

CITY OF CHARLOTTE, COUNTY OF EATON, STATE OF MICHIGAN

RESOLUTION NO. 2021-084

A RESOLUTION TO APPROVE COUNCIL POLICY 2021-06

GENERAL FUND BALANCE POLICY

WHEREAS, City Council has expressed a desire to establish a formal Fund Balance and Reserve Policy for the General Fund that promotes responsible financial management by adhering to best budget practices and Generally Accepted Accounting Principles (GAAP); and

WHEREAS, by maintaining sufficient fund balances and reserves, the city will be well positioned to provide financial security and continued delivery of services, withstand economic downturns and other financial stressors such as a natural disaster or emergency, promote stable tax rates and fees, protect the city's credit worthiness and bond rating, respond to opportunities, and consider long-term financial needs; and

WHEREAS, the policy will establish a target threshold for the unassigned General Fund balance, provide requirements to replenish the depleted reserves, and guidelines by which surpluses may be spent;

THEREFORE, BE IT RESOLVED that Council Policy 2021-06 regarding the general fund balance is hereby approved.

The foregoing resolution offered by _____ and supported by _____.

Upon roll call vote, the following voted:

Aye:

Nay:

Absent:

I, the undersigned, the duly qualified and acting Clerk of the City of Charlotte, County of Eaton, State of Michigan, do hereby certify that the foregoing is a true and complete copy of a resolution adopted by the City of Charlotte at a regularly scheduled meeting held on Monday, May 17, 2021, relevant to the Michigan Open Meetings Act, the original of which is on file in my office as part of council minutes.

IN WITNESS WHEREOF, I have hereunto set my official signature this 17th day of May 2021.

Pearl Tidwell, City Clerk / Treasurer
City of Charlotte

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1. PURPOSE

The purpose of this policy is to establish a formal Fund Balance and Reserve Policy for the General Fund that promotes responsible financial management by adhering to best budget practices and Generally Accepted Accounting Principles (GAAP). By maintaining sufficient fund balances and reserves, the city will be well positioned to provide financial security and continued delivery of services, withstand economic downturns and other financial stressors such as a natural disaster or emergency, promote stable tax rates and fees, protect the city’s credit worthiness and bond rating, respond to opportunities, and consider long-term financial needs.

2. AUTHORITY

This policy is adopted pursuant to Section 4.7(I) of the Charter of the City of Charlotte.

3. CITY FUNDS BY TYPE

3.1 Governmental Funds: includes General Fund, Major and Local Street Funds, Airport Fund, DDA Fund, and other governmental funds.

3.2 Enterprise Funds: includes Water and Sewer Fund and Recycling Fund

3.3 Internal Service Funds: includes Motor Vehicle Pool and Information Technology Funds.

4. GENERAL FUND POLICY

4.1 Governmental Accounting Standards Board Statement No 54. GASB 54 defines five classifications of fund balance which are summarized in the table below:

**Governmental Accounting Standards Board
Statement No. 54 Fund Balance Classifications**

	Classification	Definition	Degree of Spendability
Restricted Fund Balance	Nonspendable	Resources that are not in a spendable form (inventories, prepaid items, or items required to be maintained intact).	Nonspendable
	Restricted	Resources constrained to specific purposes by external providers (creditors, grantors, contributors, and other levels of government) through laws and regulations.	Spendable
Unrestricted Fund Balance	Committed	Resources constrained by limitations the City imposes upon itself at its highest level of decision-making authority (City Council); limitations remain binding unless removed in the same manner.	Spendable
	Assigned	Resources a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates authority.	Spendable
	Unassigned	Resources available for any purpose; these resources are reported only in the General Fund.	Spendable

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4.2 Fund Balance Guidelines for the General Fund. The Government Finance Officers Association (GFOC) has nearly 200 Best Practices regarding various areas of public finance. One of which is to maintain a policy regarding the level of unrestricted fund balance in the general fund for Generally Accepted Accounting Principles (GAAP) and budgetary purposes. GFOA recommends a minimum of two months regular general fund operating revenues or expenditures.

4.3. Accessing Fund Balance Below Minimum. Accessing fund balances and reserves below the minimum targets should be done in conjunction with other budget balancing alternatives and requires Council approval.

4.4 Replenishing Balances and Reserves. When funds are accessed the reduces the balance below the target threshold, a replenishment plan of one to three years, or as soon as fiscally feasible should be adopted.

4.5 Minimum Fund Balance Calculation. As part of the annual budgeting process, the city will calculate the minimum fund balance targets and reserves requirements based on two months regular operating expenditures.

4.6 Expending Surplus Fund Balance and Reserves. Any surplus fund balance or reserves may be spent on one-time uses only, such as equipment purchases or one-time programming, and should not be considered a source of funding for ongoing operations or maintenance. Any expenditure of surplus balance or reserves requires Council approval.

4.7 Fully Funded Status. This policy should be fully enacted with target fund balance reserves achieved over a period of three to five years, or sooner if fiscally feasible.

5. POLICY REPLACED

None.

6. EFFECTIVE DATE

This policy shall be effective immediately following its approval.



Memo

Date: May 14, 2021
To: Honorable Mayor Armitage; City Council
From: Erin LaPere, City Manager
Re: Council Policy 2010-06

In 2020, Council contracted with a consultant to conduct an operational and fiscal analysis for the city. One of the recommendations was for the city to adopt a formal fund balance policy. A comprehensive policy for all the city's funds is in progress; in the interim I have drafted a policy for the General Fund as I felt that was pressing given the immediate concern of the depleted fund reserves and current budget discussion.

This policy will help guide administration in finalizing the upcoming fiscal year budget and provide long term funding goals. We can use this policy to draft a broader policy that will incorporate the additional city funds in the near future.

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