

RESOLUTION NO. 07-2014

Revising the General Fund Carryover Balance
Policy for the City of Worthington.

WHEREAS, the purpose of this policy is to reinforce the proactive approach to financial management in the City of Worthington; and,

WHEREAS, a General Fund Carryover Balance Policy assists the City in maintaining long-term financial stability through the development of an adequate fund balance and appropriate reserve account.

NOW, THEREFORE, BE IT RESOLVED by the Council of the Municipality of Worthington, County of Franklin, State of Ohio:

SECTION 1. After thoroughly discussing the memorandum from the City's Finance Director attached hereto as Exhibit A, that City Council hereby adopts the revised General Fund Carryover Balance Policy attached hereto as Exhibit B, amending the Policy adopted pursuant to Resolution No. 36-2008.

SECTION 2. That the Clerk of Council be and hereby is instructed to record this Resolution in the appropriate record book.

Adopted April 7, 2014

/s/ Bonnie D. Michael
President of Council

Attest:

/s/ D. Kay Thress
Clerk of Council



DEPARTMENT OF FINANCE
MEMORANDUM

TO: Matthew H. Greeson, City Manager

FROM: Molly Roberts, Director of Finance

DATE: April 2, 2014

SUBJECT: Revised General Fund Carryover Balance Policy

The continued importance and relevance of a General Fund Carryover Balance Policy was reinforced during the February 2014 City Council Retreat. Council directed the staff to update the Carryover Balance Policy and increase the balance limit to twenty-five percent (25%) of the previous year's operating expenses. The attached policy and accompanying resolution intend to capture Council's request to reaffirm the policy with the amendment to increase the balance limit to twenty-five percent (25%) of the previous year's operating expenses.

Establishing an appropriate level of fund balance is critical in assisting governments to maintain adequate fund balance levels in order to mitigate current and future risks. Fund balance levels are a crucial consideration in developing long-term financial plans. The Government Finance Officers Association (GFOA) best practices recommend the establishment of a formal policy to establish an appropriate level of unreserved fund balance for the General Fund. Currently, the GFOA recommends a minimum that governments maintain an unrestricted fund balance in the General Fund of no less than two months of regular general fund operating expenditures.

In 2014, it is estimated that 72% of all General Fund revenue will be received through income tax collections. It is my opinion that a threshold of a 25% carryover balance is an acceptable fund balance level given the volatility of this critical revenue source. Attached please find the revised Carryover Balance Policy and accompanying Resolution for Council's consideration. The revised policy incorporates the 25% threshold as requested by City Council.

The revised policy deletes reference to the Reserve Account. Background on the Reserve Account and its relationship to this policy are provided below.

Background

On December 1, 2008, the Worthington City Council amended the Codified Ordinances to provide for 13.6% of all income tax revenues to be deposited in the Capital Improvements Fund (referred to as the CIP). This was a reduction of 6.4% from previous practice of splitting income tax revenues between the General Fund at 80% and the CIP at 20%.

The purpose of this action, which increased contributions of income tax revenue to the General Fund to a total of 86.4%, was to increase the City of Worthington's General Fund Carryover Balance to a more appropriate level. The goal at that point in time was to have the 6.4% of income tax revenues create \$1.5 million in funds that would be tracked as a Reserve and to begin pursuing the building of a 15% carryover fund balance in addition.

The subsequent recession required that this practice continue. The 6.4% provided critical revenues to the General Fund which allowed the City to maintain a fund balance and weather years where it had a negative Annual Net Cash Position.

To effectively monitor how much the 6.4% generated in revenue during this time and how much it contributed to the growth of the fund balance, an Income Tax Reserve Allocation was established on the City's Five-year forecast as a revenue line. Likewise, after factoring all expenses, a Carryover Balance Reserve line was established to show the amount of the Total General Fund Carryover Balance when it did not include the \$1.5 million tracked as a Reserve allocation.

This practice continued consistent with the Codified Ordinances until 2014, when it was changed back to an 80% going to the General Fund and 20% going to the CIP. The change back was because the City had achieved the goals of its Carryover Balance/Reserve Policy, meaning it had \$1.5 million in the Reserve and over a 15% General Carryover Fund Balance less the Reserve.

In re-drafting the policy, staff considered whether it needs to reference the history of the 6.4% Reserve allocation in detail. We have concluded that because the policy is prospective in nature and we have returned to the 80% General Fund and 20% CIP split, that it is unnecessary to have it in the policy.

However, staff felt it important to document the legislative history and the strategy employed to stabilize the City's fund balances and would recommend that we continue to track the \$1.5 million dollars derived from the previous strategy on our 5-year forecast documents for a period of time.

**CITY OF WORTHINGTON, OHIO
GENERAL FUND
CARRYOVER BALANCE POLICY
Revised April 2014**

A. Purpose

The purpose of this policy is to ensure the financial stability and security of the General Fund of the City of Worthington and to guard against cyclical changes in revenue and expenditures by taking a proactive approach to the financial management of the City.

B. Policy

The City's General Fund Carryover Balance shall equal or exceed twenty five percent (25%) of the previous year's operating expense.

C. Definitions

1. **General Fund Carryover Balance** – The amount of money left in the primary operating fund of the City (the General Fund) at the end of the fiscal year after the revenue has been received and the expenditures have been paid.
2. **Estimated Beginning Fund Balance** – The estimated unencumbered fund balance for the beginning of the fiscal year. This is calculated at the time the annual budget is prepared.
3. **Anticipated Revenues** – The amount of revenue the City of Worthington expects to receive in the upcoming fiscal year to fund annual appropriations.
4. **Appropriations** – The total amount appropriated for expenditure.
5. **Estimated Ending Fund Balance** – An amount equal to the Estimated Beginning Fund Balance plus Anticipated Revenues less Appropriations. The estimated ending fund balance is calculated at the time the budget is prepared and presented to City Council.

D. Scope

This policy applies to the General Fund, which is the primary operating fund for the City of Worthington.

E. Application

The estimated ending fund balance will be calculated at the time of annual budget preparation. Estimated ending fund balance will be calculated by taking the budget year's projected beginning fund balance, plus anticipated revenues, less appropriations. As necessary, annual appropriations shall be adjusted or additional revenue sources identified to ensure that the estimated ending fund balance complies with the General Fund Carryover Balance established in Section B of this policy.

F. Monitoring

The General Fund Balance will be monitored and reported to City Council on a quarterly basis. When appropriate, revised revenue and expenditure projections will be included.

G. Compliance

There may be circumstances where the fund balance falls below the minimum level due to unforeseen emergencies. Corrective action will be taken in the next annual budget to reduce appropriations or increase revenue to bring the fund balance into compliance with this policy.

If during the annual budget discussions the Administration and/or City Council determine that the City cannot meet the requirements of this policy, then they will include in the annual appropriations ordinance a concise statement explaining the decision to waive the policy. The statement should include the present financial status of the City, a specified timetable for returning to compliance with the policy, and the reason(s) given for overriding the policy.

This policy shall be reviewed at least once every five (5) years with the City Council to determine if it is consistent with the financial needs of the City of Worthington.