

City of Beaverton Fund Balance/Contingency Policy

Overview

This policy is designed to provide guidance for maintaining Fund Balance/Contingency levels that are adequate to manage each Fund's operating risks.

The budgetary ending Fund Balance/Contingency describes the net financial assets of the City's various Funds. In lay terms, it represents the net revenues in excess of expenditures since the Fund's inception. Budgetary Fund Balance/Contingency accounts shall be reported in the annual budget, and shall be projected for each Fund as part of the financial planning process in preparing each year's budget.

The Fund Balances at year end as reported in the City's Comprehensive Annual Financial Report (CAFR which is issued as of June 30th of each fiscal year) are different than Budgetary Fund Balance/Contingency amounts. CAFR Fund Balances are based on Generally Accepted Accounting Principles (GAAP) and may reflect revenue and expenditure accruals or deferrals that are not accounted for on a budgetary basis. The following is an example of the differences between Budgetary and GAAP Fund Balance/Contingency for the City's General Fund Operations for Fiscal Year 2016-17:

On the Budgetary Basis, the Ending Fund Balance/Contingency at year end was \$14,540,400; however, on the GAAP Basis as reported in the CAFR, the Ending Fund Balance was \$19,754,821 or \$5,214,421 higher than on the Budgetary Basis. The variance is due to the following:

The General Fund's Portion of Funding the PERS Reserve (This expense was not a recognized expense on the GAAP basis, but it was recorded as an expense on the Budgetary basis.)	\$2,155,650
Funding Accumulated PTO Vacation and Comp Time (This expense was not a recognized expense on the GAAP basis, but it was recorded as an expense on the Budgetary basis.)	\$2,811,101
Federal Equitable Sharing of Seized Property Forfeitures (This revenue was recognized revenue on the GAAP basis, but it was not recorded as revenue on the Budgetary basis.)	\$151,384
Collection Agency Recording of Court Fine Revenues (This revenue is a recognized revenue on the GAAP basis, but it was not recorded as revenue on the Budgetary basis.)	\$96,286

Budgetary Fund Balance/Contingency is a critical component of the City's financial management policies. Large ending Budgetary Fund Balance/Contingency targets may be enacted to provide future resources for planned one-time future large capital expenditures; whereas small ending Budgetary Fund Balance/Contingency may leave the City unreasonably exposed to risk from emergencies or temporary economic downturns.

Purposes

Budgetary Fund Balance/Contingency is used to provide stable resources for times when service levels might otherwise be adversely affected by taxes, fees that temporarily underperform, or to cover one-time unexpected expenditures. This policy is intended to:

1. Mitigate short-term (two years or less) volatility in revenues.
2. Mitigate short-term economic downturns.

3. Absorb unanticipated operating needs that arise during the fiscal year but were not anticipated during the budget process.
4. Sustain City services in the event of an emergency.
5. Meet operating cash flow requirements before the collection of property taxes; licenses and permits; fees; county, state, and federal funding sources; and other operating revenues
6. Absorb minor claim or litigation settlements
7. Meet unanticipated facility and equipment repair needs.
8. Maintain the City's credit ratings and bond ratings.

Budgetary Fund Balance/Contingency Target Levels

The City will establish target levels for Budgetary Fund Balance/Contingency Accounts in the various Funds using either a percentage of the Fund's operating costs and/or a specific dollar amount. Further, the City will set these targets under two separate measurement periods;

1. A target during the budget process when the proposed budget is presented to the Budget Committee for deliberation and subsequent adoption by the City Council.
2. A target at the end of the fiscal year.

The purpose of the two Budgetary Fund Balance/Contingency targets is that under the budget process leading to budget adoption, the projected ending Budgetary Fund Balance/Contingency is usually understated when compared to the actual results at the fiscal year end due to two major factors;

1. The budgeted revenue stream is usually conservatively estimated. As an example for the City's General Fund over the past 17 years (FY 2001-02 to FY 2017-18), on average the actual revenues exceeded the adopted budget's revenues by 3.91 percent.
2. The budgeted ending Fund Balance/Contingency assumes that 100 percent of the budgeted appropriations are spent during the year, however this rarely occurs. As an example for the City's General Fund over the past 17 years (FY 2001-02 to FY 2017-18) on average only 95.04 percent of adopted budget's appropriations was expended leaving approximately 4.96 percent unspent.

