

AGENDA REVIEW MEETING

Thursday, February 12, 2015

5:30 p.m.

60th Session of the 9th Council

Call to order

Moment of Silence

Pledge of Allegiance

Roll Call

Authorization to Excuse Members from Meeting

Amendments to and approve of the agenda

Approval of the Minutes

1. February 5, 2015

Mayor or Deputy Mayor Report

Departmental Head Reports

Special Presentation

Community Announcements

Recognition of Elected Officials

Public Comments

Agenda Items

Appointments

2. Resolution for Board of Review Reappointments. (Linda Watson, Otis Cannon and Bobbie Yates).

Miscellaneous

3. Resolution regarding the waiver of Property Transfer Penalty.
4. Resolution regarding conduct of the Pontiac City Council.
5. Resolution regarding decorum.

6. Resolution for Board of Review 2015 Hardship Exemption Guidelines.
7. Resolution for Fund Balance Policy.
8. Resolution for Traffic Signal Maintenance.

Clerk and Council Closing Comments

Adjournment

February 5, 2015

**Official Proceedings
Pontiac City Council
59th Session of the Ninth Council**

A Regular Meeting of the City Council of Pontiac, Michigan was called to order in City Hall, Thursday, February 5, 2015 at 5:30 p.m. by President Patrice Waterman.

Moment of Silence

Pledge of Allegiance

Roll Call

Members Present: Holland, Pietila, Taylor-Burks, Waterman, Williams and Woodward.

Members Absent: Randy Carter

Mayor Waterman was present.

Clerk announced a quorum.

15-16 **Excuse Councilman Randy Carter.** Moved by Councilperson Holland and supported by Councilperson Williams.

Ayes: Holland, Pietila, Taylor-Burks, Waterman, Williams and Woodward

No: None

Motion Carried.

15-17 **Add an Agenda Item concerning a Resolution for Snow Plowing.** Moved by Councilperson Woodward and supported by Councilperson Taylor-Burks.

Ayes: Holland, Pietila, Taylor-Burks, Waterman, Williams and Woodward

No: None

Motion Carried.

15-18 **Approval of the Agenda.** Moved by Councilperson Taylor-Burks and supported by Councilperson Pietila.

Ayes: Holland, Pietila, Taylor-Burks, Waterman, Williams and Woodward

No: None

Motion Carried.

15-19 **Journal of January 29, 2015.** Moved by Councilperson Woodward and supported by Councilperson Pietila.

Ayes: Holland, Pietila, Taylor-Burks, Waterman, Williams and Woodward

No: None

Motion Carried.

February 5, 2015

Councilman Randy Carter arrived at 5:39 p.m.

Mayor Waterman Reported

Departmental Head Report – Joseph Sobota

15-20 **Add language to the Resolution for Snow Plowing.** Moved by Councilperson Williams and supported by Councilperson Taylor-Burks.

Ayes: Carter, Holland, Pietila, Taylor-Burks, Waterman, Williams and Woodward

No: None

Motion Carried.

15-21 **Resolution concerning Snow Plowing. (Agenda Item-Add On).** Moved by Councilperson Woodward and supported by Councilperson Holland.

Whereas, the safety of the citizens are the top priority of the city council; and,

Whereas, On February 1st 2015 a snow emergency was declared in the city of Pontiac; and in accordance with Article 6 Section 114-183-197 of the code or ordinances.

Whereas, Former Emergency Manager Louis Schimmel contracted with a private company to plow and salt the local and critical streets of the City of Pontiac,

Whereas, the City Council of Pontiac has been inundated with numerous complaints about the contractor; and,

Whereas, the contractor chose to plow local garbage routes first instead of plowing critical road leaving thousands of citizens endangered; and,

Now, Therefore, Be It Resolved, that the Members of Pontiac City Council encourages the Transition Advisor Board along with Mayor Waterman to revisit the Snow Plowing Contract for the City of Pontiac.

Ayes: Carter, Holland, Pietila, Taylor-Burks, Waterman, Williams and Woodward

No: None

Resolution Adopted

15-22 **Resolution for January 2015 Law & 50th District and Audit Subcommittee Meeting.** Moved by Councilperson Woodward and supported by Councilperson Holland.

Be It Further Resolved that The Pontiac City Council has accepted the written and oral report for the January 2015 Law & 50th District and Audit Subcommittee Meeting. The City Clerk will properly file and keep all records.

Ayes: Carter, Holland, Pietila, Taylor-Burks, Waterman, Williams and Woodward

February 5, 2015

No: None

Resolution Adopted.

There were 5 individuals who addressed the body during public comments.

City Clerk Sherikia L. Hawkins, Pro Tem Mary Pietila, Councilman Kermit Williams, Councilman Mark Holland, Councilman Don Woodward, Councilwoman Doris Taylor-Burks, Councilman Randy Carter and President Patrice Waterman made closing comments.

President Waterman adjourned the meeting at 8:04 p.m.

SHERIKIA L. HAWKINS
CITY CLERK

APPOINTMENTS

Memorandum

To: Pontiac City Council

From: Joseph M. Sobota, M.P.A., City Administrator *JMS*

Date: February 9, 2015

Re: Board of Review

The Board of Review is responsible for reviewing the assessment roll prepared by the City's assessor (Oakland County Equalization), correcting errors and omissions to the roll, and considering the petitions for hardship exemptions. Chapter 5.402 of the City Charter requires the City Council to annually appoint three electors of the City to the Board of Review before the date of the first meeting. In addition to the charter requirement of being an elector, all members of the Board of Review must attend and receive training. The members of the Board of Review in 2014 all have indicated their interest in being reappointed to the Board of Review in 2015. Under Section A(i) of Order S-334, the City Administrator shall "[c]onfirm the appointment or reappointment of qualified individuals to boards and commission as terms expire or vacancies arise as made by the Mayor and Council, subject to the approval or disapproval by the Board."

