



GOODHUE COUNTY MINNESOTA

TO EFFECTIVELY PROMOTE THE SAFETY, HEALTH, AND WELL-BEING OF OUR RESIDENTS

COMMITTEE OF THE WHOLE AGENDA
COUNTY BOARD ROOM
GOVERNMENT CENTER
RED WING, MN

MARCH 5, 2019
4:30 P.M.

1. Financial Policy Review

Documents:

[Financial policy review update COW 3.5.pdf](#)



Financial Policy Review Process Update and Discussion

Kelly J. Bolin, Finance Controller
Brian J. Anderson, Finance Director
March 5, 2019

Update

- ▶ General development steps
- ▶ Focus on policies affecting budget
 - ▶ Capital Planning (revisions drafted)
 - ▶ Fund Balance (discussion to follow)
 - ▶ Long-Term Planning (under review)
 - ▶ Budgeting (under review)
- ▶ Other policy draft updates completed
 - ▶ Debt
 - ▶ Investments
 - ▶ Fixed Assets - new

Next Steps

- ▶ Draft revised Fund Balance (Reserve) policy based on today's discussion
- ▶ Begin development of remaining priority policies
- ▶ Present all policy drafts to Management Team and Accountants for review
- ▶ Present to Committee of the Whole (if necessary) for discussion in May/June
- ▶ Develop detailed policy monitoring and review plan
- ▶ Formally present final proposed policy drafts for the following policies in June: Fund Balance, Capital Planning, Fixed Assets, Debt, Investments, Budgeting and Long-Term Planning

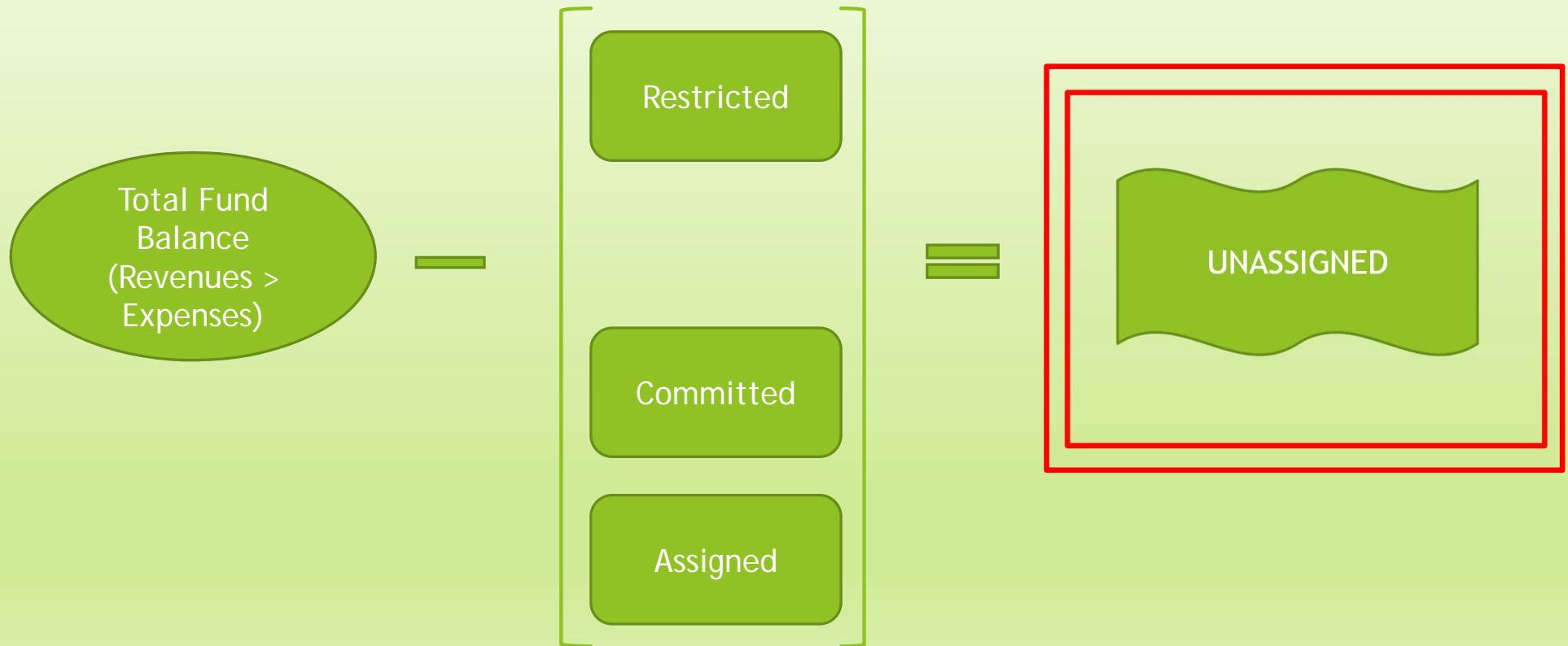
Fund Balance (Reserves)

Key Policy Points

- ▶ What types (and how much of each) reserves should we have?
- ▶ How should reserves be used?
- ▶ How should we fund (and replenish) our reserve balances?
- ▶ What if we have too much sitting in reserves?



