CITY OF STOUGHTON
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Date: August 22, 2019

To: Finance Committee

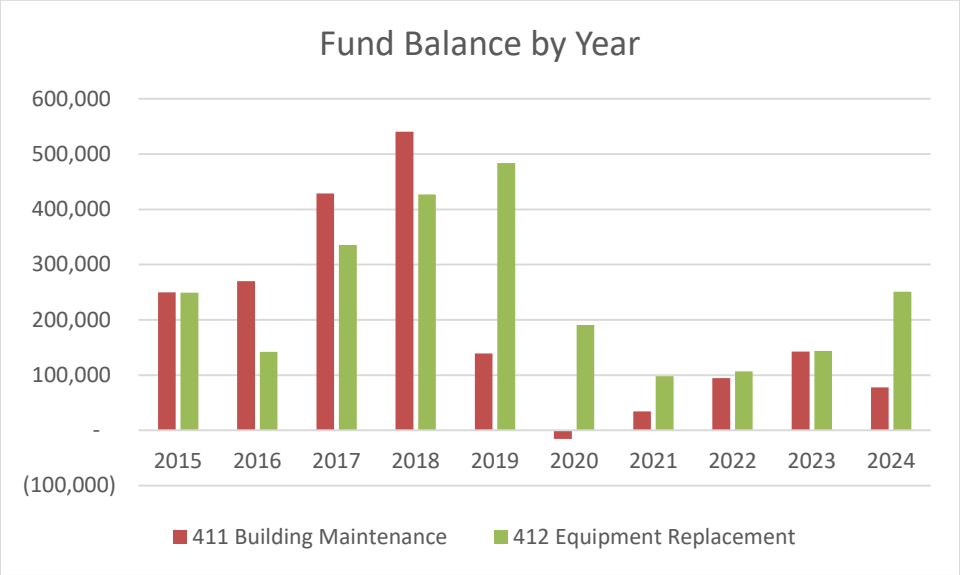
From: Ryan Wiesen
Assistant Director of Finance/Treasurer

Subject: Fund Balance Policy for Building Maintenance and Equipment Replacement Funds

Jamin Friedl and I have reviewed the building maintenance and equipment replacement historical and projected fund balances and expenditures and have developed a policy for fund balance targets for the finance committee to consider.

Fund Balance

Below is a 10-year chart of fund balances for 2015-2024. 2015 to 2018 are based on actuals and 2019 to 2024 are based on projections.

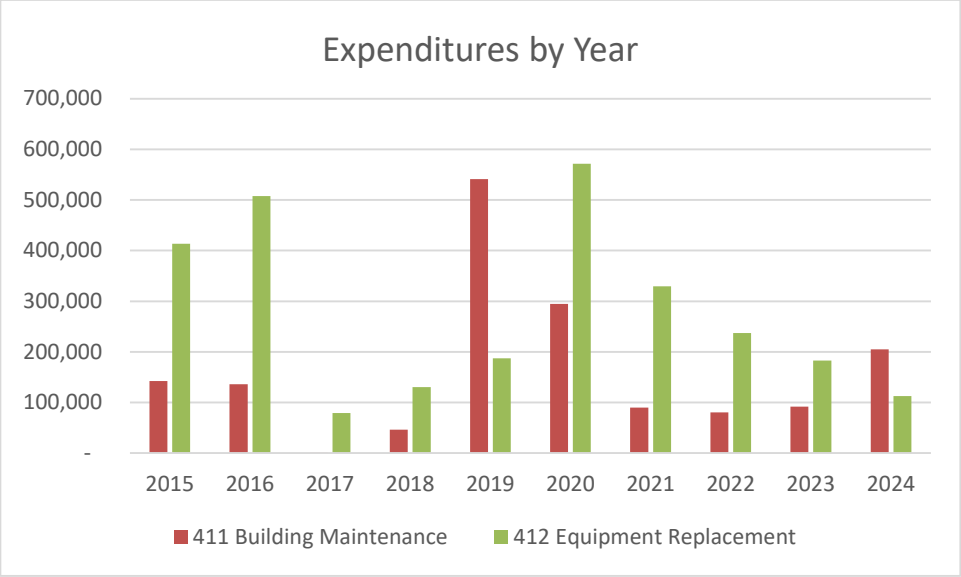


The fund balance for both funds can vary significantly from year to year due to the nature of capital project funds. The building maintenance fund will have a steady revenue source of $140,000 from lease revenues but expenditures will vary significantly from year to year as larger maintenance projects come due. The equipment replacement fund balance is mostly funded from a transfer from the general fund on a steady basis of $220,000 a year, but equipment purchase needs will vary from year to year depending upon the age of equipment, new technology and other needs.

It is important to smooth out the cost to taxpayers by maintaining or building fund balance over time. However, building up reserves for the sake of building up reserves also does not serve current taxpayers. Thus, a reasonable fund balance policy should be developed.

One option is to set a minimum fund balance amount for these funds at the **greater** of 100% of the 10-year average expenditures or 50% of high 10-year expenditure. This will permit the funds to cover an average year of expenditures if revenues in the fund suddenly diminish. It will also permit a large down payment on expenditures in a year with above average expenditures. The minimum amount can be updated every two years or so.

Below is a chart of expenditures for the 10 years.



Expenditures	10 Year Average	50% of 10 Year High	**Greater**
411 Building Maintenance	162,820	270,642	**270,642**
412 Equipment Replacement	275,165	285,800	**285,800**

Fund Balance	Projected 2019	2020	2021	2022	2023	2024
411 Building Maintenance	139,166	(15,434)	34,566	94,566	142,566	77,566
412 Equipment Replacement	483,556	190,456	97,906	106,606	143,606	251,106

It should be noted that the results based on the data available do not reflect the opinions of Leadership based on past experiences. With that said, we feel the data driven results are potentially too high in terms of minimum balance requirements and feel a range of $125,000-$150,000 would be more acceptable.