At this time, the City Council is requested to adopt the following resolution:

WHEREAS, Section 5.402 of the City Charter requires the City Council to appoint three electors to the Board of Review before the first meeting; and

WHEREAS, all of the members of the 2014 Board of Review have agreed to be reappointed and to attend the required training sessions; and

WHEREAS, the nominees are qualified to serve on the Board of Review;

NOW, THEREFORE, BE IT RESOLVED that the Pontiac City Council appoints Linda Watson, Otis Cannon, and Bobbie Yates to the Board of Review for a term expiring December 31, 2015.

MISCELLANEOUS

CITY OF PONTIAC CITY COUNCIL

RESOLUTION

WHEREAS, pursuant to MCL 211.27b(1)(d), the local unit shall levy up to a \$200 penalty per parcel for failure to file a property transfer affidavit within 45 days of acquisition of real property; and,

WHEREAS, MCL 211.27b (5) allows the governing body of a local tax collecting unit to waive, by resolution, the penalty levied under subsection (1) (d) of the General Property Tax Act; and,

WHEREAS, the City received a request to waive the penalty from [*insert property owner*] who failed to timely file property transfer affidavits for [*insert parcel ID*]; and,

WHEREAS, [*insert property owner*] has submitted a written request, asking that this governing body waive the penalty because [*insert reasons*]; and

WHEREAS, after review of the request and subsequent investigation, the City Council believes that such relief is in order;

THEREFORE, BE IT RESOLVED that the penalty levied pursuant to MCL 211.27b(1)(d) shall be reduced by [*insert amount*] to [*insert final amount*] for parcel ID [*insert parcel ID*].

PASSED AND APPROVED BY THE CITY COUNCIL, Pontiac, Michigan, this _____ day of February, 2015.

AYES: _____

NAYS: _____



Pontiac City Council Resolution

Whereas, the City Council of Pontiac has the desire to conduct professional and productive city council meetings; and

Whereas, the City Council of Pontiac shall practice civility and decorum in discussion and debates; and

Whereas, the City Council of Pontiac understands that there may be difficult questions and tough challenges to particular points of view, and criticism of ideas and information are legitimate elements of a free democracy in action; and

Whereas, the City Council of Pontiac will not indulge in any belligerent, personal impertinent, slanderous, threatening, abusive or disparaging comments; and

Whereas, all members of the city council shall preserve order and decorum during city council meetings, and shall not, by conversation or another action, delay, or interrupt the proceedings or refuse to obey the orders of the presiding officer; and

Whereas, all members of the city council shall when addressing staff or members of the public confine themselves to questions or issues then under discussion, and shall not engage in personal attacks; and

Whereas, all members of the city council shall not impugn the motives of any speaker, and shall at all times, while in session or otherwise, conduct themselves in a manner appropriate to the dignity of their office; and

Whereas, all members of the city council shall conduct themselves so as to bring credit upon the city as a whole, and to set an example of good ethical conduct for all citizens of the community; and

Whereas, all members of the city council should constantly bear in mind these responsibilities to the entire electorate, and refrain from actions benefiting any individual or special interest group at the expense of the city as a whole; and

Whereas, all members of the city council shall likewise do everything in their power to insure impartial application of the law to all citizens, and equal treatment of each citizen without regard to race, national origin, sex, social status, or economic position;

Now Therefore, Be it Resolved, that, if councilmembers fail to adhere this resolution or orderly conduct they will be subject to disciplinary actions and or sanctions.

CITY OF PONTIAC CITY COUNCIL

RESOLUTION

WHEREAS, pursuant to MCL 15.263(1), a public body may establish reasonable rules and regulations in order to minimize the possibility of disrupting the meeting; and

WHEREAS, the purpose of this Resolution is to establish rules and regulations to allow the City Council President to conduct City Council meetings in an orderly and professional manner. Council meetings are business meetings. Their purpose is to conduct the City's business; and

WHEREAS, each member of the public is permitted to attend public City Council meetings and have the opportunity to be heard, express their views, inform the Council and Administration, and speak without unreasonable content-based restrictions;

NOW THEREFORE, BE IT RESOLVED, that during the course of City Council meetings, all Council members and members of the public shall obey the directions of the Council President and shall be subject to the following rules

- A. The Council President shall conduct Council meetings in an orderly manner. Each member of Council and all others in attendance shall obey the directions of the Council President.
- B. All remarks shall be addressed to the Council, the Mayor, and Administration representatives through the Council President. In no case is any individual Council member or Administration representative under any obligation to respond specifically to any speaker.
- C. Individual Council members, the Mayor, or representatives of the Administration present shall address the Council President for permission to inquire of speakers or members of the audience whenever he or she deems that such an inquiry may be helpful to City business.
- D. No person or speaker shall engage in speech or conduct which is vulgar or disturbs, disrupts, delays, interferes with or otherwise impedes the orderly conduct of the Council meeting, including, but not limited to whistling, stomping, clapping other than during special ceremonies, interrupting a speaker, personal attacks unrelated to official business, or heckling of any kind.
- E. The Council President has the discretion to rule that any individual Council member, member of the public who is a speaker, meeting attendee, or audience member, is out of order for failing to follow Council's Rules or the Council President's directions, and the Council President may take whatever action necessary to restore order to the meeting, including having the out of order individual removed from the Council meeting in instances where it is determined that an individual's actions constitute behavior that is a breach of the peace.
- F. In the absence of the Council President, the Council President Pro-Tem shall have all authority held by the Council President.

