

North Canton City Council
Finance and Property Committee

Ordinance No. 25 - 2019

An ordinance authorizing the City of North Canton to adopt a General Fund balance policy.

WHEREAS, the General Fund balance is intended to provide the City with sufficient liquidity to support one-time emergency costs and non-recurring shortfall; not to fund recurring operating expenses; and

WHEREAS, establishing a minimum General Fund balance policy is a tool the City may utilize to help insure adequate fund levels are maintained to mitigate current and future risks; and

WHEREAS, credit rating agencies monitor and consider general fund balances and local policies as part of their rating methodology to determine creditworthiness; and

WHEREAS, credit rating agencies favor adopted policies as opposed to standard operating practices; and

WHEREAS, financial decisions that impact the City's credit rating should be taken into consideration as higher credit ratings result in lower costs of borrowing, thus saving the taxpayers money; and

WHEREAS, a General Fund balance policy provides Council, the Director of Finance, and the Administration with guidelines for establishing, maintaining, and reviewing the City's General Fund balance; and

WHEREAS, a General Fund balance policy will provide Council, the Director of Finance, and the Administration with indicators of financial stress so that they may proactively react and set guidelines and policies for sound financial management measures; and

WHEREAS, given all the benefits stated above, the City wishes to adopt and enact a General Fund balance policy as described in the document attached hereto and incorporated as if fully rewritten herein.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF NORTH CANTON, COUNTY OF STARK, AND STATE OF OHIO:

Section 1. That given all the benefits stated above, the City wishes to adopt and enact a General Fund balance policy as described in the document attached hereto and incorporated as if fully rewritten herein.

- Section 2. That the General Fund balance policy attached hereto, be, and the same is hereby adopted.
- Section 3. That if a provision of this ordinance is or becomes illegal, invalid, or unenforceable, that shall not affect the validity or enforceability of any other provision of this ordinance.

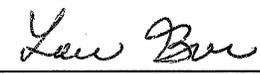
Passed in Council this 22 day of April, 2019



David Held, Mayor

Signed: 4/22, 2019

ATTEST:



Laura Brown, Director of Finance

CITY OF NORTH CANTON, OHIO FUND BALANCE POLICY

Purpose

The purpose of this Fund Balance Policy is to provide guidelines to City Council, the Director of Finance, and the Administration for establishing, maintaining, and reviewing the Fund Balance of the General Fund. It is designed to take a proactive approach to financial management in the City and allows City Council, the Director of Finance, and the Administration to recognize and react to warning indicators of financial stress and set guidelines for proactive measures.

Background

Establishing a minimum General Fund balance is a mechanism that governments can implement to help insure adequate levels of fund balance are available to help mitigate current and future risks. A minimum fund balance policy is generally considered a prudent and conservative fiscal policy to deal with unforeseen situations. In addition to the benefits of having a formal policy that provides a level of reserve that mitigates current and future risks, credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government's General Fund to evaluate a government's continued creditworthiness.

The Government Finance Officers Association (GFOA) is an organization whose mission is to enhance and promote the professional management of governmental financial resources for the public benefit. The GFOA recommends governments establish a formal policy that maintains a minimum unreserved fund balance in the General Fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances. For the City of North Canton, operating expenditures are the more predictable and conservative choice.

Requirements

At the time of the annual budget preparation, the Director of Finance shall forecast an estimated year-end balance for each of the City's funds. Revenue estimates shall be based upon three years of historical data, data from the current year, and any known factors that will impact future revenue levels. Expenditure estimates shall be the draft appropriations submitted to City Council for their approval. These estimated year-end fund balances shall be used to analyze if the fund balance requirements listed below are anticipated to be met.

General Fund Requirement

The annual appropriations shall be drafted to ensure that the estimated year-end General Fund balance is no less than 25% of the General Fund appropriations. Throughout any fiscal year, the General Fund balance may be used to fund the cost of capital improvements in which the ultimate funding source will be a grant or the issuance of notes or long-term bonds. In this instance, the General Fund balance may temporarily fall below the minimum funding level in anticipation of a future financing. If the funds are to be reimbursed

through notes or bonds, the Director of Finance will work with appropriate legal and financial advisors to assure that the funds that are to be expended are eligible to be reimbursed through such financings prior to any expenditures.

Debt Service Requirement

The annual appropriations shall be drafted to ensure that the estimated year-end fund balance of any fund with an outstanding debt service obligation (bonds, notes, loans, or leases) is no less than the anticipated debt service payments (principal and interest) for the subsequent fiscal year. If new debt obligations are being considered for issuance, this requirement shall be applied as a pre-requisite for issuing the debt.

Application

The anticipated year-end General Fund balance will be calculated as part of the annual budget preparation process and will be reported to City Council by the Director of Finance in conjunction with the presentation of draft appropriations. The estimated fund balance must comply with the minimum fund balance established in this Policy.

Throughout the course of the fiscal year, any amendments to appropriations approved by City Council must comply with the restrictions established in this Policy, unless such amendment is for an approved purpose as noted in this Policy and approved by the majority of City Council.

Each month, the Director of Finance shall monitor the projected General Fund balance as part of the month-end financial procedures. If the General Fund balance is estimated to fall below the minimum 25% level at the end of the current fiscal year, the shortfall shall be reported to City Council on the monthly financial reports.

Conditions for Use

The General Fund balance is intended to provide the City with sufficient liquidity to support onetime emergency costs and other non-recurring operating shortfalls such as:

- Natural disaster or other emergency
- Economic recession/depression
- Unexpected decline in revenue
- Unexpected large one-time capital expenditures

The General Fund balance shall not be used to fund recurring operating expenses. An exception may be made for winding down a program or service which must be eliminated in order to provide sufficient notice and reduce the impact to the community. This action shall have a definite end date of not more than one fiscal year.

A majority vote of the City Council will be required to use the General Fund balance in a manner that would reduce the balance below the 25% minimum requirement.

Replenishment

In the event that the use of the General Fund balance would result in a balance below the 25% target (other than when paying the costs of capital improvements in which the ultimate funding source will be grants or the issuance of notes of long term bonds as noted above), City Council shall approve a plan for replenishment at the same time the use of the balance is approved. If feasible, replenishment to bring the General Fund balance back to the minimum 25% level should occur within the following two fiscal years.