

Oakland County, Michigan

Fund Balance Policy for the General Fund

As Revised July 22, 2021, via Miscellaneous Resolution #21301 (Including Amendments)

Policy

An appropriate level of fund balance shall be maintained in the General Fund to ensure continued delivery of County services. Fund balance is an important measure of financial stability. It is essential that the County maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditure requirements, or other emergency. The fund balance also provides cash flow liquidity for the County's general operations. Determination of the appropriate targeted level of fund balance shall be based on the principles, guidelines, and process set forth below.

Principles

Consideration and projection of fund balance is a critical component of financial planning. The appropriate level of required fund balance should be determined within the context of long-term forecasting and should avoid the risk of placing too much emphasis upon the level as measured at any one point in time. A long-term fund balance forecast shall be developed in conjunction with the County's multi-year budget and long-term financial plan.

In general, use of fund balance should be limited to one-time expenditures, such as for capital projects or projects of limited duration, that have measurable benefits for county operations and residents. It should be recognized that continued use of fund balance to support ongoing program expenditures is not sustainable in the long term. Thus, the County's guiding principle is to reduce and eliminate the use of fund balance to resolve ongoing structural operating shortfalls. If special conditions exist that necessitate use of fund balance to support ongoing programs (caused by events such as a catastrophic emergency or a prolonged economic downturn), it shall be for a limited duration to provide essential citizen services with a requirement that the County's long-term financial plan shall include a strategy to restore or maintain fund balance in accordance with the guidelines of this policy.

Guidelines

Fund balance assignments for the General Fund shall consist of three major categories:

- Budget Stabilization Reserve
- Other revenue and expenditure risks
- The long-term Strategic Investment Plan

The minimum long-term fund balance level for the Budget Stabilization Reserve – also referred to as the county's "Rainy Day Fund" – shall be no less than 25% of annual ongoing operating expenditures, equal

to three months of county operating expenditures, to protect the continuity of county services during an economic downturn.

The Board of Commissioners and County Executive shall not take budgetary action that lowers the projected fund balance below this level unless county General Fund revenues have fallen by a cumulative amount equal to 5% or greater of annual ongoing operating expenditures compared to the most recent peak level or a formal determination is made that substantial county expenditures are needed due to an immediate emergency.

If the fund balance is less, or projected to be less, than the minimum required amount, a fiscal plan shall be developed by the County Executive and adopted by the Board of Commissioners so that the fund balance will be replenished to the minimum required amount within a period that should not exceed five years.

In addition to the required minimum fund balance level, approximately 5% of annual ongoing operating expenditures shall be assigned for other expenditure risks that may arise such as natural disasters.

If the total level of these two fund balance assignments exceeds the overall target level of 30% of annual ongoing operating expenditures, then consideration shall be given to the one-time strategic investments. However, prior to approval of such investments, the County's operating budget should be forecasted to be structurally balanced on a long-term basis (annual ongoing revenues are sufficient to fund annual ongoing expenditures).

Strategic investments shall consist of capital projects, technology purchases, or other one-time expenditures that have comprehensive project plans and documented long-term return on investment for county operations and residents. Specific investments shall be budgeted and approved by the County Executive and Board of Commissioners prior to the commencement of any project activities. Investments should be planned and approved over a multi-year period to ensure that they are carried out in an effective manner.

Priority should be given to one-time investments in the following areas:

- Improving government services, including addressing county facility and technology needs
- Enhancing public safety preparedness, campus security, and emergency response
- Investing in environmental and energy sustainability
- Improving the health of the community
- Fostering economic and workforce development
- Advancing funding for future outstanding debt service payments of current obligations
- Matching grant funding for priority local infrastructure projects

Any proposed increases in ongoing county expenditures or proposed reductions in ongoing county revenues should be considered and approved or disapproved during the annual budget process so as to achieve and maintain structural balance for the County's budget.

Process

The amount of available fund balance is determined with the official close of the County's accounting records as of September 30 of each year. In accordance with financial reporting requirements of the Government Accounting Standards Board (GASB), fund balance is reported according to the following accounting distinctions.

