

RESOLUTION NO. 3534

A RESOLUTION OF THE NEWPORT CITY COUNCIL  
ADOPTING A POLICY REGARDING THE CITY'S FINANCIAL RESERVES,  
CONTINGENCIES, AND UNAPPROPRIATED ENDING FUND BALANCES

WHEREAS, the City of Newport is responsible to its citizens for the care and management of public funds; and

WHEREAS, the city must provide adequate funding for the services it is obligated to provide to its citizens; and

WHEREAS, the city's financial responsibilities and obligations must adhere to numerous laws and regulations; and

WHEREAS, the financial reserve policy attached as Exhibit A is designed to ensure the fiscal stability of the City of Newport, and to provide guidance in financial management and practices to city staff;

NOW, THEREFORE, THE CITY OF NEWPORT RESOLVES AS FOLLOWS: the attached Financial Policy (Exhibit A) is hereby adopted.

This resolution will become effective immediately upon passage.

Adopted by the Newport City Council on April 4, 2011.

Approved by the Mayor of the City of Newport, Oregon on April 7, 2011.

CITY OF NEWPORT

  
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Mark McConnell, Mayor

ATTEST:

  
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Margaret M. Hawker, City Recorder

Attachment A

CITY OF NEWPORT  
FINANCIAL POLICIES

CHAPTER 1 – Appropriations, Contingencies, and Reserves

1. **PURPOSE AND OBJECTIVES**

1.1. **Purpose**

1.1.1.1. The City of Newport is responsible to its citizens for the care and management of public funds; concurrently, the City must provide adequate funding for the services it is obligated to provide its citizens.

1.1.1.2. Those responsibilities and obligations must adhere to numerous laws and regulations and, as a result, the City's financial operations are reviewed and audited by a variety of Federal and State governments, including the Securities and Exchange Commission the Governmental Accounting Standards Board, the Oregon Department of Revenue other State agencies and departments, and independent auditors.

1.1.1.3. The financial policies described here are designed to ensure the fiscal stability of the City of Newport; to provide guidance in financial management and practices to City staff; and to ensure that financial direction for budget preparation, periodic reporting and analysis, and financial forecasting conform to the standards of the City Council's policies.

1.2. **Financial Policy Objectives**

- 1.2.1. To protect the policy-making ability of the City Council by ensuring that policy decisions are not controlled by financial problems or emergencies.
- 1.2.2. To enhance the policy-making ability of the City Council by providing accurate information on fund, department, cost center, grant, and program costs.
- 1.2.3. To provide guidance to City staff which ensures that the decisions of the City Council are based upon sound, conservative, and responsible financial practices.
- 1.2.4. To establish operational principles which minimize the cost of government and financial risk, and that safeguard the City's assets.
- 1.2.5. To employ revenue policies which prevent reliance on uncertain or unstable revenues, which distribute the costs of municipal services fairly and objectively, and which provide adequate funds to operate desired programs.
- 1.2.6. To ensure competent, timely, and conservative management of the City by providing accurate and timely information about the City's financial condition.
- 1.2.7. To provide adequate resources to operate and maintain essential public facilities and the City's infrastructure.
- 1.2.8. To insure the legal use of City funds through a sound system of administrative policies and internal controls.
- 1.2.9. To protect and enhance the City's credit rating and prevent default on debt issues of the City.

1.3. **Achieving Financial Policy Objectives.**

- 1.3.1. To achieve and maintain the objectives, above, the Finance Director, under the direction of the City Manager, will conduct *quarterly* analyses of the City's projected financial condition (with "as of" dates of 30 September, 31 December, and 31 March). Also, the Finance Director will present an *end-of-the-year* forecast and analysis at the first meeting of the Budget Committee as it prepares to review the Proposed Budget for the following year.
- 1.3.2. Beginning in October of every year, the Finance Director will also present, through the City Manager's Council report, *monthly* financial analyses at the second monthly meeting of the Council.

2. **FUND BALANCE POLICIES**

2.1. **Introduction**

2.1.1. The budgetary fund balance describes the net assets of governmental funds; in everyday terms, it represents revenues in excess of expenditures. Fund balance is used to provide stable resources for times when services level might otherwise be impacted by taxes or fees that fall short of budget expectations, or to cover one-time, unexpected expenditures.

