

BOUNTIFUL CITY COUNCIL MEETING

Monday, August 9, 2021
5:00 p.m. - Regular Session

NOTICE IS HEREBY GIVEN that the City Council of Bountiful, Utah will hold its regular Council meeting at **City Hall, 795 South Main Street, Bountiful, Utah**, at the time and on the date given above. The public is invited to all meetings. Deliberations will occur in the meetings. Persons who are disabled as defined by the Americans With Disabilities Act may request an accommodation by contacting the Bountiful City Manager at 801.298.6140. Notification at least 24 hours prior to the meeting would be appreciated.

If you are not on the agenda, the Council will not be able to discuss your item of business until another meeting. For most items it is desirable for the Council to be informed of background information prior to consideration at a Council meeting. If you wish to have an item placed on the agenda, contact the Bountiful City Manager at 801.298.6140.

Bountiful City Council meetings, including this meeting, are open to the public. In consideration of the COVID-19 pandemic, the meeting is also available to view online. The link will be available on the Bountiful City website homepage (www.bountifulutah.gov) approximately one hour prior to the start of the meeting.

AGENDA

5:00 p.m. – Regular Session

1. Welcome, Pledge of Allegiance and Thought/Prayer
2. Bountiful City fund reserve policy discussion – Mr. Tyson Beck
3. Adjourn



City Recorder

City Council Staff Report

Subject: Bountiful City Reserve Policy - Work Session
Author: Tyson Beck, Finance Director
Department: Finance
Date: July 27, 2021



Background

In the June 16, 2020, City Council meeting, staff presented the details of a revised reserves policy. The previous reserves policy was adopted in 1982 and was extremely outdated. In that meeting the City Council unanimously approved ordinance 2020-03 adopting the new *Fund Balance & Reserves Policy*.

This City policy put in place minimum fund balance/reserve thresholds as part of the City's overall financial goal to operate on a "pay-as-you-go" basis and to ensure the continuity of operations.

Analysis

A request has been made to review the policy specifics behind the fund balance/reserve target level of the Capital Projects Fund.

The policy states that the target reserve level for the Capital Projects Fund includes an emergency-only reserve of \$12 million and a capital reserve of two fiscal years of average capital expenditures. For fiscal year 2020 that total equated to \$22,131,830.

The policy and the target reserve levels were derived using various factors:

1. Bountiful City historical data. This highlighted average operational and capital needs and what reserve balances would ensure the continuity of City operations.
2. City Council policy priorities to operate "pay-as-you-go" and maintain "balanced revenue sources"
3. Bond rating agency metrics/financial health indicators
4. Government Finance Officer Association (GFOA) policy guidelines and best practices
5. State law and accounting standard requirements
6. Comparison reserve policies from other Utah local governments

This financial policy will be contrasted with a policy more focused on funding capital projects through debt financing.

Department Reviews

This staff report has been reviewed by the City Manager and comes with his approval.

Significant Impacts

The City's financial policies and the fund balance of the Capital Projects Fund.

Recommendation

Staff recommends the City's *Fund Balance & Reserves Policy* remain as the guiding reserves policy, and that the high-level financial policies of "pay-as-you-go" and maintain "balanced revenue sources" remain.



Bountiful City Fund Balance & Reserves Policy

Purpose Statement

Governmental entities have a responsibility to minimize disruptions to services. Local governments can experience much volatility in their financial stability due to the economy, natural disasters, unfunded legislative mandates, etc. Sound financial management includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. The establishment of prudent financial reserve policies is important to ensure the long-term financial health of Bountiful City (the City) and the continuity of its operations.

Bountiful City has long had a “pay-as-you-go” philosophy. This fund balance and reserve policy will aid in maintaining sufficient reserves to provide City operations during emergencies and avoid unnecessary debt and expense.

1. Equity Reserve Target Levels & Conditions for Use of Reserves

a. General Fund

Reserve Target Level

- 1) At the end of each fiscal year, the City will maintain a reserved portion of unrestricted fund balance between 23 and 25 percent (%) of General Fund “Total Revenues” for the current fiscal period.

Reserve Conditions of Use

- 1) Should the actual amount of reserves fall below the targeted range, the City shall create a detailed financial plan to restore balances to the minimum requirements within three (3) fiscal years. The plan will be prepared and submitted for City Council approval in conjunction with the annual budget. Progress toward reserve replacement will be provided at least annually to the City Council.
 - a. In restoring reserves to the targeted range the City’s financial plan must include measures that do not jeopardize long-term capital plans or asset useful lives. Short-term reductions in infrastructure or asset maintenance expenditures at the expense of asset longevity should not be considered.
- 2) The use of reserves shall be limited to unanticipated and non-recurring needs. Reserve balances shall not be used under normal operating conditions.

b. Capital Projects Fund

Reserve Target Level

- 1) At the end of each fiscal year, the City will maintain a reserved portion of unrestricted fund balance equal to or greater than two (2) average fiscal years of Capital Projects Fund total expenditures plus a \$12,000,000 emergency-only reserve.

