

GENERAL FINANCIAL PRACTICES

The City of Springfield has developed a number of general financial practices and policies to direct the City Manager and Finance Director while preparing the City's annual budget and managing its financial affairs. These principles are expected to guide City spending in a manner that creates and maintains financial stability.

The City of Springfield's general financial practices consist of a number of individual policies that address fund balances, investments, debt, capital improvements, and financial reporting. It is the intent of the City Council that, by enforcing each of these policies, the City will be better prepared to fund activities and improvements in current and future budget years, regardless of any changes in state or local economic conditions.

Fund Balances

The City's Fund Balances, or cash reserves, refer to the additional funds that the City saves after all of its expenditures. This money acts as working capital. The City holds the General Fund to a stricter standard than its other major funds. The fund balance requirements for the City are as follows:

General Fund

It is the policy of the City of Springfield to keep undedicated reserves at a level equal to 20% to 25% of general operating expenses (averaged over the current and three most recent fiscal years). In the event undedicated reserves fall below 17%, the City will first cut all necessary pay-as-you-go capital improvements from the CIP; if needed, general operating expenses will then be cut to a sufficient level. In the event that the undedicated reserves grow above 27%, the City will first fully fund any under-funded OPEBs to comply with Government Accounting Standards Board (GASB) requirements. In the event all GASB requirements have been met, if needed, the City shall accelerate the payoff of existing installment loans and/or bonds to lower the City's debt burden.

The proposed General Fund budget for FY 2014-15 is balanced and the City expects undedicated reserves to remain constant at \$784,135 which represents approximately 31.3% of the Fund's three year average operating expenses. Over the next three budget years, the City anticipates shrinking its reserves to approximately 22% to 25% of the Fund's three year average operating expenses taking into account the loss of personal property tax revenues and the uncertainty of state reimbursement for lost PPT collections. Also taking into account expanded personnel cost and pay-as-you-go capital improvement projects.

All Other Funds

It is the policy of the City of Springfield to keep undedicated reserves at a level equal to 10% to 30% of general operating expenses for its other major funds (averaged over the current and three most recent fiscal years). In the event that the undedicated reserves fall below 10%, the City will first cut all necessary pay-as-you-go capital improvements from the CIP; if needed, general operating expenses will then be cut to a sufficient level. In the event that undedicated reserves grow above 27%, the City will review needed infrastructure improvement, consider accelerated payoff of existing bond principle and conduct an analysis of related rate/fee levels to determine the most appropriate strategy to provide on-going services to the citizens of Springfield.

Debt

For the purposes of this Policy, "Debt" shall refer to all known current and future obligations including Bonded Capital Debt, Loans, Pension UAL and OPEB UAL. Additionally, "Debt" shall refer to such obligations of both the City and its component unit funds. It is the general rule of the City to use pay-as-you-go funding for capital improvements when able. In the event that financing is needed, the City will follow the general debt limitation guidelines as follows:

1. All debt and unfunded liabilities as a percentage of taxable value should not exceed 10%. **currently 5.8%**
2. All debt as a percentage of taxable value should not exceed 4%. **currently 2.1%**
3. All debt and unfunded liabilities per capita should not exceed \$1,200. **currently \$889 per capita**
4. All debt per capita should not exceed \$1,000. **currently \$317 per capita**
5. All debt expenditures as a percentage of annual expenditures should not exceed 5%. **currently 6.1%**
6. All debt expenditures as a percentage of annual revenues should not exceed 5%. **currently 6.2%**
7. New Debt Service should not extend beyond **10 years** for individual projects/purchases.

2014 Taxable Value*	2014 Population	2014-15 Debt Service**	Bonded and Loan Debt Principle Balance @ 6-30-2014***	Unfunded Pension and OPEB Liabilities @ 6-30-2014
\$80,510,432	5,260	\$212,200	\$1,669,652	\$3,004,031

*Taxable Value includes Act 425 Properties

**General Government debt service equals \$66,300 and Component Unit debt service equals \$145,900 in FY 2014-15

***Bonded and Loan Debt principle balance includes \$685,000 General Government and \$984,652 Component Units.

Capital Improvements

Projects/Purchases that are typically included in the Capital Improvement Plan (CIP) are those that are expected to cost more than \$10,000, have a life expectancy of more than five years, and be an expense that is not an annual occurrence. Any item that meets these criteria should be included in the CIP prior to the beginning of the fiscal year. It is the intent of the City to maintain its assets at a level that protects the city's investment and minimizes future maintenance and replacement costs. The City will annually budget funds to adequately maintain its assets to this level.

Future Obligations

The City is committed to fully-funding future obligations related to employee pensions and other post-employment benefits (OPEBs). Currently, the City offers its full time employees a Defined Benefit Retirement Plan and retiree health insurance to employees hired before July 1, 2009. Beginning in FY 2011-12, all city employees began contributing to their DB Retirement plan.

The City has an annual actuarial valuation conducted by the Municipal Employees Retirement System of Michigan (MERS). Based on their recommendations, the City contributes a percentage of its annual payroll to the retirement system. Current practice is to contribute at the recommended level to all divisions with the goal to fund all retirement obligations at 100% by 2024. Currently, MERS pension obligations are funded at 79%.

The City has a plan to fund current OPEB obligations on a *pay-as-you-go* basis. In this plan, the City budgets for an amount equal to the current year's obligation in the *Post Employment Benefit* portion of the General Fund Budget. In addition to the *pay-as-you-go* funding for current year obligations, future benefit liabilities are funded via a trust fund. It is the City's intent to move from a *pay-as-you-go* system to a fully funded trust for OPEB obligations by 2030. If the City continues at its current pace, by FY 2030-31, the Trust Fund will have a principal balance of approximately \$1.25 Million. Once the City moves to a fully funded trust and investment return is considered, annual contributions will be adjusted accordingly.

Financial Reporting

The City's general accounting practices are expected to conform to all GASB standards. The City's financial statements are reported on a modified accrual basis; revenues are recorded when earned and expenses are recorded when a liability is incurred.

The Finance Department reports budget status to the City Council on a quarterly basis. Any amendments to the budget are recommended as soon as it is evident that an amendment is required. All amendments are completed prior to the end of the fiscal year. All expenses are presented to the City Council for approval at each regular City Council meeting.

Per the City Council-adopted Investment Policy, the Finance Department reports investment information to the City Council on a quarterly and an annual basis to ensure transparency in the City's investment practices.

Each year the City will employ a qualified financial institution to complete an independent audit of the City's finances. This audit will be presented to the City Council by the auditors to ensure the proper disclosure of all financial findings.

In an effort to promote fiscal transparency, the City offers its *Open Government* webpage. The webpage provides important financial information to all interested parties. This published information includes: operating budgets, audited financial reports, employee wages and benefits. Also, other financial documents can be found that include: Bond Rating, Long Term Debt Schedule, Cash Balance History and other important documents related to our revenues, expenses, long-term liabilities and general fiscal health.