2.2. **Unappropriated Ending Fund Balances**

2.2.1. To maintain the City's credit rating, and to meet state law requirements for no deficit spending, the City shall have a positive Unappropriated Ending Fund Balance (UEFB) for each of the City's funds.

2.2.2. As of the effective date of this policy, the City Manager will ensure that the revenue and spending profile of the following funds will result in an UEFB of no less than one month's operating expenditures (8.33%) of the funds' estimated annual operating revenues:

- 2.2.2.1. General Fund
- 2.2.2.2. Streets Fund
- 2.2.2.3. Water Fund
- 2.2.2.4. Wastewater Fund
- 2.2.2.5. Parks and Recreation Fund
- 2.2.2.6. Airport Fund

2.2.3. In each year's Proposed Budget, the City Manager will recommend UEFBs for all of the City's remaining Government and Enterprise Funds.

2.2.4. In the General Fund, the City Council directs the City Manager to ensure that the fund's UEFB increases by no less than 2.5% per year until such time that the UEFB is greater than 15%. No later than January 2014, the Council will direct that a complete review of all of the City's funds be performed, that this review will be presented at the first meeting of the FY2015 Budget Committee, and that further goals will be established. The Council's objective is to see that by Fiscal Year 2016, the General Fund will have and carry forward an UEFB of 20% of the fund's estimated annual operating revenues.

- 2.2.5. If the annual budget is approved by the Budget Committee and adopted by the City Council with a projected fund balance below either the minimum or the recommended UEFB, the projected ending fund balance for the then current fiscal year will be recalculated as soon as the audit work for the prior fiscal year is complete. If at that point, the audited ending fund balance results in a projected UEFB fund balance which is lower than this policy requires, staff shall develop a plan for City Council that addresses the shortfall.
- 2.2.6. In the event the projected UEFB is greater than either the minimum or recommended level, the difference may be used to fund the following activities:
  - 2.2.6.1. One-time capital expenditures or reserves for future capital expenditures which do not significantly increase ongoing City costs
  - 2.2.6.2. Undesignated reserves for future basic operations
  - 2.2.6.3. Other one-time costs
  - 2.2.6.4. Ongoing or new City programs, provided such action is considered in the context of Council-approved multi-year projections of revenue and expenditures.

### 3. CONTINGENCIES

#### 3.1. Contingency Amount

- 3.1.1. To meet emergency conditions, or for other required expenditures whose occurrence could not reasonably have been foreseen, the budget shall provide for an appropriated contingency.
- 3.1.2. The following governmental and enterprise funds shall maintain a contingency account; minimum amounts to be reviewed as part of the annual budgetary process, shall be:
  - 3.1.2.1. General Fund – Two percent of annual operating revenues
  - 3.1.2.2. Water Fund – Twenty percent of annual operating revenues, or \$550,000, whichever is greater

- 3.1.2.3. Wastewater Fund – Ten percent of annual operating revenues, or \$300,000, whichever is greater
- 3.1.2.4. Streets – Ten percent of annual operating revenues, or \$250,000, whichever is greater
- 3.1.2.5. All other funds – Two percent of annual operating revenues, or as recommended in the Proposed Budget and/or adopted by the Council

#### 4. RESERVES

4.1. **Definition.** For these purposes, “Reserves” are defined as a line item entry which identifies funds to be “saved” for use in future fiscal years. Since the intent is not to spend the amount reserved in the year being budgeted, “Reserve” is not an appropriation, and therefore it is not included in the Resolution which makes appropriations. If the need arises during the fiscal year to spend this money, a supplemental budget must be adopted to appropriate the expenditure.

#### 4.2. Amounts for “Reserves for Future Expenditures”

- 4.2.1. Unlike Fund Balances and Contingencies, amounts set aside for reserve must be calculated annually, on a fund-by-fund basis.
- 4.2.2. For example: the City believes it will be necessary to procure a new fire truck in five years, at a cost of \$500,000. A “Reserve for Fire Truck” account is set up (in a Fire Reserve fund or in the Fire fund) and \$100,000 is transferred to that account for five years.
- 4.2.3. The same process could be used for most of the City’s funds, and the establishment of a reserve, for a specific purpose, an estimated amount, and a forecast number of years, is one way to provide for the future expenditure of an item that could not be paid for out of that year’s operating revenues.