



**WILLMAR**

**FINANCE**

City Office Building  
Box 755  
Willmar, Minnesota 56201  
320-235-4984  
FAX: 320-235-4917

**Finance Committee Meeting  
4:45 P.M., Monday, January 28, 2013  
City Office Building Conference Room No. 1**

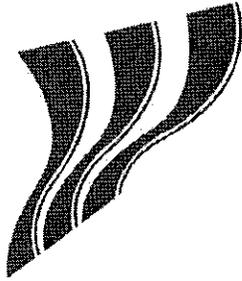
**Chair: Denis Anderson  
Vice Chair: Tim Johnson**

**Members: Rick Fagerlie  
Ward 4 Winner**

**AGENDA**

- 1) Public Comment
- 2) Waste Treatment Rate Discussion (Motion)
- 3) Fund Balance Policy Discussion (Resolution)
- 4) Miscellany
- 5) Adjourn





**CITY OF WILLMAR, MINNESOTA  
REQUEST FOR COMMITTEE ACTION**

**Agenda Item Number: 2**

**Meeting Date: January 28, 2013**

**Attachments:  Yes No**

**CITY COUNCIL ACTION**

**Date: February 4, 2013**

- |                                   |                                 |
|-----------------------------------|---------------------------------|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Denied |
| <input type="checkbox"/> Amended  | <input type="checkbox"/> Tabled |
| <input type="checkbox"/> Other    |                                 |

**Originating Department: Finance**

**Action Requested:** Approval to start the process to increase the rates charged for the Waste Treatment operations.

**Guiding Principle:** City Council Policy and Procedures

**Introduction:** Staff needs direction and approval from Committee to implement rates calculated by Springsted for the Wastewater Treatment Plant.

**Background/Justification:** (See Attachment)

**Fiscal Impact:** Increase in revenues and profitability for the Wastewater Treatment operations.

**Alternatives:** Subsidize rates with other revenues such as tax dollars. Not raising rates is not an option.

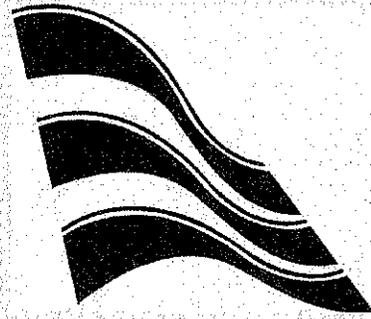
**Staff Recommendation:** Grant approval to prepare an ordinance to increase rates.

**Reviewed by:** Steven B. Okins, Finance Director

**Preparer:** Steven B. Okins, Finance Director

**Signature:**

**Comments:**



City of Willmar, Minnesota

# Wastewater Utility Rate Study

November 2012

# Wastewater Utility Rate Study

- Purpose of Study
- Assumptions
- Recent Financial Performance
- Recommendations
- Financial Projections
- Sample Bills
- Conclusions



## Purpose of Study

- Review financial performance
- Recommend rate structure to generate revenues sufficient for:
  - Operating expenses
  - Capital maintenance and replacement
  - Debt service
  - Cash reserves

## Assumptions

- 6,310 accounts
- 8,575 meters
- Sewer Volume
  - 56.0 million cubic feet/year from JOTS
  - 4.3 million cubic feet/year from Eagle Lake
  - 88.8 million cubic feet/year from RCPLi
  - 7.5% lower than total water sales

## Assumptions (cont.)

- Most expenses increase 3% per year
  - Benefits increase 5% per year
- \$5.4 million in capital outlay over 5 years
- Existing debt service of \$4.9 million annually
  - Includes Western Interceptor debt payments

## Recent Financial Performance

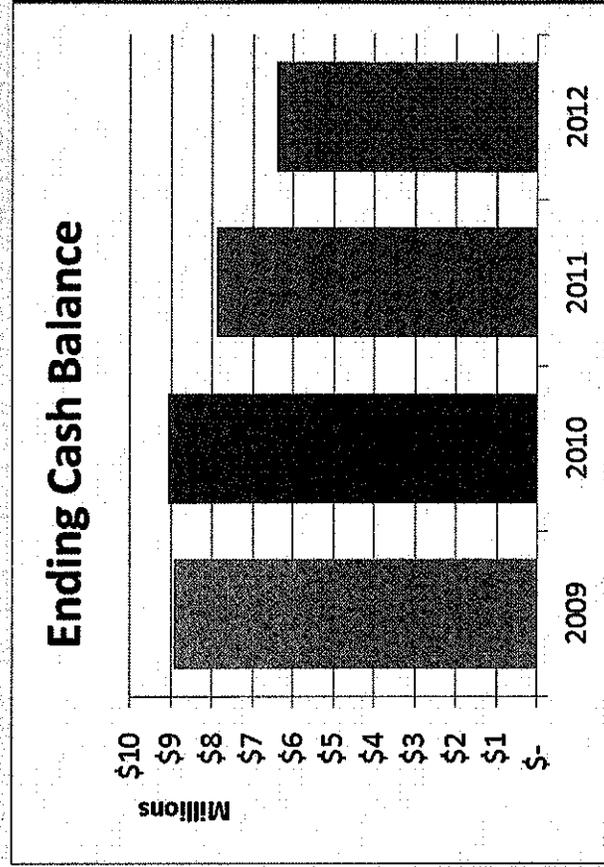
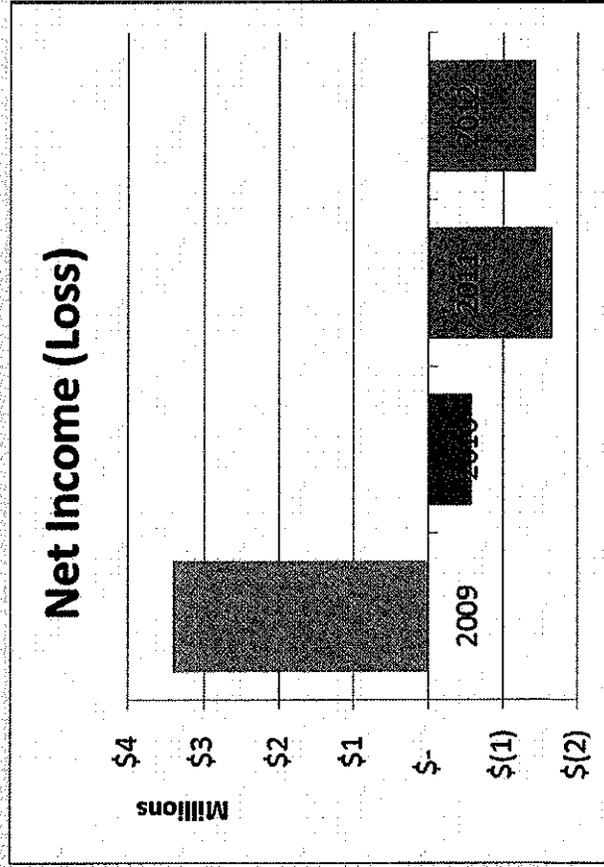
- Operating income is positive
- Net income is negative
  - \$2.3 million interest payments on debt
  - Net loss of (\$1.67 million) in 2011
  - Net loss of (\$1.44 million) in 2012
- Cash position is worsening
  - \$9.0 million in 2010
  - \$6.4 million in 2012

