

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 general 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 move up the debt schedule for existing bond payments to lower the City's debt burden.

The budget proposed for FY 17-18 is expected to decrease the City's undedicated reserves to \$850,207, which represents approximately 35.0% of the fund's three-year average operating expenses. Over the next three budget years, the City anticipates shrinking its reserves to approximately 25% of the fund's three-year average operating expenses.

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 that undedicated reserves grow above 27%, the City will review needed infrastructure improvement, existing bond principle, and related rate/fee levels to determine the most appropriate manner to provide adequate services to the citizens of Springfield.

Debt

For the purposes of this Policy, "Debt" shall refer to all known future obligations (i.e. unfunded retirement benefits, bonded capital debt, and installment loans, etc.). Additionally, "Debt" shall refer to such future obligations known to all city *and* component unit funds. It is the general rule of the City to use pay-as-you-go financing 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 6.7%**
2. All debt as a percentage of taxable value should not exceed 4%. **currently 1.7%**
3. All debt and unfunded liabilities per capita should not exceed \$1,200. **currently \$1,020 per capita**
4. All debt per capita should not exceed \$1,000. **currently \$253 per capita**
5. All debt service expenditures as a percentage of annual expenditures should not exceed 5%. **currently 4.5%**
6. All debt service expenditures as a percentage of annual revenues should not exceed 5%. **currently 4.2%**
7. New Debt Service should not extend beyond 10 years for individual projects/purchases.

2017 Taxable Value	2017 Population	2017-18 Debt Service*	Bonded and Loan Debt Principal Balance at 6-30-2017**	Unfunded Pension and OPEB Liabilities
\$80,322,650	5,260	\$252,385	\$1,331,551	\$4,032,268

**General government debt service equals \$86,882 in FY 2017-18*

***Debt includes \$659,800 general government debt liabilities and \$671,751 component unit debt liabilities.*

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 retirements and other post-employment benefits (OPEBs). Currently, the City offers its full time employees a City-funded pension while retiree health insurance benefits have been eliminated for all new hires.

The City's has an annual evaluation conducted by the Municipal Employees Retirement System of Michigan (MERS); based on their recommendations, the City invests a percentage of its annual payroll in the retirement system. Current practice is to fund all accounts at the recommended level, with the goal to fund all retirement obligations at 100% by 2030; current pension obligations are funded at 67%.

The City has a plan to fund current OPEB obligations on a *pay-as-you-go* basis. In this plan, the City budgets an amount equal to the current year's obligation in the Post Employment Benefit Budget (part of the General Fund). In addition to the *pay-as-you-go* funding for current obligations, the City has established a trust fund to help fund future OPEB obligations. Since future OPEB liability has been eliminated for all new hires, the city has begun to make small annual withdraws to help fund OPEB obligations.

Financial Reporting

The City's general accounting practices are expected to conform to all GASB standards. The City's financial statements are reported on an 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. Daily 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 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 maintains a Transparency webpage on the City's website. The webpage provides important financial information to all interested parties, including information on budgets, audits, debt schedules, cash balances, labor contracts, personnel policies, health plans, pension reports, financial policies, and other important documents related to our revenues, expenses, long-term liabilities, and general fiscal health. The page can be viewed at [http://springfieldmich.com/financial transparency/](http://springfieldmich.com/financial%20transparency/).