PASSED AND APPROVED BY THE CITY COUNCIL, Pontiac, Michigan, this _____ day of February, 2015.

AYES: _____

NAYS: _____

Memorandum

To: Pontiac City Council

From: Joseph M. Sobota, M.P.A., City Administrator 

Date: February 9, 2015

Re: 2015 Hardship Exemption Guidelines

The General Property Tax Act requires the governing body to annually adopt guidelines for the Board of the Review to follow when considering applications for hardship exemptions. Homeowners granted hardship exemptions by the Board of Review are not required to pay 100% of the property taxes assessed against their homestead property in 2015. Special assessments and the sanitation fee cannot be waived or reduced. Applicants must meet the standards established by an income level test and an asset level test. The proposed guidelines identify the federal poverty guidelines for the income level test and establish a threshold of \$35,000 in assets excluding the homestead property and one vehicle. The asset level test limit was \$35,000 in 2014.

At this time, the City Council is requested to adopt the following resolution:

WHEREAS, the General Property Tax Act requires the governing body to adopt hardship exemption guidelines for the Board of Review to follow; and

WHEREAS, the City Council desires to provide property tax relief to certain homeowners who have demonstrated a certain level of hardship;

***NOW, THEREFORE, BE IT RESOLVED** that the Pontiac City Council adopts the 2015 Hardship Exemption Guidelines as attached as Exhibit A.*



City of Pontiac, Michigan

Department of Finance

February 2015

TO: PROPERTY OWNERS APPLYING FOR HARDSHIP EXEMPTION (FINANCIAL) FROM THE CITY OF PONTIAC BOARD OF REVIEW

The City of Pontiac has adopted uniform guidelines for determining poverty exemptions. Taxpayers whose income falls below a determined level may apply for a reduced assessment, based on income, assets and family size. The goal of this procedure is to adopt consistent standards for granting tax relief based on hardship. Please note: This application may reduce the taxable value of your property; however, it does not affect the homestead exemption affidavits, which reduces the tax rate. **(Property taxes = taxable value x tax rate / 1,000)**

Attached is a schedule, which outlines the eligibility guidelines as established by the Pontiac City Council under the General Property Tax Act (PA 206 of 1893). Please note that the State of Michigan Homestead Property Tax Credit and all pertinent income and expense data shall be used in the determination of eligibility. Attached is the Economic Hardship Exemption application form.

When the application is returned to the Treasurer's Office at City Hall or the **Oakland County Equalization Office, 250 Elizabeth Lake Road, Pontiac, MI, 48341**, you shall also submit completed copies of your Federal and State 2012 Income Tax Returns, the General Homestead Property Tax Claim Form, MI-1040 CR-4, and the Senior Citizen Homestead Property Tax Form, MI-1040 CR-1, and all other documents identified in the 2015 Exemption Guidelines. **Incomplete applications will be rejected.**

It is not necessary for you to appear in person before the Board of Review. The Oakland County Equalization Office will submit your application to the Board for their consideration; however, the Board may request your presence at a meeting.

In order to provide time to review this application, it must be returned to the Oakland County Equalization Office **ON OR BEFORE MARCH 3, JULY 21, OR DECEMBER 15, 2015; earlier submission is strongly recommended.** Please also note: you may only submit (on or before one of the days listed above) one application per year.

If you have any questions or need assistance, please contact the Oakland County Equalization Office at (248) 858-0776.

**CITY OF PONTIAC
2015 HARDSHIP EXEMPTION GUIDELINES**

For Applicants requesting consideration for Property Tax Hardship Exemptions:

- (1) Applicant(s) shall obtain the hardship application form from the City of Pontiac Treasurer's Office or the Oakland County Equalization Department. Handicapped or disabled applicants may call the Equalization Office to make necessary arrangements for assistance.
- (2) Applicant(s) must own and occupy the property as a homestead.
 - (A). Must produce State of Michigan operator license or other acceptable method of identification and determination of address.
 - (B). Must produce a deed, land contract, or other evidence of ownership.
- (3) Applicant(s) must complete the application form in its entirety and return to this office. Any application form submitted to the Board of Review, which has not been filled out in its entirety, shall be denied by the Board of Review. Appeals of said denial shall be made to the Michigan Tax Tribunal.
- (4) Applicant(s) and other persons residing in the homestead must submit copies attached to the application for the current year of the following in order to be considered for eligibility:
 - (A). Federal Income Tax Return – 1040, 1040A or 1040 EZ
 - (B). Michigan Income Tax Form MI-1040, MI-1040A or MI-1040EZ
 - (C). Senior Citizens Homestead Property Tax Form MI-1040CR-1
 - (D). General Homestead Property Tax Claim MI-1040CR-4
 - (E). Social Security Card (all persons 18 years of age or under in the house)
 - (F). Treasury Form 4988 (affidavit) for all persons residing in the residence who were not required to file federal or state income tax returns in the current year or in the immediate preceding year.
 - (G). Warranty deed *or* land contract, *or* quit claim deed.
 - (H). Homeowner's insurance policy
 - (I). Employer's name and address.
 - (J). State of Michigan operator's license.
 - (K). Evidence of income of all persons living in the home: ADC budget letter; pension benefits; Social Security statement; alimony; child support; FIP; DHS; disability; workers' compensation; other income; W-2 (wages under \$5,000).