# Recent Financial Performance (cont.)

	2009	2010	2011	2012
<b>Total Operating Revenue</b>	\$ 3,576,202	\$ 4,139,101	\$ 5,670,166	\$ 6,751,345
Total - Personal Services	\$ 905,654	\$ 950,855	\$ 945,389	\$ 957,093
Total - Supplies	\$ 131,241	\$ 275,966	\$ 481,454	\$ 757,550
Total - Other Services and Charges	\$ 1,180,672	\$ 1,851,491	\$ 3,209,440	\$ 3,655,050
<b>Total Operating Expenses</b>	\$ 2,217,567	\$ 3,078,312	\$ 4,636,283	\$ 5,369,693
<b>Operating Income (Loss)</b>	\$ 1,358,635	\$ 1,060,789	\$ 1,033,883	\$ 1,381,652
Total Non Operating Revenues (Expenses)	\$ 2,307,617	\$ (1,398,915)	\$ (2,034,795)	\$ (2,257,345)
Transfers (Out)	\$ (250,000)	\$ (250,000)	\$ (665,616)	\$ (560,200)
<b>Net Income (Loss)</b>	\$ 3,416,252	\$ (588,126)	\$ (1,666,528)	\$ (1,435,893)
<b>Ending Cash Balance</b>	\$ 8,954,947	\$ 9,070,148	\$ 7,886,546	\$ 6,410,390



# Recent Financial Performance (cont.)



- Need to recover an additional \$1.5 million annually

# JOTS – Revenues and Expenses

Expenses Allocated to JOTS		Revenues from JOTS	
General Admin, O&M	389,681	Meter charges	52,566
Utilities	349,990	Volume charges	1,791,776
Chemicals	227,787	Surcharges	475,045
Additional Biosolids	33,433		
Replacement Fund	160,409		
Debt Service	1,162,901		
Depreciation	-		
<b>Total</b>	<b>2,324,199</b>	<b>Total</b>	<b>2,319,387</b>
		<b>Surplus/(Deficit)</b>	<b>(4,812)</b>

- Current revenues match allocated expenses



# Rate Recommendations

	2012	2013	2014	2015	2016	2017
Admin/Billing Charge	\$ 2.54	\$ 2.62	\$ 2.70	\$ 2.78	\$ 2.86	\$ 2.95
Utility Improvement Charge	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00
Meter Charge (5/8" meter)	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00
Tier 1 Volume (per 100 cu ft)	\$ 2.17	\$ 2.57	\$ 3.05	\$ 3.36	\$ 3.70	\$ 3.96
Tier 2 Volume (per 100 cu ft)	\$ 3.33	\$ 3.95	\$ 4.68	\$ 5.15	\$ 5.67	\$ 6.07

- Admin/Billing projected to grow 3% annually
- Meter charges unchanged
- Volume-based rates must rise to generate necessary revenues