The following tables and narratives establishes the various Budgetary Fund Balance/Contingency levels by the type of Fund and under the two measurement periods; the Proposed Budget as Presented to the Budget Committee and at Fiscal Year End:

Major Governmental Operating Funds

Fund Name	Budgetary Fund Balance/Contingency			
	Proposed Budget as Presented to Budget Committee		At Fiscal Year End	
	Target Percentage or Amount		No. of Operating Months	Target Percentage or Amount
General Fund	11%		2	17%
Street Fund	11%		2	17%
Building Fund	42%		5	42%
Lodging Tax Fund	42%		5	42%
Street Lighting Fund	11%		2	17%
Traffic Development Tax Fund	N/A		N/A	N/A
Library Fund	11%		2	17%

For the General, Street, Street Lighting and Library Funds, the Budgetary Fund Balance/Contingency is targeted at 11 percent for the Proposed Budget as Presented to the Budget Committee and at least 17 percent at the Fiscal Year End which is equivalent to two months of operating expenditures and is consistent with the Government Finance Officers Association (GFOA) best practices.

For the Building Fund, the City will target a Budgetary Fund Balance/Contingency of 42 percent (five months of operations) for both the Proposed Budget as Presented to the Budget Committee and at the Fiscal Year End. This higher contingency target is due to the continuing inspections that are obligated after the receipt of building permit revenues. For the typical single family residence, the inspection period is approximately six months. Therefore if there was a major economic downturn, the 42 percent in contingency would permit the Building Fund to continue the required inspections for which the permit revenues had previously been received.

For the Lodging Tax Fund, the City will target an ending Budgetary Fund Balance/Contingency of 42 percent or approximately five months of operations. This level is needed in order to build the contingency to meet the future operating needs of the Patricia Reser Center for the Arts building and the Debt Service anticipated to be issued for the Center's construction.

Enterprise Utility Funds

Fund Name	Fund Balance/Contingency			
	Proposed Budget as Presented to Budget Committee		At Fiscal Year End	
	Target Percentage or Amount		No. of Operating Months	Target Percentage or Amount
Water Fund Operations	42%		8	67%
Water Fund Rate Stabilization	\$600,000		N/A	\$600,000
Water Fund JWC Capital Reserve	\$500,000		N/A	\$500,000
Water Construction Fund	\$750,000		N/A	\$750,000
Sewer Fund Operations	42%		8	67%
Sewer Fund Surcharge	\$1,000,000			\$1,000,000
Sewer Fund SDC	\$750,000		N/A	\$750,000
Storm Drain Fund Operations	42%		8	67%
Storm Drain Fund Surcharge	\$1,000,000		N/A	\$1,000,000
Storm Drain Fund SDC Quality	\$100,000		N/A	\$100,000
Storm Drain Fund SDC Quantity	\$100,000		N/A	\$100,000
Storm Drain Fund SDC Conveyance	\$500,000		N/A	\$500,000

The Enterprise Funds' target level for its general operations will be at least 75% percent of the annual operating expenditures. The 60 percent requirement threshold will provide contingency resources for unexpected infrastructure capital outlay, operational needs that may occur during the year and for emergency events.

In addition to the operating Fund Balance/Contingency, the various Enterprise Funds have other obligations or contingency needs for infrastructure expansion which is funded by Systems Development

Charges. These target level amounts represent the average annual expenditure in each capital outlay category for each of the Enterprise Funds over the last four years.

Internal Service Funds

Fund Name	Fund Balance/Contingency			
	Proposed Budget as Presented to Budget Committee	At Fiscal Year End		
	Target Percentage or Amount	No. of Operating Months	Target Percentage or Amount	
Reprographics Fund	4%	1	8%	
Garage Fund	4%	1	8%	
Information Systems Fund	4%	1	8%	
Public Works Administration	4%	1	8%	

The City’s Internal Service Funds, being funded by transfers from various operating funds, do not need the same level of Budgetary Fund Balance/Contingency levels as the City’s Major Governmental and Enterprise Funds. Upcoming large planned expenditure funding would be included in the next annual budget cycle and therefore funded by the transfers from other operating funds at the time. If a major appropriation is needed during the fiscal year, the appropriation would be funded by transfers from the operating funds that uses the Internal Service Fund’s services.

Insurance Agency Fund

Program Name	Fund Balance/Contingency			
	Budget as Presented to Budget Committee	At Fiscal Year End		
	Target Percentage or Amount	No. of Operating Months	Target Percentage or Amount	
General Liability Operating Program	8%	1	8%	
General Liability Reserve	\$1,500,000	N/A	\$1,500,000	
Workers Compensation Operating Program	\$150,000	N/A	\$150,000	
Workers Compensation Reserve	\$500,000	N/A	\$500,000	
Unemployment Operating Program	\$20,000	1	\$20,000	
Unemployment Reserve	\$100,000	N/A	\$100,000	
Medical & Dental Operating Program	\$300,000	1	\$300,000	
Medical & Dental Reserve	\$350,000	N/A	\$350,000	

The Insurance Agency Fund’s targeted operating Budgetary Fund Balance/Contingency levels for each of the four programs should provide adequate funding for moderate unanticipated claims that may occur during the year over the amounts budgeted.