Exhibit A

- (5) A hardship exemption shall not be granted to any applicant who has not owned and occupied the homestead for a minimum of three (3) years prior to the date of application.
- (6) A hardship exemption shall not be granted to any applicant who owns salable property other than his or her own homestead no matter where located.
- (7) A hardship exemption shall not be granted to any applicant whose total value of cash and non-cash assets exceed \$35,000. An applicant's homestead property and one vehicle used for personal transportation and titled to a member of the household shall be excluded from consideration as an asset.
- (8) Applicant(s) shall not be eligible for consideration if they do not meet the Income Limitation Guidelines adopted by the City of Pontiac:

Size of Family Unit	Poverty Guidelines
1	\$11,670
2	\$15,730
3	\$19,790
4	\$23,850
5	\$27,910
6	\$31,970
7	\$36,030
8	\$40,090
For each additional person, add	\$4,060

NOTE: IF YOU EXPECT UNUSUAL PERSONAL OR FAMILY EXPENSES WHICH WILL AFFECT YOUR INCOME, THE BOARD OF REVIEW MAY CONSIDER ADJUSTMENTS TO YOUR INCOME LEVEL.

- (9) The **MAXIMUM** allowed reduction for hardship exemption shall be 50% of the net property taxes due after the State Homestead Credit is applied based on Taxable Value of the homestead for the current tax year.
- (10) All hardship exemptions shall be granted for the current tax year only.
- (11) Applications may be reviewed and acted upon by the Board of Review without applicant(s) being present. However, the Board may request that any or all applicants be physically present to respond to any questions the Board of Review or Assessor may have. This means that an applicant may be called to appear on short notice.

Exhibit A

- (12) Applicant(s) should be prepared to answer questions regarding their financial affairs, health, the status of people living in their home, etc.
- (13) Pursuant to state law, applicant(s) may apply for Hardship Exemption to only one (1) session of the Board of Review (March, July **OR** December) and any appeal of the Board's decision shall be made to the Michigan Tax Tribunal.
- (14) The Board of Review shall have the authority to grant an exemption to applicant(s) who do not meet the residency requirement of the exemption guidelines of the City of Pontiac if they are paraplegic, quadriplegic, hemiplegic, or totally and permanently disabled **AND** have owned and occupied the property in the City of Pontiac prior to becoming handicapped or permanently disabled.

NOTE: THE BOARD OF REVIEW MAY DEVIATE FROM THIS POLICY ONLY WHEN THERE ARE SUBSTANTIAL AND COMPELLING REASONS WHY THERE SHOULD BE A DEVIATION FROM THE POLICY AND GUIDELINES. IF SUCH DEVIATION IS MADE, THE BOARD OF REVIEW SHALL COMMUNICATE THE SUBSTANTIAL AND COMPELLING REASONS FOR THE DEVIATION FROM THE GUIDELINES IN WRITING TO THE CLAIMANT (MCL 211.7(U)5. See STC Bulletin 7 of 2010.

Memorandum

To: Pontiac City Council

From: Joseph M. Sobota, M.P.A., City Administrator *JAS*

Date: February 9, 2015

Re: Fund balance policy

As part of prudent financial management, the City of Pontiac must adopt a fund balance policy. A fund balance policy helps to assure that the City maintains adequate levels of fund balance to mitigate risks and provide a backup for revenue shortfalls. The attached City of Pontiac Fund Balance Policy has been reviewed by the Finance Committee and the Michigan Department of Treasury. The Government Finance Officers Association has released two "Best Practice" documents to help governments draft fund balance policies (see attached), which I have included for your reference.

At this time, the City Council is requested to adopt the following resolution:

WHEREAS, the Government Finance Officers Association recommends that governments adopt fund balance policies to help assure that the City maintains adequate levels of fund balance to mitigate risks and provide a backup for revenue shortfalls; and

WHEREAS, the Council Finance Committee and Michigan Department of Treasury have reviewed a proposed policy for the City of Pontiac; and

WHEREAS, the Pontiac City Council believes that the proposed policy represents a standard of financial best practices that the City of Pontiac should adopt;

NOW, THEREFORE, BE IT RESOLVED that the Pontiac City Council adopts the City of Pontiac Fund Balance Policy as presented.

City of Pontiac Fund Balance Policy

The City of Pontiac deems it necessary to maintain adequate levels of fund balance to maintain financial stability and to mitigate future unforeseen liabilities or risks. Therefore, the following outlines the City's policy on maintaining what the City deems to be an adequate amount of City's various Funds unrestricted fund balance to ensure stable tax rates and to serve as a guide in long term financial planning.

The City will establish a reserve to pay for expenditures as a result of unforeseen emergencies or for shortfalls caused by revenue declines. The City will seek to maintain a diversified and stable revenue system to shelter itself from short-run fluctuations in any one revenue source. The City will attempt to obtain additional revenue sources to insure a balanced budget.