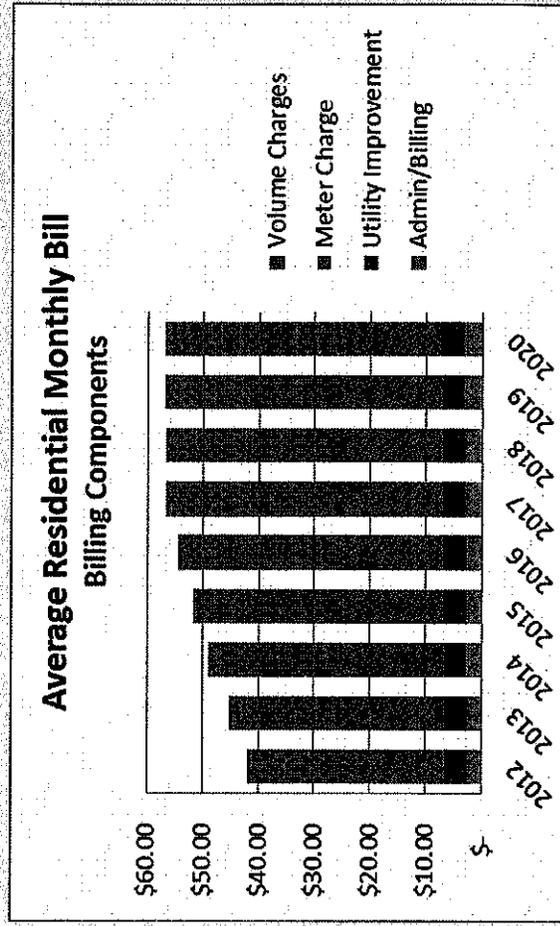
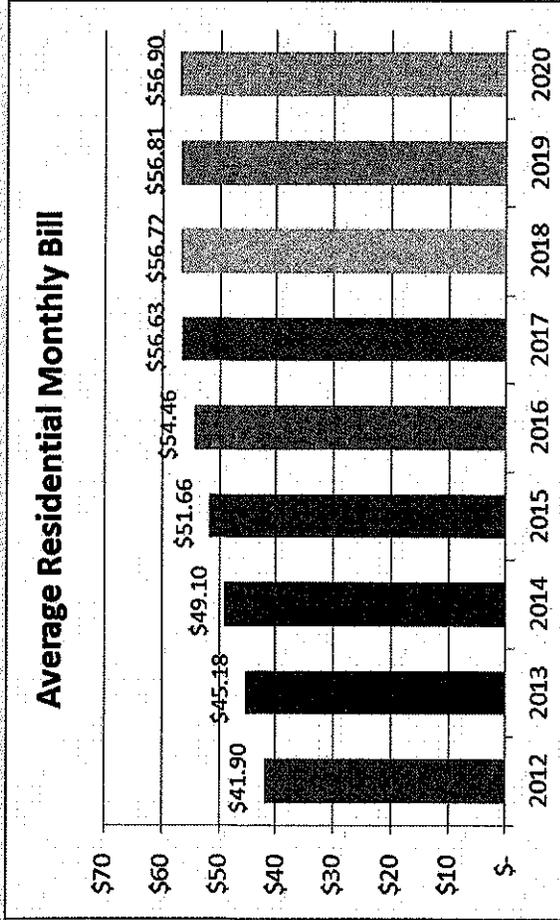
# Financial Projections

	2012	2013	2014	2015	2016	2017
<b>Beginning Cash &amp; Investments</b>	7,886,546	6,410,390	5,463,118	5,183,025	5,175,031	5,596,297
Net Income	(1,435,893)	(705,667)	192,550	670,648	1,325,510	1,878,269
Depreciation	2,400,000	2,280,000	2,176,167	2,144,867	2,058,182	1,963,108
Amortization	-	-	-	-	-	-
Acquisition and Construction of Assets	(2,958,557)	(425,700)	(3,775,000)	(783,000)	(100,000)	(308,500)
Proceeds from New Long-Term Debt	2,873,557	425,700	3,775,000	783,000	100,000	308,500
Payments on New Long-Term Debt		-	(15,843)	(109,371)	(140,862)	(147,860)
Payments on Existing Long-Term Debt	(2,355,263)	(2,521,605)	(2,632,968)	(2,714,137)	(2,821,563)	(2,941,630)
<b>Ending Cash Balance</b>	<b>6,410,390</b>	<b>5,463,118</b>	<b>5,183,025</b>	<b>5,175,031</b>	<b>5,596,297</b>	<b>6,348,184</b>
<b>Minimum Cash Balance</b>						
For ongoing operations (months)	1,342,423	1,336,199	1,334,805	1,352,360	1,356,913	1,360,242
For debt service	4,841,290	4,911,632	5,076,501	5,148,863	5,184,288	4,910,191
<b>Minimum Cash Balance Required</b>	<b>6,183,714</b>	<b>6,247,831</b>	<b>6,411,306</b>	<b>6,501,223</b>	<b>6,541,201</b>	<b>6,270,433</b>
Amount Over (Under) Minimum	226,677	(784,713)	(1,228,281)	(1,326,192)	(944,903)	77,750

- Positive net income in 2014
- Cash reserves rebuilt by 2017

# Sample Bill – Residential

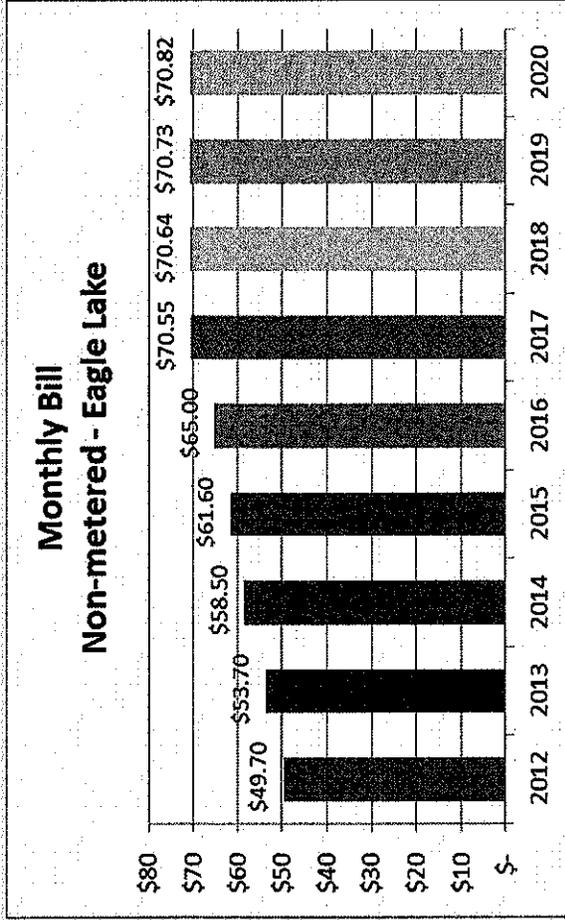
Average Residential User (5/8" meter and 800 cu ft (5,984 gallons) per month									
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Administration and Billing	\$ 2.54	\$ 2.62	\$ 2.70	\$ 2.78	\$ 2.86	\$ 2.95	\$ 3.04	\$ 3.13	\$ 3.22
Utility Improvement Charge	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00
Meter Charge (5/8" meter)	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00	\$ 18.00
Volume Charge (800 cu ft)	\$ 17.36	\$ 20.56	\$ 24.40	\$ 26.88	\$ 29.60	\$ 31.68	\$ 31.68	\$ 31.68	\$ 31.68
Total Monthly Charges	\$ 41.90	\$ 45.18	\$ 49.10	\$ 51.66	\$ 54.46	\$ 56.63	\$ 56.72	\$ 56.81	\$ 56.90