The General Liability Program is funded by transfers from the City’s Operating Funds based on each Fund’s risk exposure. However, in the event of a large unexpected claim requiring additional funding that would significantly reduce the operating contingency level, the General Liability Program would rely

on those Fund(s) responsible for incurring the claim to provide the additional funding. The General Liability Reserve, currently set at \$1.5 Million is available to assist with major catastrophic incidents.

The Workers Compensation Program is funded by rates charged through the City's Payroll System and the City is self-insured with excess insurance coverage for a single claim that exceeds \$650,000. Over the past 25 years, the claims paid average has been \$215,000 per year with the lowest claim year being FY 2014 at \$117,000 and the highest claim year being FY 2005 at \$520,000. The \$150,000 operating Budgetary Fund Balance/Contingency levels is sufficient to absorb higher than normal claims that may occur during any one fiscal year. However, in the event of a large unexpected claim requiring additional funding that would significantly reduce the operating contingency level, the Workers Compensation Program would rely on the Fund(s) responsible for incurring the claim to provide the additional funding. The \$500,000 Reserve would be sufficient to cover the City's exposure for the single large event up to the excess insurance coverage limits. If the \$500,000 Reserve was expended, the City would enact transfers from the operating funds to re-build the Reserve Account.

The Unemployment Program is funded by rates charged through the City's Payroll System and the City is self-insured. Over the past 25 years, the claims paid average has been \$53,000 per year with the lowest claim year being FY 1995 at \$16,500 and the highest claim year being FY 2011 at \$138,000. The \$40,000 operating Budgetary Fund Balance/Contingency level is sufficient to absorb higher than normal claims that may occur during the year, and the \$100,000 reserve would assist with any significant event that might occur. However, in the event of multiple unexpected claims requiring additional funding that would significantly reduce the operating contingency level, the Unemployment Program would rely on the Fund(s) responsible for incurring the claim to provide specific funding.

The Medical and Dental Program is funded by rates charged through the City's Payroll System. The Medical Program Insurance is premium based while the City's dental program is self-insured. Over the past 25 years, the claims paid average has been \$590,000 per year with the lowest claim year being FY 1994 at \$325,000 and the highest claim year being FY 2015 at \$901,000. For the future, a more realistic average would be the last six years which is \$870,000. The \$300,000 Operating and the \$350,000 Reserve Budgetary Fund Balance/Contingency levels are sufficient to accommodate higher than normal dental claims that may occur during the year, and also provide flexibility to assist with future medical premium increases.

Debt Service Funds

The reserves for the City's various Debt Service Funds are not governed by this policy as they are instead governed by federal regulations regarding tax-exempt debt or covenants established for each bond issue at the time of bond sale.

Budgetary Fund Balance/Contingency Below Target

While maintaining the Budgetary Fund Balance/Contingency targets as described above, there may be circumstances which warrant the use of these funds on a temporary basis. The City may reduce its Budgetary Fund Balance/Contingency levels under the following circumstances:

1. An economic downturn in which revenues have declined.
2. Unexpected and unappropriated costs associated with maintaining essential City services and operations.
3. Unexpected and non-budgeted emergencies, natural disasters, and/or litigation.
4. Grant matching.
5. Early retirement of debt.
6. Funding deficits in another fund due to a shortfall in budgeted revenues through Inter-Fund Loans authorized by the City Council.

7. Capital asset acquisition, construction, and improvement projects.
8. Program expansion as part of the budgetary process or as approved mid-year by City Council.

It is the intent of the City to adjust revenue sources and/or reduce expenditures in an effort to re-establish Budgetary Fund Balance/Contingency targets within two years of any downturn.

Budgetary Fund Balance/Contingency Levels Above Target

In the event a particular Budgetary Fund Balance/Contingency is substantially higher than the relevant target, the difference may be used to fund the following activities:

1. One-time capital expenditures which do not significantly increase ongoing City operating costs (or have been incorporated into long-term financial plans and are otherwise financially sustainable).
2. Other one-time costs.
3. Grant matching.
4. Ongoing or new City programs or initiatives, provided such action is temporary in nature and is considered in the context of multi-year revenue and expenditure projections.
5. To address major financial risks, as determined by the City.

Implementation and Review of Policy

This policy shall guide the City's budgeting process to ensure that the City maintains adequate Budgetary Fund Balance/Contingency levels. The annual Proposed Budget Document shall include an analysis of Budgetary Fund Balance/Contingency levels. The City's Finance Director (or his or her designee) will review this policy at least once every three years and present it to the City Council for approval.

This policy was written, in part, using guidelines set forth by Government Finance Officers Associations (GFOA). As such, any updates to GFOA best practices shall be considered by the Finance Director when making recommendations regarding modifications to this policy.

Budgetary Fund Balance/Contingency levels will be reviewed with the Budget Committee during the Committee's annual deliberation of the Proposed Budget and further reviewed at the fall Supplemental Budget deliberations in reviewing the target levels for the Fiscal Year End just concluded.