The following factors are considered by the City in establishing its fund balance policy:

- The predictability of its revenues and volatility of its expenditures. The City will follow an aggressive policy of collecting revenue.
- Exposure to significant one-time outlays (i.e. disasters, cash flow shortfalls, short term capital needs).
- Potential need of General Fund resources from other funds as well as availability of resources in other funds.
- Specific and planned future capital projects, including retaining funds for grant matching opportunities.
- Liquidity, cash flow needs and to avoid borrowing costs.
- Maintain and improve the city's credit rating.

The City will review fund balance/reserves annually during the budget process.

In the event the level of expenditures exceeds the estimated appropriations, the City will create a plan to replenish fund balance/reserves within three years by controlling operating expenditures, adjusting operations and/or dedicating excess or specific revenue sources.

General Fund

For the General Fund, the unassigned fund balance will be maintained with a minimum of approximately 15% of the budgeted expenditures of that particular fiscal year. In the event that circumstances arise causing the unassigned fund balance to fall below 15%, a plan will be put in place to replenish the balance during the subsequent two budget years. Additional reserves can be designated for a specific purpose, as identified by City Council, during the budget process. Fund balance will be established to:

- Provide a fund or reserve to meet emergency expenditures and future capital needs;
- Provide cash to finance expenditures from the beginning of the budget year until general property taxes or other revenues are collected;
- Demonstrate financial stability and therefore preserve or enhance its bond rating, thereby lowering debt issuance costs;
- Accumulate sufficient assets to make designated purchases;
- Avoid short-term borrowing and associated interest costs.

As part of the budget process excess fund balance may be used to reduce liabilities or fund expenditures of the next fiscal period.

The City shall utilize GASB categories to designate the fund balances which are rolled together for reporting of fund balance in accordance with GASB 54. The only *unassigned* fund balance of the City shall be that of the General Fund.

Special Revenue Funds

Resources in a fund other than the general fund are either (1) required to be used for the purpose of the fund or (2) intended by the government to be used for that purpose. Special revenue funds report specific revenue sources that are designated to be used for a particular purpose. Unless they are listed individually below, special revenue funds will establish a minimum of 15% of budgeted expenditures as unassigned fund balance in any given budget year.

Road Funds (Major and Local Street Fund)

The City's fund balance for the road funds will be established within a minimum range of 10 - 20%, of the budgeted expenditures individually and collectively amongst the two funds, to cover extraordinary maintenance events (i.e. unusual winter maintenance events, emergency reconstruction, etc.), and contingencies for budgeted construction projects. In addition, the City may establish a designation for capital projects in excess of \$1.5 million, to be completed in future years based on the capital improvement program.

Senior Millage Fund

The fund balance for the Senior Activities Fund will establish a minimum of 10% of fund annual budgeted expenditures, since this fund is similar to the General Fund in terms of covering operations. This fund receives revenue from the dedicated special voted property tax millage. The City may establish a designation for capital projects in excess of \$200,000; to be completed in future years based on the capital improvement program.

Sanitation Fund

The fund balance for the Sanitation Fund will establish a minimum of 15% of fund annual budgeted expenditures. This fund receives revenue from the dedicated special voted property tax millage and also a sanitation fee assessment in addition to the millage to cover the difference between the tax revenue and the expenditures. The City may lower the sanitation assessment to property owners during the budget approval process based on the data available at that time. The potential for increase in the fuel surcharge costs as part of sanitation expenditures necessitates a healthy fund balance to hedge against that unexpected increase in costs.

Capital Improvements Fund

The fund balance for the Capital Improvement Fund will be used primarily for capital improvements, but may also be used for other capital infrastructure projects. The fund's resources are primarily from special millage. The fund balance is recommended to be at least 15% of scheduled expenditures.

Other Internal Service Funds

The fund balance for Internal Service Funds (Insurance and Workers Comp Insurance Fund etc.) will be used for appropriations based on the specific purpose of those funds. Unless they are listed individually above, internal revenue funds will establish a minimum of 10% of budgeted expenditures as unassigned fund balance in any given budget year.



GFOA Updates Best Practice on Fund Balance

By Stephen J. Gauthier

The changes that will result from the implementation of GASB Statement No. 54 led the GFOA to review and "fine tune" certain aspects of its best practice on the appropriate level of fund balance in the general fund.

In 2002, the Government Finance Officers Association (GFOA) issued a recommended practice (now a best practice) on *The Appropriate Level of Unreserved Fund Balance in the General Fund*. In 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which replaces the traditional categories of *reserved* and *unreserved* fund balance with five new categories (i.e., *nonspendable*, *restricted*, *committed*, *assigned*, and *unassigned*) that represent a fundamentally different approach to classifying fund balance.

The changes that will result from the implementation of GASB Statement No. 54 made it necessary, at a minimum, that the GFOA revise its 2002 best practice to reflect the new categories of fund balance. At the same time, the very process of revision created an excellent opportunity for the GFOA to review and "fine tune" certain aspects of its 2002 guidance. Accordingly, the GFOA's Committee on Accounting, Auditing, and Financial Reporting (CAAFR) and the GFOA's Committee on Governmental Budgeting and Fiscal Policy jointly prepared a draft revised version of the 2002 best practice in June, which was subsequently approved by the GFOA's Executive Board at its October 2009 meeting.