# Sample Bill – Eagle Lake

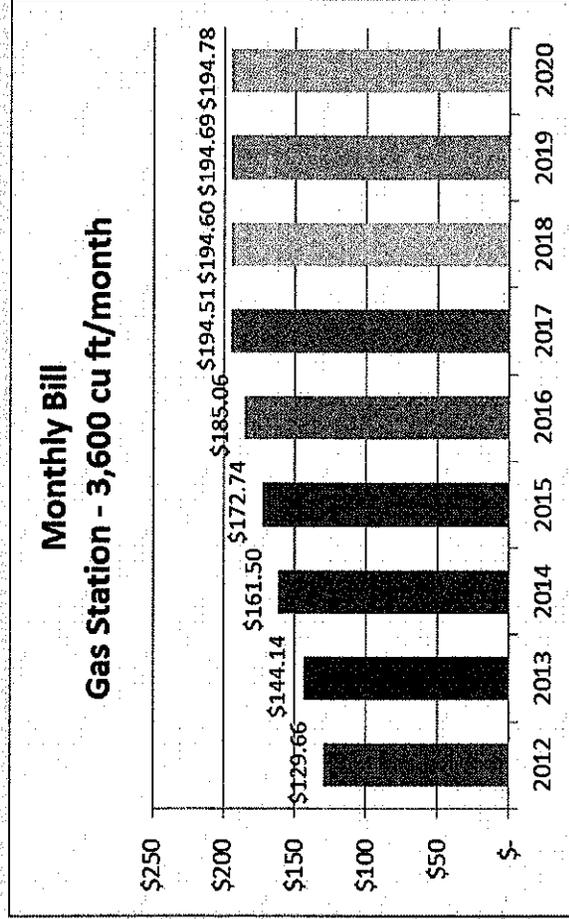
Non-Metered Eagle Lake User (1,000 cu ft (7,480 gal) per month and 1.5x residential meter charge)									
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Administration and Billing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.95	\$ 3.04	\$ 3.13	\$ 3.22
Utility Improvement Charge	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Meter Charge (residential x 1.5)	\$ 27.00	\$ 27.00	\$ 27.00	\$ 27.00	\$ 27.00	\$ 27.00	\$ 27.00	\$ 27.00	\$ 27.00
Volume Charge (1,000 cu ft)	\$ 21.70	\$ 25.70	\$ 30.50	\$ 33.60	\$ 37.00	\$ 39.60	\$ 39.60	\$ 39.60	\$ 39.60
Total Monthly Charges	\$ 49.70	\$ 53.70	\$ 58.50	\$ 61.60	\$ 65.00	\$ 70.55	\$ 70.64	\$ 70.73	\$ 70.82

\* Eagle Creek agreement expires in 2016; assume that Admin charges start in 2017



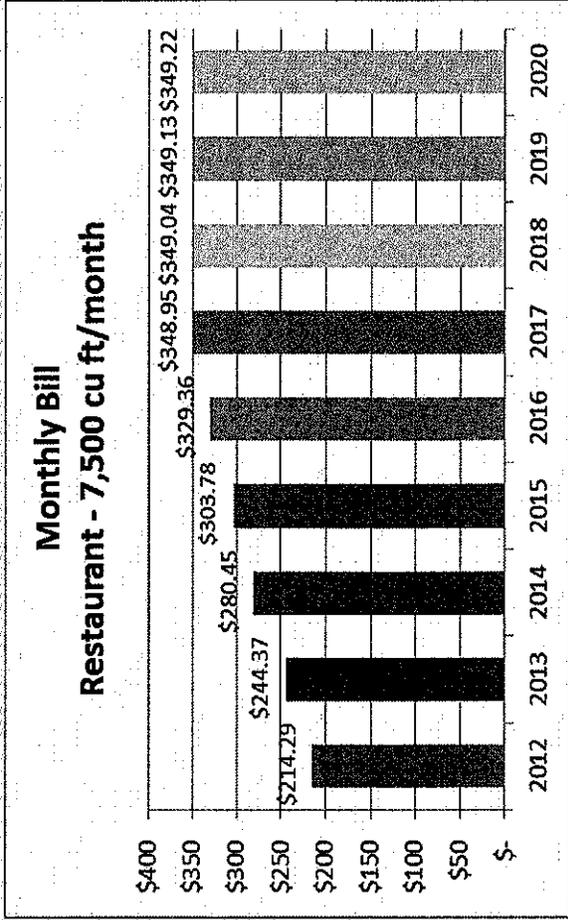
# Sample Bill – Gas Station

Gas Station - 1" meter and 3,600 cu ft (26,928 gallons) per month									
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Administration and Billing	\$ 2.54	\$ 2.62	\$ 2.70	\$ 2.78	\$ 2.86	\$ 2.95	\$ 3.04	\$ 3.13	\$ 3.22
Utility Improvement Charge	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00
Meter Charge (1" meter)	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00
Volume Charge (3,600 cu ft)	\$ 78.12	\$ 92.52	\$ 109.80	\$ 120.96	\$ 133.20	\$ 142.56	\$ 142.56	\$ 142.56	\$ 142.56
Total Monthly Charges	\$ 129.66	\$ 144.14	\$ 161.50	\$ 172.74	\$ 185.06	\$ 194.51	\$ 194.60	\$ 194.69	\$ 194.78