- 1) **Nonspendable fund balance** — includes amounts that are not in a spendable form or are required to be maintained intact.
- 2) **Restricted fund balance** — includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation.
- 3) **Committed fund balance** — includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- 4) **Assigned fund balance** — comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- 5) **Unassigned fund balance** — is the residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

The requirements of this fund balance policy apply to the unrestricted portion of the General Fund balance (excludes the nonspendable and restricted portions of fund balance).

The Board of Commissioners shall adopt a resolution annually to accept the results of the year-end closing of the accounting records and to approve the assignments of General Fund balance consistent with this policy.

Use of fund balance requires an appropriation by the Board of Commissioners as authorized by the adoption of an enabling resolution.

MISCELLANEOUS RESOLUTION #21301

July 22, 2021

BY: Commissioner Gwen Markham, Chairperson, Finance Committee

IN RE: BOARD OF COMMISSIONERS – REVISED FUND BALANCE POLICY FOR THE GENERAL FUND

To the Oakland County Board of Commissioners

Chairperson, Ladies and Gentlemen:

WHEREAS maintaining an adequate general fund balance mitigates the risk of immediate reductions in critical County services or revenue enhancements being required in the event of an unanticipated decline in County revenues, unanticipated expenditure requirements, or other budget emergency situation; and

WHEREAS the Oakland County Board of Commissioners adopted a fund balance policy for the general fund in 2015 through the approval of Miscellaneous Resolution #15175, codifying the County's longstanding practice of maintaining a general fund balance equal to at least 20 percent of its annual general fund expenditures; and

WHEREAS best practices published by the Government Finance Officers Association (GFOA) recommends for general purpose governments that unrestricted fund balance should be no less than two months of regular general fund operating revenues or regular general fund operating expenditures; and

WHEREAS the bond rating agencies consider a government's fund balance policy, history of use of fund balance, and policy and practice of replenishment of fund balance when assigning their ratings; and

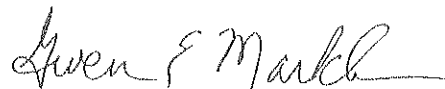
WHEREAS Oakland County's multi-year financial planning and management practices, which include maintaining a general fund balance well in excess of the GFOA recommended level, has resulted in retaining the highest bond rating of AAA since 1998, thereby reducing the cost of borrowing for capital projects, including water and sewer systems maintained on behalf of the County's local units of government; and

WHEREAS one recommended revision, in particular, by the County Executive that strengthens and clarifies the current policy is an increase of the County's minimum general fund balance to 25% of annual ongoing general fund expenditures (equal to three months of expenditures), to be designated as the County's Budget Stabilization Reserve (a.k.a. Rainy Day Fund); and

WHEREAS strengthening the requirements of the fund balance policy is a key component of the continuing commitment by the County Executive and the Board of Commissioners to ensuring Oakland County's long-term financial sustainability.

NOW THEREFORE BE IT RESOLVED that the Oakland County Board of Commissioners adopts the attached Fund Balance Policy for the General Fund.

Chairperson, on behalf of the Finance Committee, I move the adoption of the foregoing resolution.



Gwen Markham, District #9
Chairperson, Finance Committee

FINANCE COMMITTEE VOTE:

Motion carried on a roll call vote with Moss voting no and Cavell and Long absent.

Oakland County, Michigan

Fund Balance Policy for the General Fund

As Revised July 22, 2021

Policy

An appropriate level of fund balance shall be maintained in the General Fund to ensure continued delivery of County services. Fund balance is an important measure of financial stability. It is essential that the County maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditure requirements, or other emergency. The fund balance also provides cash flow liquidity for the County's general operations. Determination of the appropriate targeted level of fund balance shall be based on the principles, guidelines, and process set forth below.

Principles

Consideration and projection of fund balance is a critical component of financial planning. The appropriate level of required fund balance should be determined within the context of long-term forecasting and should avoid the risk of placing too much emphasis upon the level as measured at any one point in time. A long-term fund balance forecast shall be developed in conjunction with the County's multi-year budget and long-term financial plan.

In general, use of fund balance should be limited to one-time expenditures, such as for capital projects or projects of limited duration, that have measurable benefits for county operations and residents. It should be recognized that continued use of fund balance to support ongoing program expenditures is not sustainable in the long term. Thus, the County's guiding principle is to reduce and eliminate the use of fund balance to resolve ongoing structural operating shortfalls. If special conditions exist that necessitate use of fund balance to support ongoing programs (caused by events such as a catastrophic emergency or a prolonged economic downturn), it shall be for a limited duration to provide essential citizen services with a requirement that the County's long-term financial plan shall include a strategy to restore or maintain fund balance in accordance with the guidelines of this policy.