Reserve Conditions of Use

- 1) Should the actual amount of reserves fall below the targeted range, the City shall create a detailed financial plan to restore balances to the minimum requirements within five (5) fiscal years. The plan will be prepared and submitted for City Council approval in conjunction with the annual budget. Progress toward reserve replacement will be provided at least annually to the City Council.
 - a. In restoring reserves to the targeted range the City's financial plan must include measures that do not jeopardize long-term capital plans or asset useful lives. Short-term reductions in infrastructure or asset maintenance expenditures at the expense of asset longevity will not be considered.
- 2) The use of Capital Projects Fund operating reserves shall be limited to large and infrequent capital projects. This reserve is intended for infrastructure/asset projects with 20 to 30 year lifecycles. Reserve balances shall not be used for recurring small to moderate capital asset/infrastructure lifecycle replacement.
- 3) The use of the Capital Projects Fund \$12,000,000 reserve will only be considered for City-wide financial emergencies or natural disasters.

c. Enterprise Funds

Reserve Target Level

- 1) At the end of each fiscal year, each City enterprise fund will maintain a reserved portion of "Unrestricted Net Position" equal to or greater than six (6) months of its total operating expenses plus one average fiscal year's capital expenses.

Reserve Target Level Exception

Should the City Council and management determine that, based on available data, a specific enterprise fund cannot operate and still maintain the reserves described above, the following will apply:

- 1) At least annually a report will be given to the City Council regarding the financial status of that fund.
- 2) As part of the annual budget process for that fund, all revenues and expenses will be reviewed in detail in order to evaluate all potential opportunities for financial improvement of the operations.
- 3) Any type of subsidy plan, ongoing or one-time, must be reviewed and approved by the City Council in a City Council meeting. Also any ongoing subsidy must be reevaluated by the full City Council annually.

Reserve Conditions of Use

- 1) Should the actual amount of reserves fall below the targeted range, the enterprise fund shall create a detailed financial plan to restore balances to the minimum requirements within five (5) fiscal years. The plan will be prepared and submitted for City Council approval in conjunction with the annual budget. Progress toward reserve replacement will be provided at least annually to the City Council.
- 2) The use of operating reserves shall be limited to unanticipated and non-recurring needs. Reserve balances shall not be used under normal operating conditions.
- 3) The use of the capital reserves will only be considered for infrastructure/asset projects with 20 to 30 year lifecycles or emergency/natural disaster situations. Capital reserve balances shall not be used for recurring small to moderate capital asset/infrastructure lifecycle replacement.

2. Equity Balance Decline Policy

One of the main indicators of the financial health of any operation is whether the equity balance is increasing or decreasing. The GFOA has stated: "The key consideration in analyzing net position is not so much the amount itself, as the direction and speed at which it is either increasing or decreasing." *GAFFR page 807*

As an additional safeguard against financial deterioration, an annual fund balance and net position trend analysis will be performed and a report given to the City Council. Any City fund that has three consecutive fiscal years of declining fund balance or net position will go through the following:

- i. Management shall create a detailed financial plan to reverse the negative trend within two (2) fiscal years. The plan will be prepared and submitted for City Council approval in conjunction with the annual budget.
- ii. Progress toward trend reversal will be provided at least annually to the City Council.

Under no circumstances is any fund of the City allowed to have more than five consecutive years of declining equity balance.

3. Negative Equity Balance Policy

The guidance of State Code 10-6-117 will be implemented if any fund of the City should have a negative equity position at the close of the fiscal year. That guidance requires that 5% of the total revenue of that fund's last completed fiscal year be budgeted in the subsequent year to remediate the deficit position.

4. Equity Balance & Reserves Policy Adoption

The City's policy shall be adopted by ordinance of the City Council. Any modifications to the policy must also be approved by the City Council.

5. Prior Reserve Policy Replacement

This policy supersedes and replaces the policies outlined in City resolutions 1982-11 *Establishment of Reserve Funds for Certain of the Enterprise Funds of the City* and 2010-11 *Rate Stabilization Account*

Bountiful City Equity Balance & Reserves Policy Addendum

1. Statement of Policy Purpose

Governmental entities have a unique responsibility to minimize potential disruptions to the essential services they provide, and as such, it is important to put in place policies designed to aid that continuity of services. Local governments can experience much volatility in their financial stability due to the economy, natural disasters, unfunded legislative mandates, etc.. Sound financial management includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. Such contingencies include, but are not limited to: operating cash flow requirements, economic uncertainties including downturns in the economy, local emergencies and natural disasters, loss of major revenue sources, unanticipated operating or capital expenditures, uninsured losses, future capital projects, and capital asset and infrastructure repair and replacement.