FOCUS

The revised best practice, like its predecessor, deals exclusively with the appropriate level of fund balance in the general fund. The revised best practice also, like its predecessor, focuses on just one portion of fund balance. Prior to GASB Statement No. 54, of course, the focus had been on *unreserved fund balance*. Now that the distinction between *reserved* and *unreserved* fund balance has been eliminated, the focus henceforth will be on unrestricted fund balance, defined as the sum of *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*. The revised best practice goes on to suggest that some governments may wish to focus even more narrowly on just the *unassigned* portion of unrestricted fund balance.

MINIMUM LEVEL

A primary objective of a fund balance policy is to maintain adequate resources to cope with contingencies. As a practical matter, very large governments often are in a much better position to predict contingencies than are smaller governments (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty). In preparing the original 2002 best practice, the GFOA intended to set a minimum target of approximately two months of operating revenues or expenditures, while at the same time acknowledging that an

amount as low as 5 percent could be appropriate for very large governments. Accordingly, the original best practice spoke of a *minimum* target of "no less than 5 to 15 percent" and explained in a footnote that

In practice, levels of fund balance...typically are less for larger governments than for smaller governments because of the magnitude of the amounts involved and because the diversification of their revenues and expenditures often results in lower degrees of volatility.

Unfortunately, this guidance has sometimes been misinterpreted. Some, for instance, have misunderstood the reference to "no less than 5 to 15 percent" as setting both a *minimum* target (5 percent) and a *maximum* target (15 percent) for unreserved fund balance, whereas the GFOA very much intended that 15 percent be the *minimum* target for most governments. Likewise, the

GFOA intended that the "larger government" exception apply to just a few very large governments, whereas it has sometimes been misunderstood to encompass anything "larger" than a small government.

The revised best practice attempts to eliminate the first misunderstanding by clearly stating that:

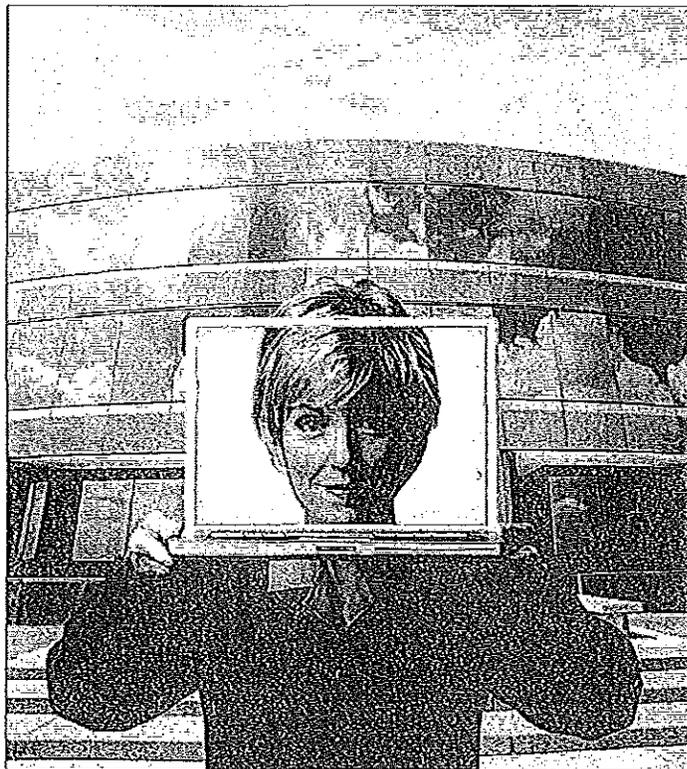
GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

A related footnote goes on to explain that a "significantly lower" level "may be appropriate for *states and America's largest governments ...*" (emphasis added) without specifying how low that level might be.

FUTURE DEVELOPMENTS

The GFOA's Executive Board was not content with simply issuing a revised best practice on *The Appropriate Level of Unrestricted Fund Balance in the General Fund*. The board also directed the committees concerned to explore the possibility of developing additional guidance on: 1) appropriate levels of fund balance in governmental fund types other than the general fund, and 2) the appropriate level of working capital that should be maintained in proprietary funds. The committees will likely consider both topics at the upcoming winter committee meetings, which are scheduled for January 2010 in Washington, D.C.

STEPHEN J. GAUTHIER is director of the GFOA's Technical Services Center in Chicago, Illinois



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Empowering people who serve the public[™]





GFOA Best Practice

Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund

Background. Accountants employ the term *fund balance* to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government's budgetary basis.¹ In both cases, fund balance is intended to serve as a measure of the financial resources available in a governmental fund.

Accountants distinguish up to five separate categories of fund balance, based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts can be spent: *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.² The total of the last three categories, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself, is termed *unrestricted fund balance*.

It is essential that governments 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. Fund balance levels are a crucial consideration, too, in long-term financial planning.

In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance (i.e., the total of the amounts reported as committed, assigned, and unassigned fund balance) in the general fund.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

Recommendation. GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund.³ Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and specific plans for increasing or decreasing the level of unrestricted fund balance, if it is inconsistent with that policy.⁴

The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.⁵ The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.⁶ Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time.

In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- The potential drain upon general fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require that a higher level of unrestricted fund balance be maintained in the general fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the general fund);⁷
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained); and
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose).

Furthermore, governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than on unrestricted fund balance.

Naturally, any policy addressing desirable levels of unrestricted fund balance in the general fund should be in conformity with all applicable legal and regulatory

constraints. In this case in particular, it is essential that differences between GAAP fund balance and budgetary fund balance be fully appreciated by all interested parties.