Guidelines

Fund balance assignments for the General Fund shall consist of three major categories:

- Budget Stabilization Reserve
- Other revenue and expenditure risks
- The long-term Strategic Investment Plan

The minimum long-term fund balance level for the Budget Stabilization Reserve – also referred to as the county's "Rainy Day Fund" – should be no less than 25% of annual ongoing operating expenditures,

equal to three months of county operating expenditures, to protect the continuity of county services during an economic downturn.

The Board of Commissioners and County Executive shall not take budgetary action that lowers the projected fund balance below this level unless county General Fund revenues have fallen by a cumulative amount equal to 5% or greater of annual ongoing operating expenditures compared to the most recent peak level or a formal determination is made that substantial county expenditures are needed due to an immediate emergency.

If the fund balance is less, or projected to be less, than the minimum required amount, a fiscal plan shall be developed by the County Executive and adopted by the Board of Commissioners so that the fund balance will be replenished to the minimum required amount within a period that should not exceed five years.

In addition to the required minimum fund balance level, approximately 5% of annual ongoing operating expenditures shall be assigned for other expenditure risks that may arise such as natural disasters.

If the total level of these two fund balance assignments exceeds the overall target level of 30% of annual ongoing operating expenditures, then consideration shall be given to the one-time strategic investments. However, prior to approval of such investments, the County's operating budget should be forecasted to be structurally balanced on a long-term basis (annual ongoing revenues are sufficient to fund annual ongoing expenditures).

Strategic investments shall consist of capital projects, technology purchases, or other one-time expenditures that have comprehensive project plans and documented long-term return on investment for county operations and residents. Specific investments shall be budgeted and approved by the County Executive and Board of Commissioners prior to the commencement of any project activities. Investments should be planned and approved over a multi-year period to ensure that they are carried out in an effective manner.

Priority should be given to one-time investments in the following areas:

- Improving government services, including addressing county facility and technology needs
- Enhancing public safety preparedness, campus security, and emergency response
- Investing in environmental and energy sustainability
- Improving the health of the community
- Fostering economic and workforce development
- Advancing funding for future outstanding debt service payments of current obligations

Any proposed increases in ongoing county expenditures or proposed reductions in ongoing county revenues should be considered and approved or disapproved during the annual budget process so as to achieve and maintain structural balance for the County's budget.

Process

The amount of available fund balance is determined with the official close of the County's accounting records as of September 30 of each year. In accordance with financial reporting requirements of the Government Accounting Standards Board (GASB), fund balance is reported according to the following accounting distinctions.

- 1) **Nonspendable fund balance** — includes amounts that are not in a spendable form or are required to be maintained intact.
- 2) **Restricted fund balance** — includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation.
- 3) **Committed fund balance** — includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- 4) **Assigned fund balance** — comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- 5) **Unassigned fund balance** — is the residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

The requirements of this fund balance policy apply to the unrestricted portion of the General Fund balance (excludes the nonspendable and restricted portions of fund balance).

The Board of Commissioners shall adopt a resolution annually to accept the results of the year-end closing of the accounting records and to approve the assignments of General Fund balance consistent with this policy.

Use of fund balance requires an appropriation by the Board of Commissioners as authorized by the adoption of an enabling resolution.

Moved by Markham seconded by Long the resolution be adopted.

Moved by Moss seconded by Spisz the resolution be amended as follows:

Under the **Principles** heading the following paragraph –

In general, use of fund balance should be limited to one-time expenditures, such as for capital projects or projects of limited duration, that have measurable **documented and objective return on investment** benefits for county operations and residents. It should be recognized that continued use of fund balance to support ongoing program expenditures is not sustainable in the long term. Thus, the County's guiding principle is to reduce and eliminate the use of fund balance to resolve ongoing structural operating shortfalls. If special conditions exist that necessitate use of fund balance to support ongoing programs (caused by events such as a catastrophic emergency or a prolonged economic downturn), it shall be for a limited duration to provide essential citizen services with a requirement that the County's long-term financial plan shall include a strategy to restore or maintain fund balance in accordance with the guidelines of this policy.