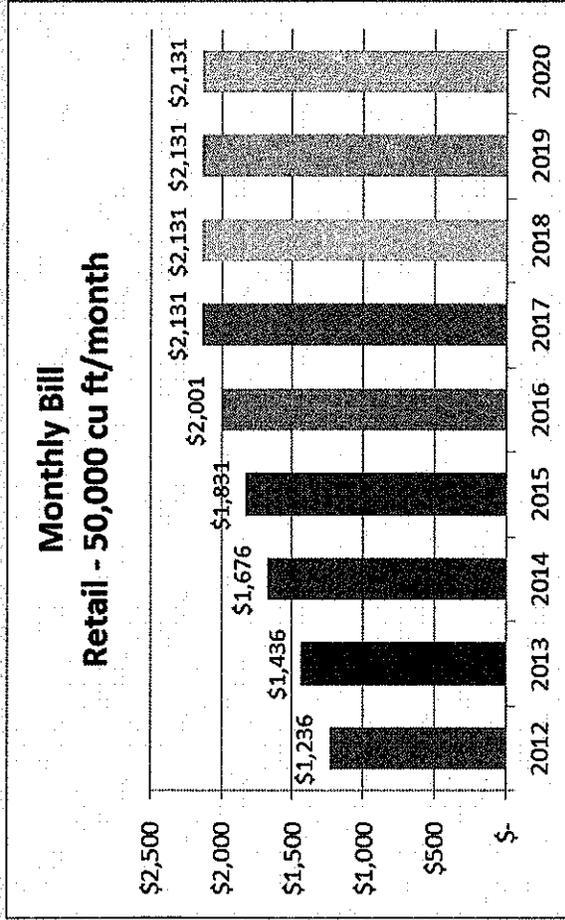
# Sample Bill – Restaurant

Restaurant - 1" meter and 7,500 cu ft (56,100 gallons) per month									
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Administration and Billing	\$ 2.54	\$ 2.62	\$ 2.70	\$ 2.78	\$ 2.86	\$ 2.95	\$ 3.04	\$ 3.13	\$ 3.22
Utility Improvement Charge	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00
Meter Charge (1" meter)	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00
Volume Charge (7,500 cu ft)	\$ 162.75	\$ 192.75	\$ 228.75	\$ 252.00	\$ 277.50	\$ 297.00	\$ 297.00	\$ 297.00	\$ 297.00
Total Monthly Charges	\$ 214.29	\$ 244.37	\$ 280.45	\$ 303.78	\$ 329.36	\$ 348.95	\$ 349.04	\$ 349.13	\$ 349.22



# Sample Bill – Retail

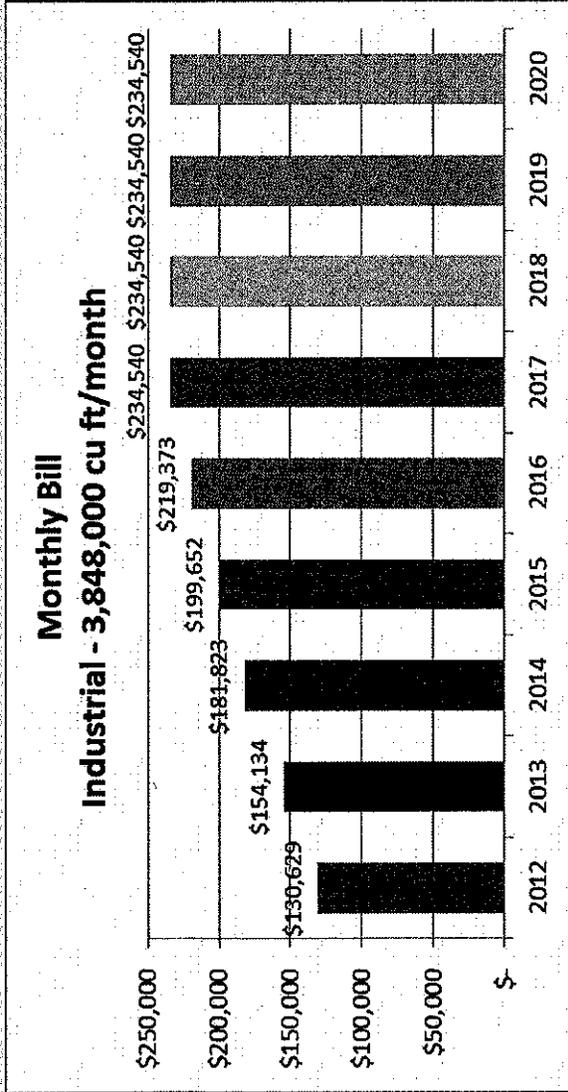
Retail User - 2" meter and 50,000 cu ft (374,000 gallons) per month									
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Administration and Billing	\$ 2.54	\$ 2.62	\$ 2.70	\$ 2.78	\$ 2.86	\$ 2.95	\$ 3.04	\$ 3.13	\$ 3.22
Utility Improvement Charge	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00
Meter Charge (2" meter)	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00	\$ 144.00
Volume Charge (50,000 cu ft)	\$ 1,085.00	\$ 1,285.00	\$ 1,525.00	\$ 1,680.00	\$ 1,850.00	\$ 1,980.00	\$ 1,980.00	\$ 1,980.00	\$ 1,980.00
Total Monthly Charges	\$ 1,235.54	\$ 1,435.62	\$ 1,675.70	\$ 1,830.78	\$ 2,000.86	\$ 2,130.95	\$ 2,131.04	\$ 2,131.13	\$ 2,131.22