Fund Balance Categories - GENERAL FUND



Key Policy Point #1

Types/Levels of Reserves (General Fund)

Current Policy

- ▶ Unassigned balance between 35-45% of subsequent year's budgeted expenditures/transfers
- ▶ Committed funds for emergencies
- ▶ (2005 financial policy: unassigned balance of 42% of subsequent year's expenditures; with 10% of that reserved as contingency)

RECOMMENDATION

- ▶ Operating/Budget Reserve (Unassigned)
 - ▶ 35% of subsequent year's operating expenditures
- ▶ Contingency (Emergency) Reserve
 - ▶ 10% of subsequent year's operating expenditures
- ▶ 27th Payroll Reserve
 - ▶ \$1M (approximately 1 payroll run)
- ▶ Capital Reserve
 - ▶ \$1.9M (average capital budget for 3 year period)

Key Policy Point #1

Looking at 2018 actuals/2019 Budget

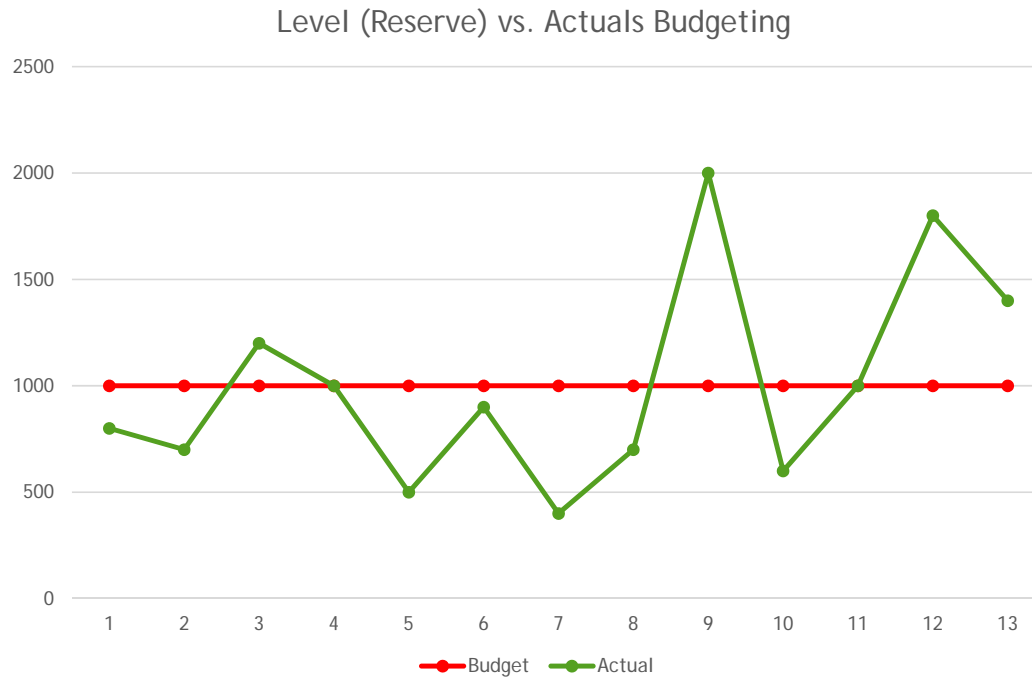
2018 Ending Unassigned Balance (Preliminary): \$12.6M
2019 Budgeted Operating Expenditures: \$29.1M

Reserve	Policy Amount	(Estimated) Actual Amount	Difference
Operating	\$10.2	\$12.6	+ \$2.4
Contingency	\$2.9	\$1.6	- \$1.3
27 th Payroll	\$1.0	\$0.5	- \$0.5 *
Capital	\$1.9	\$0.0	- \$1.9 **