Reserve funds are a portion of the City's equity position (e.g. fund balance or net position) that is set aside for future projects, operations, or as a hedge against risk. The Government Finance Officers Association (GFOA) states that reserves: "serve as a bottom line measure to help determine the extent to which structural balance goals are being achieved... If reserves are maintained at their desired levels, it is an indication that the organization is maintaining a structurally balanced budget. If reserves are declining, it may indicate an imbalance in the budget (e.g., if reserves are being used to fund on-going expenditures)." *GFOA Best Practice: Achieving a Structurally Balanced Budget*

Equity balance reserves (e.g. operating reserves, rainy-day/contingency funds, or repair & replacement funds) are a prudent fiscal policy and an important factor in the analysis of fiscal and management responsibility. The establishment of prudent financial reserve policies is important to ensure the long-term financial health of Bountiful City (the City) and the continuity of its operations.

The City's policy priorities (reaffirmed by the City Council and Mayor in February 2020) states that two of the top priorities (i.e. Tier 1) of the City is to operate on a "pay-as-you-go" basis and maintain "balanced revenue sources". This equity balance and reserves policy will aid in providing key financial indicators and remediation plans that can keep the City's operations following these high-level financial objectives and policies.

2. Statement of Target Reserve Rationale

i. General Fund

The City's General Fund is the chief operating fund of the City and provides essential services such as: executive, legislative, and administrative roles; street maintenance and snowplowing; public safety; etc.. As this fund is of such a critical nature to the overall operations of the City and potential interfund dependence on its operations, the reserve policy must be more demanding than other funds of the City.

The GFOA recommends that governments maintain a minimum unrestricted equity balance (i.e. CAFR categories of "assigned", "committed", and "unassigned" fund balance) in the General Fund of "no less than two months of regular general fund operating revenues or regular general fund operating expenditures". *GFOA Best Practice: Fund Balance Guidelines for the General Fund.*

Additionally, Utah State code requires a General Fund minimum fund balance of 5% and a maximum fund balance of 25% of total General Fund revenues for the current fiscal period (U.C. 10-6-116(2) & (4))

ii. **Capital Projects Fund**

The Capital Projects fund is an extension of the General Fund operations as it funds the major infrastructure and equipment needs of all the General Fund departments. This fund's revenue is almost exclusively derived from sales tax revenues, which is subject to significant year-to-year fluctuations depending upon the economy and potential legislation. Additionally, this fund is critical in achieving the City's "pay-as-you-go" financial priority.

Due to the critical nature to the overall operations of the City and potential interfund dependence on its operations, the reserve policy for the Capital Projects Fund must be more robust than other funds of the City.

iii. **Enterprise Funds**

The City's enterprise funds (e.g. Power, Water, Landfill, Golf, etc.) are used to account for the City's operations that are financed and operated in a manner similar to private businesses. The goal of each enterprise fund is to cover all operating and capital expenses with customer/user fees. Occasionally, this financial self-reliance goal cannot always be achieved due to economic and market factors; however, working towards these targeted reserves should be a part of the annual budgeted process.

3. **Target Reserve Calculation Examples**

In an effort to illustrate the intent behind the reserve policies outlined, the following calculated examples are provided:

i. **General Fund**

For Fiscal Year 2019 (FY2019) the 23 to 25% range of reserve would have been from \$3,642,000 to \$3,958,000. For FY2019 the 5% minimum would have been \$791,642.

ii. **Capital Projects Fund**

For FY2019 the reserve would have been \$20,652,298

iii. **Enterprise Fund**

For FY2019 the Water Fund reserve would have been \$4,004,950 for fiscal year 2019. The six-month operating portion would be \$1,922,950.

4. **Policy Definitions & Implementation Clarifications**

- i. For the General and Capital Projects Funds, "unrestricted fund balance" includes the CAFR categories of "committed", "assigned", and "unassigned" fund balance.
- ii. The General Fund and Capital projects fund reserves would show up in the Comprehensive Annual Financial Report (CAFR) as "committed" fund balance. This is in compliance with GASB statement 54.
- iii. The General Fund "Total Revenues" are already calculated in the annual CAFR and would exclude "Other Financing Sources" such as the Light & Power transfer, sale of capital assets, etc.
- iv. The Capital Project's reserve policy refers to the "average fiscal years of Capital Projects Fund total expenditures". This will be calculated using a rolling average of total actual expenditures of the current and past nine fiscal years (i.e. ten-year average).

- v. The Enterprise Funds reserve policy refers to the “Unrestricted Net Position”. This is a segment of each fund’s equity balance (i.e. net position) and is the “Unrestricted Net Position” balance as calculated in the annual CAFR.
- vi. The Enterprise Funds reserve policy refers to the “average fiscal year capital expense”. This will be calculated using a rolling average of actual capital expenses of the current and past nine fiscal years (i.e. ten-year average).
- vii. When calculating any of the reserve amounts and presenting them in the CAFR, the reserves will be rounded to the nearest thousandth.