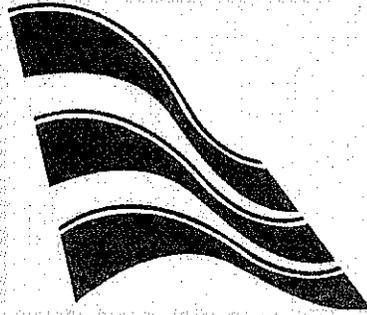


# Sample Bill -- Industrial

**Industrial User - 12 meters and 3,848,000 cu ft (28,785,000 gallons) per month**

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Administration and Billing	\$ 2.54	\$ 2.62	\$ 2.70	\$ 2.78	\$ 2.86	\$ 2.95	\$ 3.04	\$ 3.13	\$ 3.22
Utility Improvement Charge (x12)	\$ 48.00	\$ 48.00	\$ 48.00	\$ 48.00	\$ 48.00	\$ 48.00	\$ 48.00	\$ 48.00	\$ 48.00
Meter Charge (12 various meters)	\$ 4,302	\$ 4,302	\$ 4,302	\$ 4,302	\$ 4,302	\$ 4,302	\$ 4,302	\$ 4,302	\$ 4,302
Volume Charge (3,848,000 cu ft)	\$ 126,277	\$ 149,781	\$ 177,470	\$ 195,299	\$ 215,020	\$ 230,187	\$ 230,187	\$ 230,187	\$ 230,187
Total Monthly Charges	\$ 130,629	\$ 154,134	\$ 181,823	\$ 199,652	\$ 219,373	\$ 234,540	\$ 234,540	\$ 234,540	\$ 234,540