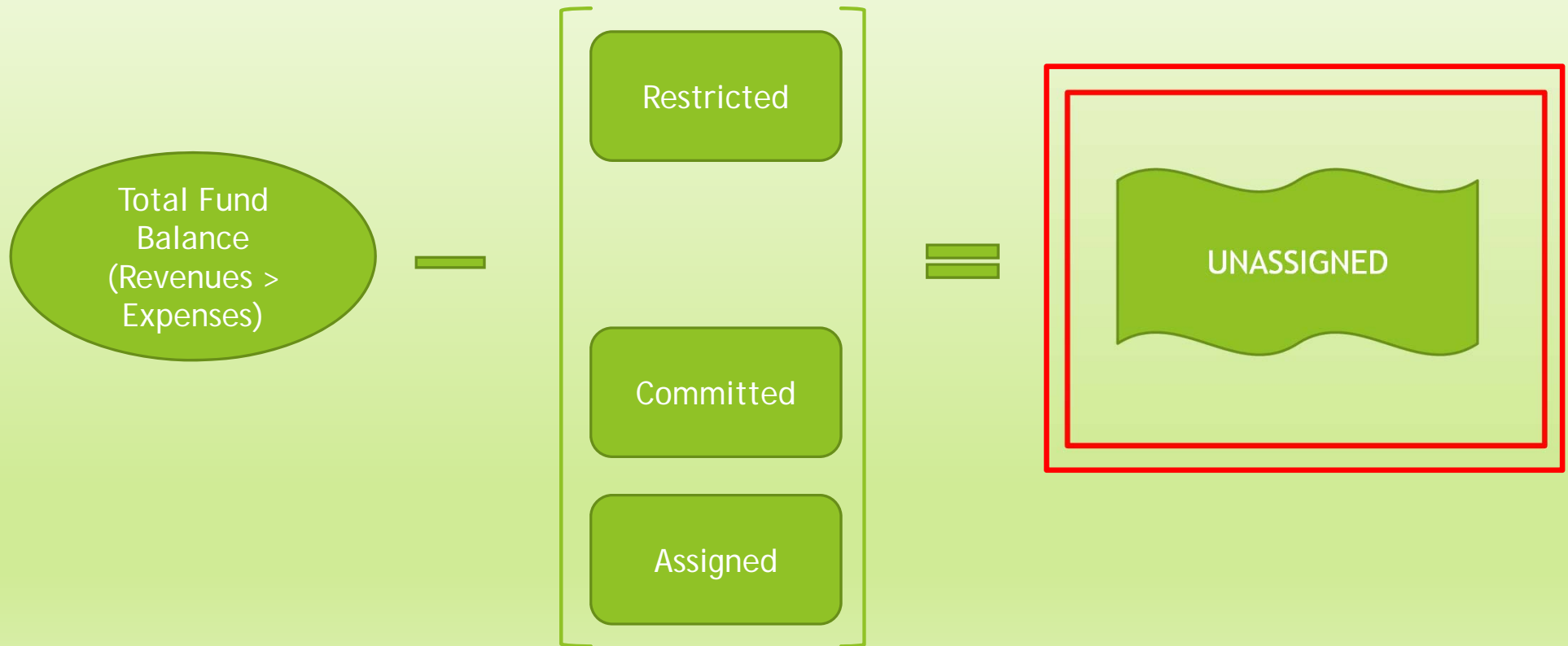
* Levy \$75,000/year

** Included in Levy (would include at this amount each year)

Capital Reserve Budget Effect - Example



Fund Balance Categories - GENERAL FUND



Key Policy Point #2

How are Reserves Used?

Current Policy

- ▶ (For Operating Reserves Only)
- ▶ Provide working capital by ensuring sufficient cash flow, especially before 1st tax settlement
- ▶ Provide assistance with unexpected revenue interruptions
- ▶ To finance unforeseen items that occur

RECOMMENDATION

- ▶ (For Operating Reserves Only)
- ▶ Provide cash flow funds for first part of the year
- ▶ Assist in avoidance of service disruptions from short-term revenue shortfalls or unexpected expenditures
- ▶ Funding for transitional periods during extended economic downturns

Key Policy Point #2

How are Reserves Used?

Current Policy

- ▶ (For Contingency, 2th Payroll and Capital Reserves)
 - ▶ Nothing in current policy

RECOMMENDATION

- ▶ Contingency/Emergency
 - ▶ Rare & Catastrophic events
- ▶ 27th Payroll
 - ▶ Funding of extra pay period payroll expense (normal=26 periods)
- ▶ Capital
 - ▶ Purchase of items in capital plan
 - ▶ Unexpected capital items not included in capital plan (that do not meet the Emergency reserve use criteria)

Key Policy Point #3

How are Reserves Funded/Replenished?

Current Policy

- ▶ Funding of Reserves
 - ▶ No details in policy
- ▶ Replenishment
 - ▶ Reduce recurring expenditures and/or pursue increased revenues
 - ▶ Tiered timeline based on amount used
 - ▶ 30-35%: 1 year
 - ▶ 25-30%: 3 years
 - ▶ < 25%: 5 years

RECOMMENDATION

- ▶ Strategies
 - ▶ Reduce recurring expenditures/seek additional revenue sources
 - ▶ See also Key Point #4 - "Excess" reserves
- ▶ Timeline
 - ▶ Operating - same as current policy
 - ▶ Contingency - no more than 5 years

Key Policy Point #4

What if We Have too Much Reserves?