Under the **Guidelines** heading the following paragraph –

Strategic investments shall consist of capital projects, technology purchases, or other one-time expenditures that have comprehensive project plans and documented **and objective** long-term return on investment for county operations and residents. Specific investments shall be budgeted and approved by the County Executive and Board of Commissioners prior to the commencement of any project activities. Investments should be planned and approved over a multi-year period to ensure that they are carried out in an effective manner.

Discussion followed.

Vote on amendment:

AYES: Gingell, Hoffman, Joliat, Kochenderfer, Kowall, Kuhn, Long, Moss, Spisz, Weipert. (10)

NAYS: Jackson, Luebs, Markham, McGillivray, Miller, Nelson, Powell, Woodward, Cavell, Charles, Gershenson. (11)

A sufficient majority not having voted in favor, the amendment failed.

Moved by Kowall seconded by Spisz the resolution be amended as follows:

Insert the following language after the NOW THEREFORE BE IT RESOLVED:

BE IT FURTHER RESOLVED that all appropriations from the General Fund - Fund Balance shall require a 2/3 majority vote of members elected and serving of the Board of Commissioners.

Amend the following language in the Fund Balance Policy for the General Fund:

Use of fund balance requires an appropriation by the Board of Commissioners as authorized by **2/3 majority vote by those members elected and serving for** the adoption of an enabling resolution.

Vote on amendment:

AYES: Hoffman, Joliat, Kochenderfer, Kowall, Kuhn, Long, Moss, Spisz, Weipert, Gingell. (10)

NAYS: Jackson, Luebs, Markham, McGillivray, Miller, Nelson, Powell, Woodward, Cavell, Charles, Gershenson. (11)

A sufficient majority not having voted in favor, the amendment failed.

Moved by Markham seconded by Charles the resolution be amended as follows:

In the attached Fund Balance Policy, add the following on Strike out and insert the following language on Page 2:

Priority should be given to one-time investments in the following areas:

- Improving government services, including addressing county facility and technology needs
- Enhancing public safety preparedness, campus security, and emergency response

- Investing in environmental and energy sustainability
- Improving the health of the community
- Fostering economic and workforce development
- Advancing funding for future outstanding debt service payments of current obligations
- **Matching grant funding for priority local infrastructure projects**

Discussion followed.

Vote on amendment:

AYES: Jackson, Joliat, Kochenderfer, Kowall, Kuhn, Long, Luebs, Markham, McGillivray, Miller, Moss, Nelson, Powell, Spisz, Weipert, Woodward, Cavell, Charles, Gershenson, Gingell, Hoffman. (21)

NAYS: None. (0)

A sufficient majority having voted in favor, the amendment carried.

Moved by Spisz seconded by Gingell the resolution be amended as follows:

Amend the following language in the Fund Balance Policy for the General Fund:

Under the **Guidelines** heading the following paragraph –

The minimum long-term fund balance level for the Budget Stabilization Reserve – also referred to as the county's "Rainy Day Fund" – ~~should~~ **shall** be no less than 25% of annual ongoing operating expenditures, equal to three months of county operating expenditures, to protect the continuity of county services during an economic downturn.

A sufficient majority having voted in favor, the amendment carried.

Vote on resolution, as amended:

AYES: Joliat, Kochenderfer, Kowall, Kuhn, Long, Luebs, Markham, McGillivray, Miller, Moss, Nelson, Powell, Spisz, Weipert, Woodward, Cavell, Charles, Gershenson, Gingell, Hoffman, Jackson. (21)

NAYS: None. (0)

A sufficient majority having voted in favor, the resolution, as amended, was adopted.



I HEREBY APPROVE THIS RESOLUTION
CHIEF DEPUTY COUNTY EXECUTIVE
ACTING PURSUANT TO MCL 45.559A (7)

STATE OF MICHIGAN)
COUNTY OF OAKLAND)

I, Lisa Brown, Clerk of the County of Oakland, do hereby certify that the foregoing resolution is a true and accurate copy of a resolution adopted by the Oakland County Board of Commissioners on July 22, 2021, with the original record thereof now remaining in my office.

In Testimony Whereof, I have hereunto set my hand and affixed the seal of the Circuit Court at Pontiac, Michigan this 22nd day of July, 2021.



Lisa Brown, Oakland County