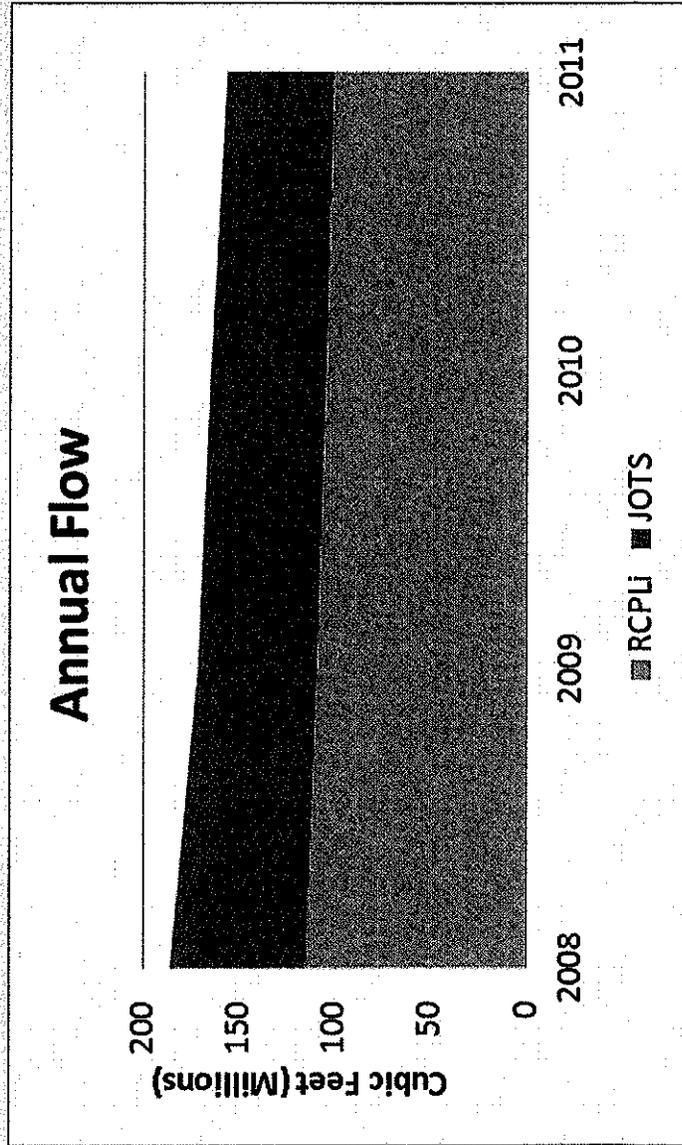


City of Willmar, Minnesota

# Wastewater Utility Rate Study Supplementary Material

November 2012

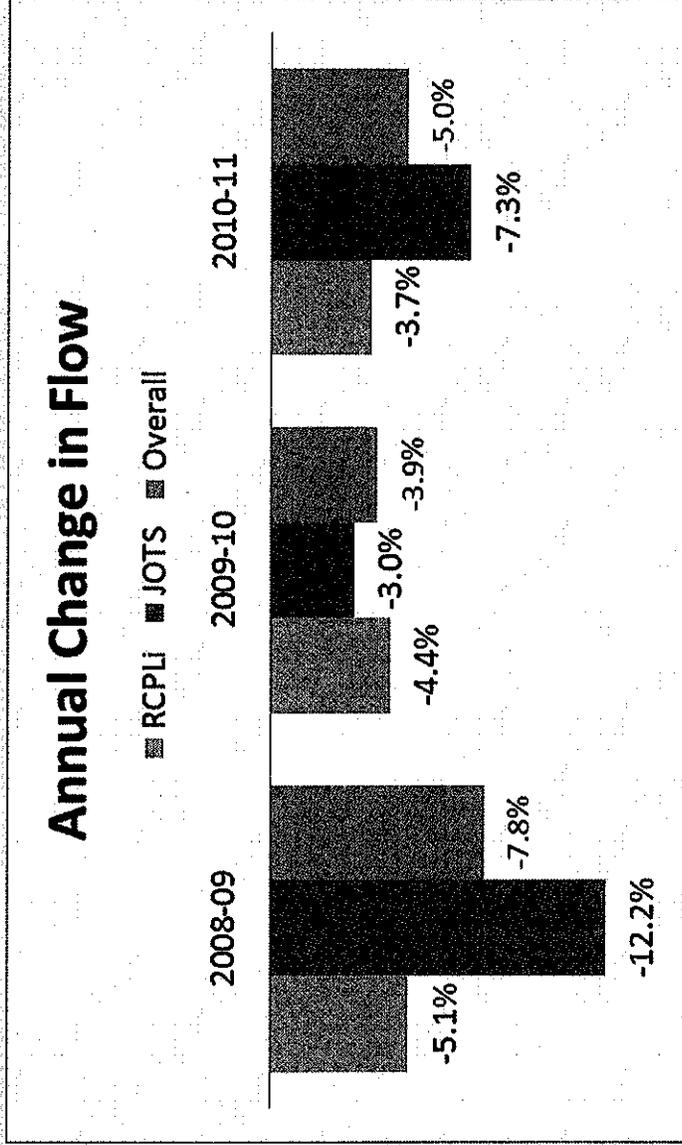
# Usage Trends



Consumption (cu ft)	2008	2009	2010	2011
RCPLI	115,495,455	109,624,400	104,809,100	100,959,400
JOTS	70,965,107	62,281,700	60,382,400	55,993,300
<b>Overall</b>	<b>186,460,830</b>	<b>171,906,100</b>	<b>165,191,500</b>	<b>156,952,700</b>



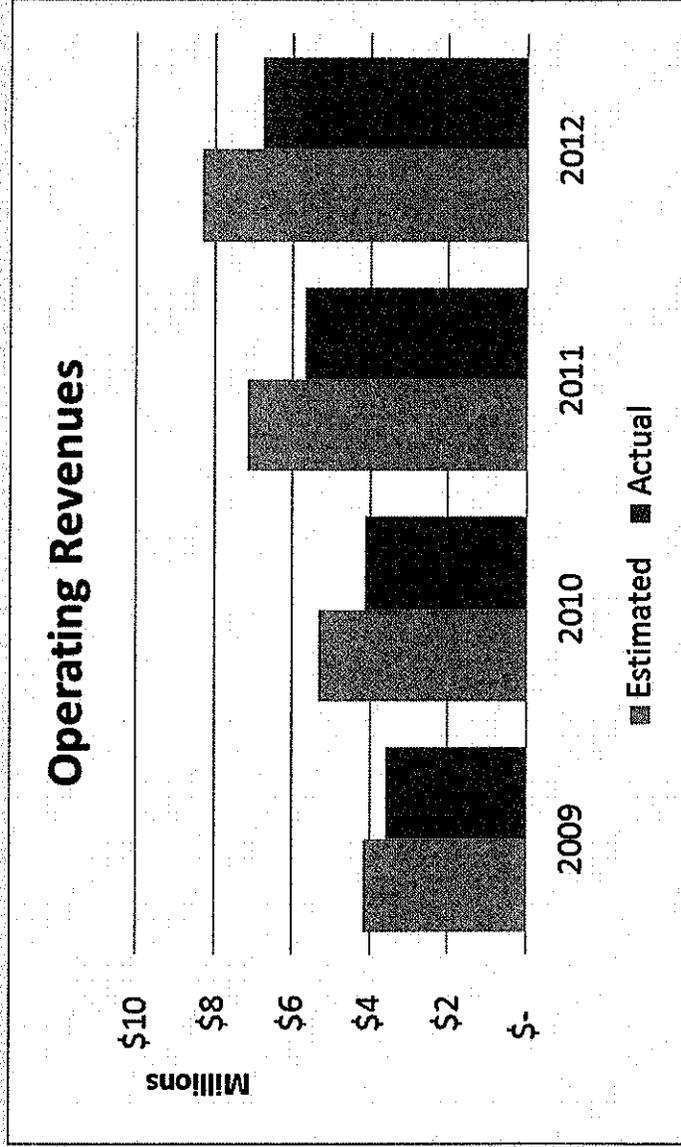
# Usage Trends (cont.)