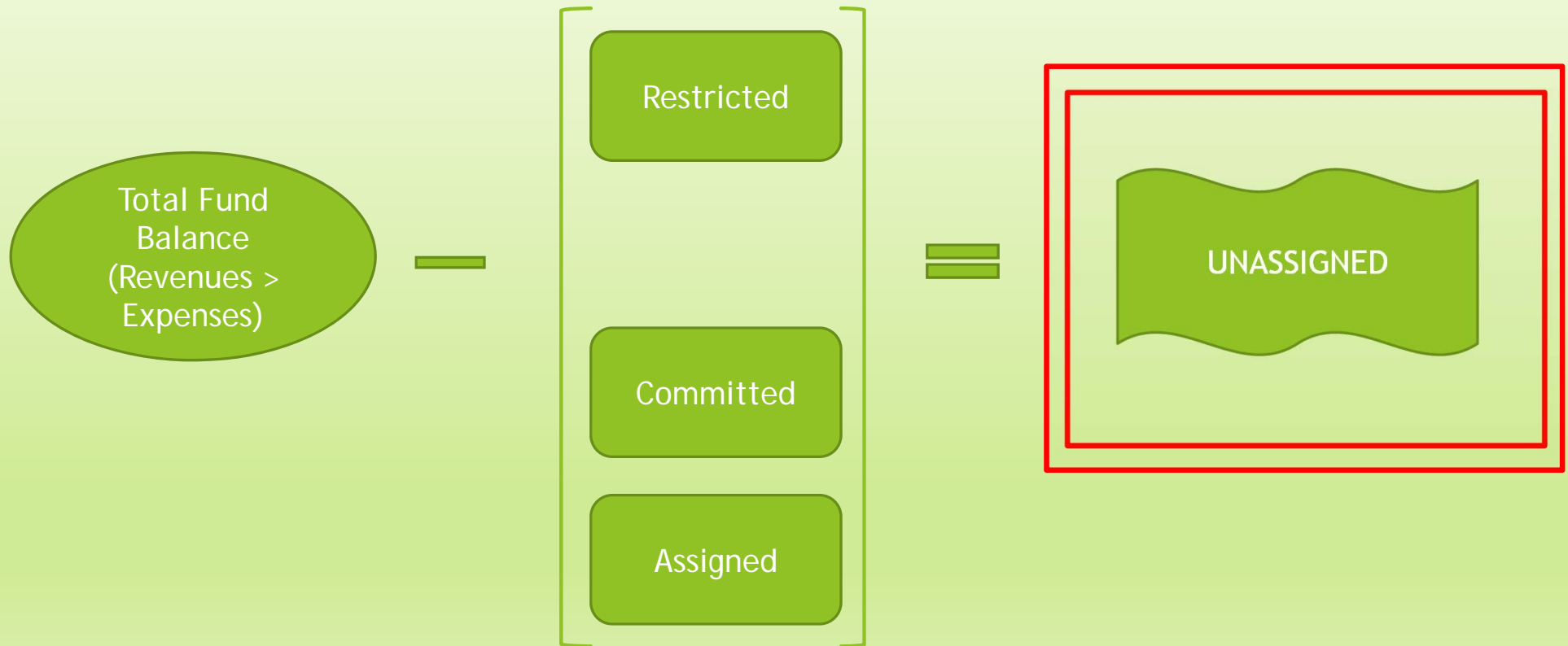
Current Policy

- ▶ May transfer to another fund, reserve or designation with a shortfall
- ▶ Consider amount above the maximum 45% for one-time expenditures that will not require additional future expense outlays

RECOMMENDATION

- ▶ Transfer to another reserve in the general fund (contingency, 27th payroll, capital) or in another fund
- ▶ Use for one-time expenditures that do not require additional future expense outlays
- ▶ Use for one-time expenditures that can reduce future operating costs
- ▶ Funding of future debt payments
- ▶ Start-up expense for new programs that will have other future revenue funding sources

Fund Balance Categories - GENERAL FUND



Key Point Summary

Looking at 2018 actuals/2019 Budget

2018 Ending Unassigned Balance (Preliminary): \$12.6M
 2019 Budgeted Operating Expenditures: \$29.1M

Reserve	Policy Amount	(Estimated) Actual Amount	Difference	Reallocate "Excess"	Updated Difference
Operating	\$10.2	\$12.6	+ \$2.4	- \$1.3	+ \$1.1
Contingency	\$2.9	\$1.6	- \$1.3	+ \$1.3	\$0.0
27 th Payroll	\$1.0	\$0.5	- \$0.5 *		- \$0.5
Capital	\$1.9	\$0.0	- \$1.9 **		- \$1.9