Notes:

- 1 For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.
- 2 These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which must be implemented for financial statements for periods ended June 30, 2011 and later.
- 3 Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.
- 4 See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).
- 5 In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.
- 6 In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues or expenditures, that decision should be followed consistently from period to period.
- 7 However, except as discussed in footnote 4, not to a level below the recommended minimum.

Approved by the GFOA's Executive Board, October, 2009.



GFOA Best Practice

Replenishing General Fund Balance

Background. It is essential that governments maintain adequate levels of fund balance to mitigate risks and provide a back-up for revenue shortfalls.

The adequacy of unrestricted fund balance¹ in the general fund should be assessed based upon a government's specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, incorporate in its financial policies that unrestricted fund balance in their general fund be no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

If fund balance falls below a government's policy level, then it is important to have a solid plan to replenish fund balance levels. Rating agencies consider the government's fund balance policy, history of use of fund balance, and policy and practice of replenishment of fund balance when assigning ratings. Thus, a well developed and transparent strategy to replenish fund balance may reduce the cost of borrowing. However, it can be challenging to build fund balances back up to the recommended levels because of other financial needs and various political considerations.

Recommendation. GFOA recommends that governments adopt a formal fund balance policy that defines the appropriate level of fund balance target levels. Also, management should consider specifying the purposes for which various portions of the fund balances are intended. For example, one portion of the fund balance may be for working capital, one for budgetary stabilization, and one for responding to extreme events. This additional transparency helps decision makers understand the reason for maintaining the target levels described in the fund balance policy.

Governments should also consider providing broad guidance in their financial policies for how resources will be directed to fund balance replenishment. For example, a policy may define the revenue sources that would typically be looked to for replenishment of fund balance. This might include non-recurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and if there is defensible rationale). Year-end surpluses are an especially appropriate source for replenishing fund balance.

Finally, a government should consider including in its financial policy a statement that establishes the broad strategic intent of replenishing fund balances as soon as

economic conditions allow. This emphasizes fund balance replenishment as a financial management priority.

Governments are subject to a number of factors that could require the use of fund balances. It is therefore incumbent on jurisdictions to minimize the use of fund balance, except in very specific circumstances. Replenishment should take place in a prompt fashion with amounts that have been used to ensure that the jurisdiction is properly prepared for contingencies. With the foundation of a financial policy in place, governments should use their long-term financial planning and budget processes to develop a more detailed strategy for using and replenishing fund balance. With these criteria in mind, the government should develop a replenishment strategy and timeline for replenishing fund balances as soon as possible, and that is still appropriate to prevailing budgetary and economic conditions and that considers the following:

1. The policy should define the time period within which and contingencies for which fund balances will be used. This gives the public a sense for how fund balance is being used as a "bridge" to ensure stable cash flow and provide service continuity.
2. The policy should describe how the government's expenditure levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge.
3. The policy should describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.
 - Frequently, a key part of the replenishment plan will be to control operating expenditures and use budget surpluses to replenish fund balance. The replenishment plan might also specify any particular revenue source that will aid in the replenishment of fund balances. For example, if the government has a volatile sales tax yield, it might specify that yields that are significantly above average would be used to replenish fund balances.

Generally, governments should seek to replenish their fund balances within one to three years of use. However, when developing the specifics of the replenishment plan, governments should consider a number of factors that influence the rate and time period over which fund balances will be replenished. Factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets. The government should consider special conditions that may have caused it to set its fund balance target levels higher than the GFOA-recommended minimum level. For example, if targets are higher because the community has very volatile cash flows, then the government would want to build the fund balances back up more quickly compared to governments with more stable cash flows.
2. Recovering from an extreme event. An extreme event, such as a natural disaster, that has required the government to use a portion of its fund balance, may make

it infeasible to replenish the fund balance as quickly as normal, depending upon the severity of the event.

3. Political continuity. Replenishing fund balance takes political will, and that will is often strengthened by the memory of the financial challenge that caused the use of fund balances in the first place. If the governing board and/or management are already committed to a particular financial policy, the replenishment strategy should be as consistent as possible with that policy in order to maximize political support.
4. Financial planning time horizons. Fund balances should typically be replenished within the time horizon covered by the organization's long-term financial plan. This puts the entire replenishment plan in context and shows the public and decision makers the expected positive outcome of the replenishment strategy.
5. Long-term forecasts and economic conditions. Expectations for poor economic conditions may delay the point at which fund balances can be replenished. However, in its replenishment plan the government should be sure to set a benchmark (e.g., after fund balances have dropped to a certain point below desired target levels) for when use of fund balance is no longer acceptable as a source of funds.
6. Milestones for gradual replenishment. A replenishment plan will likely be more successful if it establishes replenishment milestones at various time intervals. This is especially important if replenishment is expected to take place over multiple years (e.g., if you are starting from 75% of your target, set a goal to reach 80 percent of target in one year, 90 percent in two years, and 100 percent in three years).
7. External financing expectations. A replenishment plan that is not consistent with credit rating agency expectations may increase the government's cost of borrowing. It is important that the logic used by the government to develop the replenishment plan be communicated in an effective fashion to external lenders.

Notes:

- 1 Unrestricted fund balance comprises the committed, assigned, and unassigned fund balance categories.

References.

GFOA Best Practice, "Appropriate Level of Unrestricted Fund Balance in the General Fund," 2009.

For a fuller explanation of the concept of "bridging" in financial distress, please visit GFOA's financial recovery website at www.gfoa.org/financialrecovery.

