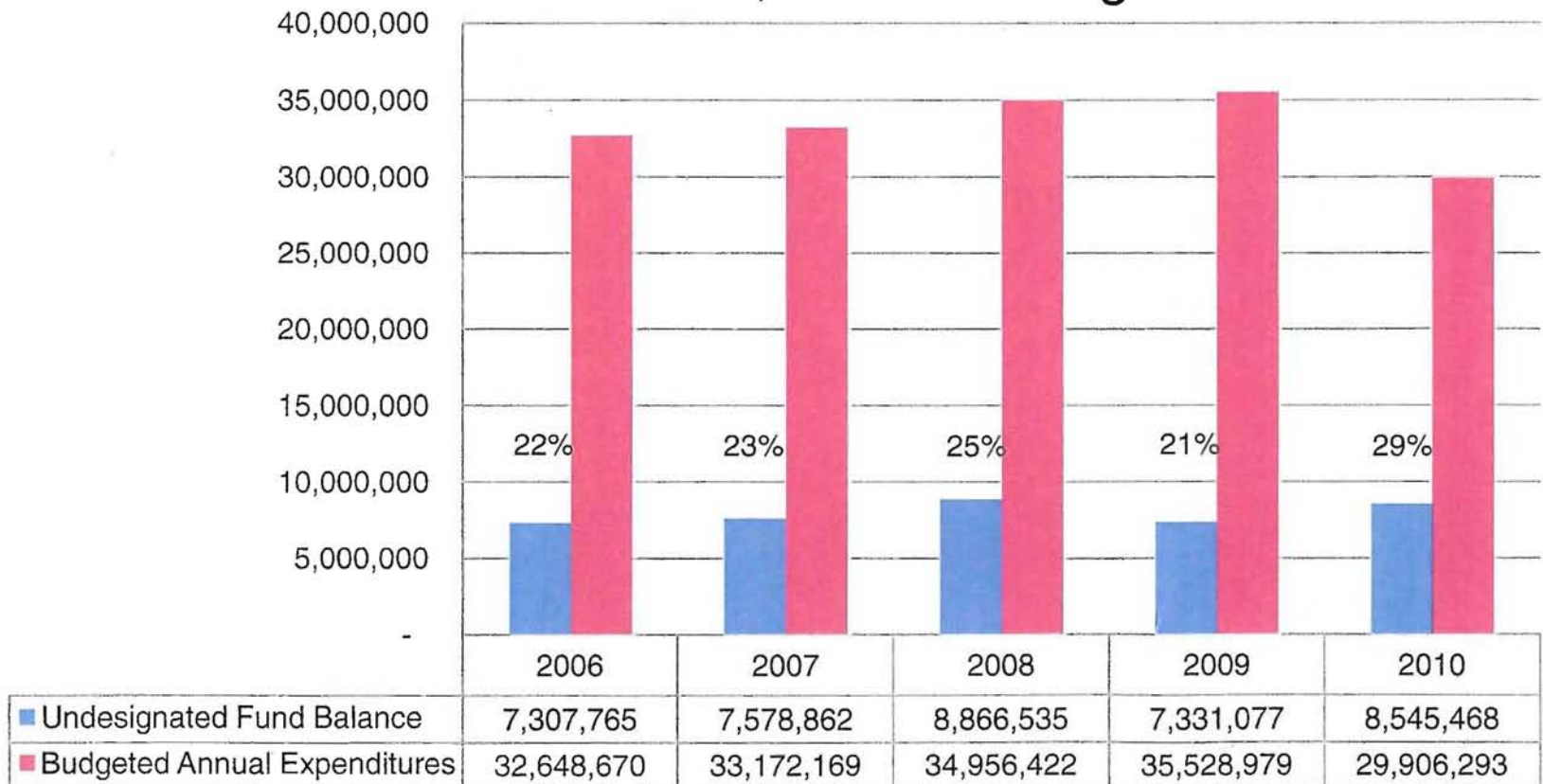
General Fund Fund Balance Years Ended June 30, 2006 Through 2010



	2006	2007	2008	2009	2010
■ Undesignated fund balance	7,307,765	7,578,862	8,866,535	7,331,077	8,545,468
■ Designated for subsequent year's budgeted expenditures	2,751,580	2,998,733	3,374,241	2,983,143	1,164,935
■ Reserved for construction code fees	454,025	1,037,182	172,263	-	-

