CITY OF NOVI CITY COUNCIL
OCTOBER 28, 2024

SUBJECT: Approval of resolution to amend the City's Fund Balance/Reserve Policy.

SUBMITTING DEPARTMENT: Finance

KEY HIGHLIGHTS:

- The proposed amendment is to the General Fund fund balance policy only
- The last amendment to the policy was on September 26, 2011
- The proposed amendment is to bring the targeted fund balance in line with actual historical fund balance and to reflect the current financial condition of the City (28-30%)

BACKGOUND INFORMATION:

"Fund balance" is an accounting term that means the total accumulation of operating surpluses and deficits since the beginning of a local government's existence. "Fund balance" is not synonymous with unrestricted cash. A common misconception is that fund balance is a cash account, associated with or correlated to a government's bank account balance. But unlike a personal bank account, a general fund balance is a measure of equity between revenues and expenditures. Government fund accounting is unique to the public sector and requires separate self-balancing accounting entries to track each fund's revenues and expenditures. Fund balance is a government's total assets less total liabilities.

In September 2011 the City Council amended its policy regarding the level in which the City's fund balance should maintained which was between 18-22%. Since that time the overall revenues and expenditures have significantly increased. Also, during the past 13 years since the last amendment, bond rating agencies have placed a higher emphasis on larger fund

Savings in Month Equivalent	FB as % of expenses		
est. 3 months	25% or below	Action Required	(1)
	26%		
	27%		
	28%	Target Range	
	29%		
	30%		
	31%		
	32%		
est. 4 months	33% or greater	Action Required	(2)

balance reserves when determining their ratings. As a result, the proposed amendment to the policy moves the target range to between 28-30% and sets specific requirements on how to address variances from the target (+/- 3% of target). The following is a summary of the components of the reserve:

1. If fund balance is expected to fall to 25% or lower the following corrective action is required:

   The City will immediately create a plan such that fund balance is >25% within three years by:

   a. controlling operating expenditures, adjusting operations and/or dedicating excess or specific revenue sources
   b. adjusting operations and capital projects and/or
   c. dedicating excess or specific revenue sources
   d. any other means as recommended by staff and approved by City Council

2. If fund balance is expected to be 33% or greater, the following action is required: The City Council shall discuss elevated fund balance level, and shall consider:

   a. moving a portion of fund balance from unassigned to assigned
   b. lowering taxes
   c. appropriating funds over the next three fiscal years to one time/capital projects and/or
   d. articulating reason for elevated balance (saving for pension paydown, anticipated economic downturn, etc.)
   e. other option as council deems appropriate

Attached is a red-lined version of the current policy and the proposed changes.

RECOMMENDED ACTION: Approval of resolution to amend the City's Fund Balance/Reserve Policy.