



City of Olmsted Falls

26100 Bagley Road, Olmsted Falls, Ohio 44138

Phone: 440-235-5550 Fax: 440-235-8900

www.olmstedfalls.org

BUDGETARY POLICY – GENERAL FUND RESERVE

A. PURPOSE:

To protect the fiscal position of the City of Olmsted Falls from the effects of economic uncertainty, fiscal emergency and budget shortfalls, a formal policy on the City's General Fund reserve balance shall be established. The policy shall set a targeted amount of liquid financial reserves, or unrestricted fund balance, to assist with unanticipated circumstances or events resulting in revenue shortfalls or increased, necessary expenditures. Within the requirements and best practices set forth in the Ohio Revised Code (ORC), the Auditor of State's Office (AOS) and Government Finance Officers Association (GFOA), this policy shall serve to set the amount of unrestricted funds to be held in reserve, the conditions under which those funds can be allocated, guidelines for replenishment of those funds in the event they are used for an allowable circumstance(s), and guidelines for situations in which reserve funds exceed the threshold of this policy.

B. APPLICATION:

The General Fund consists of financial transactions specific to the general operations of the City, including general operational costs, capital funding, debt service payments, contractual relationships, and departmental subsidies. This policy shall serve to establish a fund reserve for the City's General Fund.

C. GOVERNMENT BEST PRACTICES AND COMPLIANCE:

According to the GFOA, governments should maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the General Fund for Generally Accepted Accounting Principles (GAAP) and budgetary purposes. GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their General Fund of no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures.

In addition, ORC Section 5705.13, allows the establishment of a reserve balance account in the General Fund to stabilize subdivision budgets against cyclical changes in revenues and expenditures, also known as a budget stabilization fund. The amount of money to be

reserved in such a fund in any fiscal year shall not exceed five per cent (5%) of the revenue credited in the preceding fiscal year to the fund in which the reserve is established. AOS Bulletin 2011-004 also provides guidelines on budget stabilization funds. Specifically, this bulletin states, in part, "In Ohio, a taxing authority of a subdivision, by resolution or ordinance, may establish reserve balance accounts to accumulate currently available resources to stabilize its budgets against cyclical changes in revenues and expenditures under ORC Section 5705.13."

D. GENERAL FUND RESERVE POLICY:

The City of Olmsted will maintain a reserve fund balance within the General Fund as a sound fiscal management practice. Although the City will strive to maintain a General Fund reserve balance within GFOA best practices, the following parameters shall set the guidelines for establishing the General Fund reserve balance amount:

- a. **Annual Review and Establishment of Reserve:** The amount kept in reserve will be assessed each year as part of the budget process and monitored with the Finance Committee. The General Fund reserve will be assessed against this policy. The General Fund reserve will be presented to City Council as part of the budget presentation. The amount will be based on the currently adopted operational General Fund expenses for the fiscal year.
- b. **Minimum Balance:** The City will keep a minimum fund balance within the General Fund of 16% of currently adopted operational General Fund expenses for the fiscal year.
- c. **Budget Stabilization Fund:** The City may establish, through legislation, a Budget Stabilization Fund, or "rainy day fund", in accordance with ORC Section 5705.13. The fund will be part of the General Fund; therefore, the balance maintained in this fund will be calculated into the minimum reserve balance set forth in this policy. Funding of this reserve will be done in accordance with the ORC and through Council legislation. Uses of this reserve is detailed in Section F of this policy.

E. FUNDING THE RESERVE:

The General Fund reserve balance is calculated to be the unrestricted General Fund balance at the end of each fiscal year. If a Budget Stabilization Fund within the General Fund is established, the City may fund this reserve in accordance with ORC Section 5705.13 (City Council approval and not to exceed 5% of the preceding fiscal year's revenue). The Budget Stabilization Fund, if established, will be included in the minimum calculation of the General Fund reserve balance.

The following shall dictate the methodologies used for addressing shortfalls within the General Fund reserve balance:

- a. If the reserve balance within the General Fund falls below the minimum amount defined by Section D(b), the City Manager and Director of Finance shall provide a report and refunding plan and timeline to the Finance Committee and City Council. Such plan must be authorized by a super majority vote (5/7) of the body of City Council.¹ Specifically, the report must:
 - i. Define the time-period and contingencies for which the unrestricted fund balance dropped below the minimum fund balance;
 - ii. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities contributing to the use of fund balance as a financing bridge; and,
 - iii. Describe the time-period over which the components of fund balance will be replenished and the means by which they will be replenished.

F. USE OF FUND RESERVE BALANCE:

Use of the General Fund's unrestricted reserve balance will be presented within City Council's appropriation measures. City Council shall determine the amount of the preceding year's reserve that will be spent, if necessary, when developing the annual budget.

General Fund Unrestricted Reserve Balance Uses: Uses of the City's General Fund reserve balance, include the following, in no particular order:

- a. Transfer of funds to the Capital Improvement Fund.
- b. Transfer of funds to the Economic Development Fund.
- c. Retire, or pay down, existing debt.
- d. One-time expenses deemed necessary for the continued development of the City.
- e. Funding projects or objectives highlighted by City Council.
- f. Expenses related to unanticipated, extreme, or unforeseen liabilities such as emergencies, natural disasters, and economic downturns.
- g. Providing short-term capital financing in anticipation of future revenues (i.e. receipt of debt-service revenues, reimbursable grants).

Budget Stabilization Fund Uses: If a Budget Stabilization Fund is established, City Council must authorize a transfer out of the fund and the transfer must be used for an authorized purpose. Transfers out of this fund may be used on a restricted basis for the following purposes:

- a. Operating budget shortfalls, which may include replenishing the General Fund's unrestricted reserve balance to prevent a reduction in the level of public services.
- b. To fully or partially support a General Fund deficit.

- c. Other expenses related to unanticipated, extreme, or unforeseen liabilities such as emergencies, natural disasters, and economic downturns.

Request for use of these funds that would result in taking the reserve below the minimum balance established in Section D must be authorized by City Council through a budget appropriation or amendment by a super majority (5/7) vote of the body. Authorization of use of these funds below the minimum balance must be accompanied by a refunding plan and timeline which shall be reviewed and approved by both the Finance Committee and City Council, as described in Section E.

G. POLICY REVIEW:

This policy is meant to provide a plan for the establishment of such General Fund reserve funds and direction for the use of those funds. To effectively manage the intent of the policy, an annual review of the policy shall be undertaken.

*This plan was reviewed and approved by the Finance Committee on **June 1, 2021**; and adopted by City Council on **XX,XX,XXXX**.*

Exhibits Attached

A – AOS Bulletin 2011-004