City of Novi

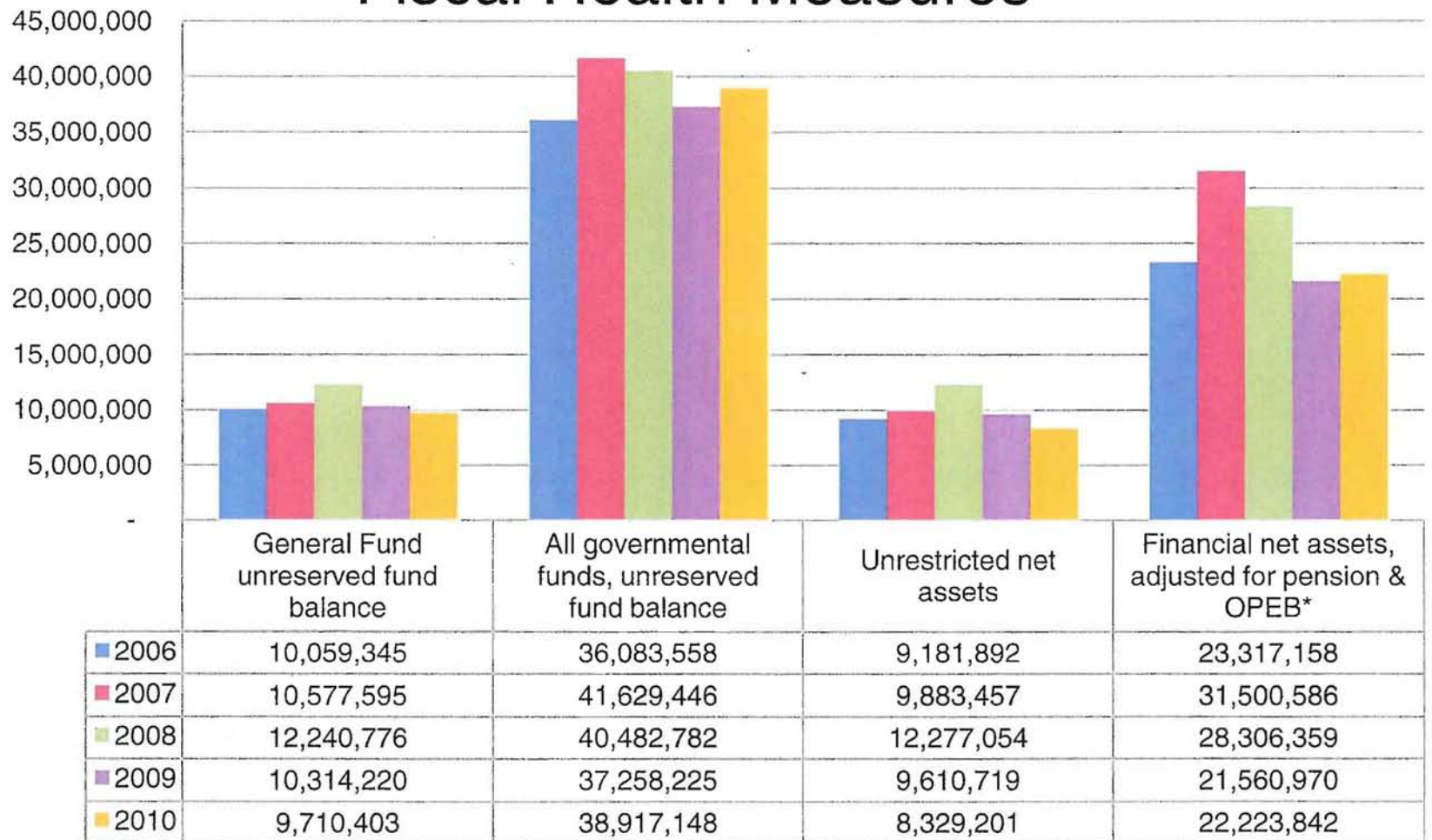
General Fund Undesignated Fund Balance as a Percentage of Budgeted Annual Expenditures Years Ended June 30, 2006 Through 2010



Does not include appropriations for subsequent years.

City of Novi

Fiscal Health Measures



*The decrease in financial net assets, adjusted for pension & OPEB, from the 2007 to 2009 can be attributed to several factors including the spending of federal forfeiture funds in 2007 and 2008 as well as the spending of Library bond proceeds in 2009.



CITY of NOVI CITY COUNCIL

Agenda Item 6
January 22, 2008

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				