Memorandum

To: Pontiac City Council

From: Joseph M. Sobota, M.P.A., City Administrator 

Date: February 9, 2015

Re: Traffic Signal Maintenance Agreement

Recently, the Road Commission for Oakland County presented me with the attached communication. During a review of their records, the RCOC realized that they do not have a traffic signal maintenance agreement on file for the intersection of Opdyke Road and South Boulevard. The RCOC currently maintains the signal and splits the costs with the City, 75/25, with the City responsible for 25% of the costs as South Boulevard is a City road coming from the west toward Opdyke. This is a standard agreement with the Road Commission for Oakland County.

At this time, the City Council is requested to adopt the following resolution:

WHEREAS, the Road Commission for Oakland County has discovered that the commission does not have a traffic signal maintenance agreement on file for the intersection of Opdyke Road and South Boulevard; and

WHEREAS, a written maintenance agreement is necessary and proper; and

***NOW, THEREFORE, BE IT RESOLVED** that the Pontiac City Council approves the Agreement for Traffic Control Device at the location of Opdyke Road and South Boulevard and authorizes the City Administrator to execute the agreement.*



QUALITY LIFE THROUGH GOOD ROADS:
ROAD COMMISSION FOR OAKLAND COUNTY
"WE CARE."

Board of Road Commissioners

Ronald J. Fowkes
Commissioner

Gregory C. Jamian
Commissioner

Eric S. Wilson
Commissioner

Dennis G. Kolar, P.E.
Managing Director

Gary Piotrowicz, P.E., P.T.O.E.
Deputy Managing Director
County Highway Engineer

Traffic-Safety
Department
Office of Director

2420 Pontiac Lake Road
Waterford, MI
48328

248-858-4802

FAX
248-858-4814

www.rcocweb.org

November 21, 2014

Deirdre Waterman
Mayor, City of Pontiac
47450 Woodward Avenue
Pontiac, MI 48342-2271

**Re: Traffic Signal Maintenance Agreement
Opdyke Road & South Boulevard (Co. # 51)**

Dear Mayor Waterman:

A review of Road Commission for Oakland County (RCOC) traffic signal maintenance agreements has discovered one is not on file for the above mentioned location. In an effort to update records, RCOC is requesting the execution of a new agreement in accordance with the current invoicing practice.

RCOC currently maintains this signal with maintenance charges split, RCOC 75%, City of Pontiac 25%, according to roadway approach jurisdiction at the subject intersection. This is standard practice at locations throughout the county where other municipalities have partial jurisdiction.

Enclosed are three original copies of the agreement needing execution. Please have all the agreements signed by the appropriate official and return them to us for further processing. A fully executed copy of the agreement will be returned to you for your records.

If you have any questions, please don't hesitate to contact me.

Sincerely,

Charles Keller, P.E.
Traffic Engineer
Traffic-Safety Department
Enclosures (3)

CTK/pm

**STATE OF MICHIGAN
BOARD OF COUNTY ROAD COMMISSIONERS
OAKLAND COUNTY
AGREEMENT FOR TRAFFIC CONTROL DEVICE**

Type of Work: Traffic Signal Maintenance

Location: Opdyke Road and South Boulevard

**Signal No: 51
Date Effective:**

Under authority of state law and by virtue of resolution formally adopted by their respective governing bodies, the under-signed hereby agree to participate in the cost of installation, maintenance and operation of the above traffic control device on the basis of the following division of costs. (Title to equipment shall remain with the purchasing agency, unless purchased for roads not under the jurisdiction of the Board of County Road Commissioner.) The proportionate share of all costs are to be billed monthly. This agreement is terminable on thirty days written notice by any party.

DIVISION OF COSTS

AGENCY	INSTALLATION		MAINTENANCE Percent
	Percent	Estimated Cost	
RCOC	N/A %	\$ N/A	75 %
City of Pontiac	N/A %	\$ N/A	25 %
Total	N/A %	\$ N/A	100 %

It is further agreed that the agency responsible for payment of energy billings and/or leased line interconnection billings included in maintenance costs, shall be the ROAD COMMISSION FOR OAKLAND COUNTY.

It is further agreed that the agency responsible for making original and replacement installations and performing maintenance shall be the ROAD COMMISSION FOR OAKLAND COUNTY.

"In the event the traffic control device referred to in this agreement is located on a road or street that is not under the jurisdiction of the Road Commission for Oakland County, the authority having the jurisdiction over the road or street hereby agrees to save harmless, indemnify, represent, and defend the Road Commission for Oakland County from any and all claims, demands, or suits arising out of or relating to the installation, maintenance and operation of the traffic control device which is the subject matter of this agreement."

"In the event the traffic control device referred to in this agreement is located on a road or street that is under the jurisdiction of the Road Commission for Oakland County and by virtue of this agreement will be maintained by an agency other than the Road Commission for Oakland County, then and in that event the said agency hereby acknowledges that it is undertaking the Road Commission for Oakland County's duty to maintain the said traffic control device and further agrees to provide insurance coverage protecting the Road Commission for Oakland County."

APPROVED:
ROAD COMMISSION FOR OAKLAND COUNTY

APPROVED:
CITY OF PONTIAC

Date _____

Date _____

By _____
Danielle Deneau, P.E.

By _____

DIRECTOR OF TRAFFIC-SAFETY
Title of Authorized Official

Title of Authorized Official

*Certified copy of resolution must be submitted with this form for new installations.

NOTES
