

## MEMORANDUM

**DATE:** June 5, 2019

**TO:** Greg Harrison, City Manager

**FROM:** Andrew Jean-Pierre, Finance Director

**RE:** Amendment of fund balance policy

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The City has a fund balance policy which has been previously approved by the City Commission. The existing policy was prepared based on Government Finance Officers Association (GFOA) best practices (see exhibit A) and input from the City's utility rate consultant (Raftelis).

GFOA recommends that governments should start with a baseline of 25% of the annual budget and then adjust the target based on the particular characteristics of the enterprise fund in question. The City's current policy which was adopted in 2013 requires 50% which is well above the recommended baseline.

Currently the fund balance for the Utility fund is 25% of the annual budget which is below the City's target. The balance has fallen below the City's target due to the following reasons:

- 1) Approximately \$7.8 million was encumbered to construct a deep injection well.
- 2) Approximately \$1.5 million to cover costs associated with wastewater treatment costs. In September 2018 Broward County Commissioners approved an amendment to increase their rates for North Regional Wastewater Treatment costs.
- 3) Approximately \$2.8 million to cover future projects in the capital improvement plan.

Based on discussions between the City's Finance Director, Utility Director and Raftelis; staff is recommending we reduce our fund balance target to 35% of the annual budget. In addition it is recommended that we extend the time required to replenish the funds to four (4) years. Please note that the fund balance policy has a direct affect on the City's utility rate study prepared annually by Raftelis. The changes proposed maintain our financial sustainability while minimizing erratic flucutations in our utility rates.