Annual Change	2008-09	2009-10	2010-11
RCPLi	-5.1%	-4.4%	-3.7%
JOTS	-12.2%	-3.0%	-7.3%
Overall	-7.8%	-3.9%	-5.0%



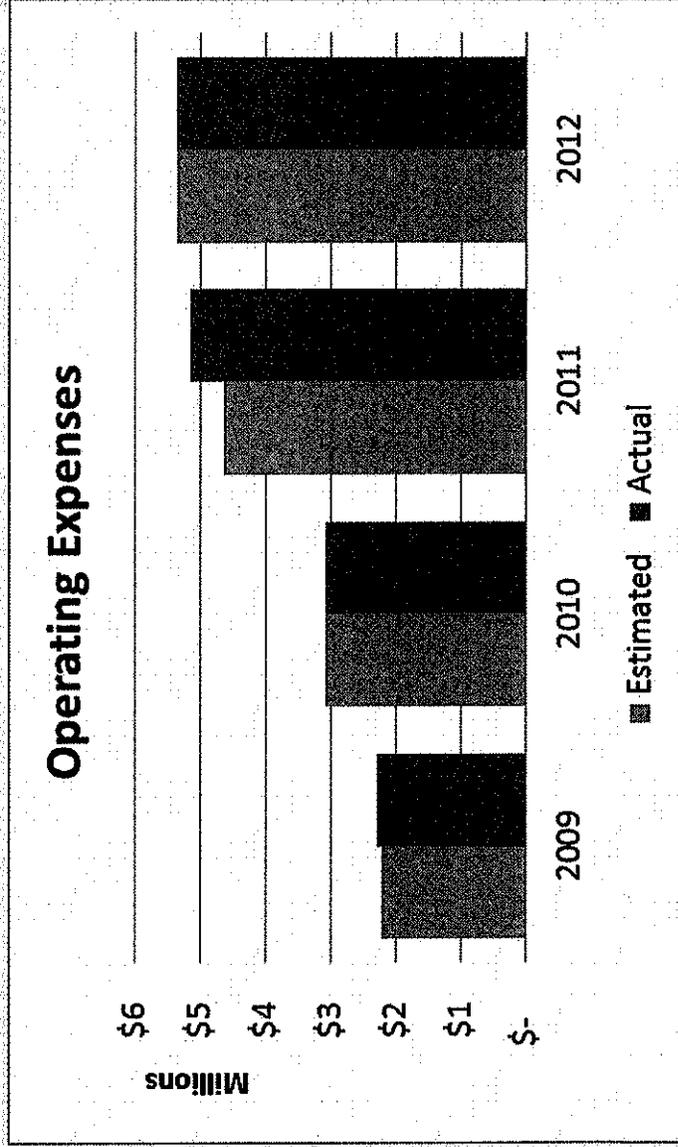
# Projections vs. Actual – Revenues



Operating Revenues	2009	2010	2011	2012
Estimated	\$ 4,155,561	\$ 5,322,435	\$ 7,156,962	\$ 8,327,592
Actual	\$ 3,576,202	\$ 4,139,101	\$ 5,670,166	\$ 6,751,345
Difference	\$ (579,359)	\$ (1,183,334)	\$ (1,486,796)	\$ (1,576,247)



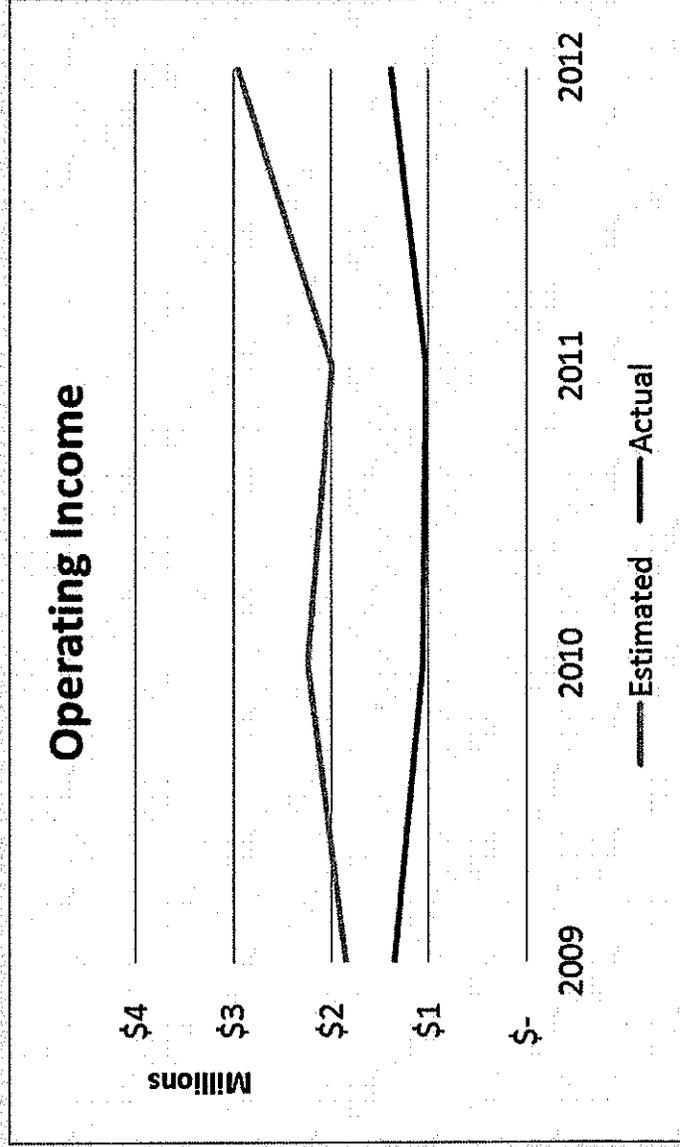
# Projections vs. Actual – Expenses



	2009	2010	2011	2012
Operating Expenses				
Estimated	\$ (2,217,567)	\$ (3,078,312)	\$ (4,636,283)	\$ (5,369,693)
Actual	\$ (2,300,039)	\$ (3,087,997)	\$ (5,165,979)	\$ (5,371,190)
Difference	\$ (82,472)	\$ (9,685)	\$ (529,696)	\$ (1,497)



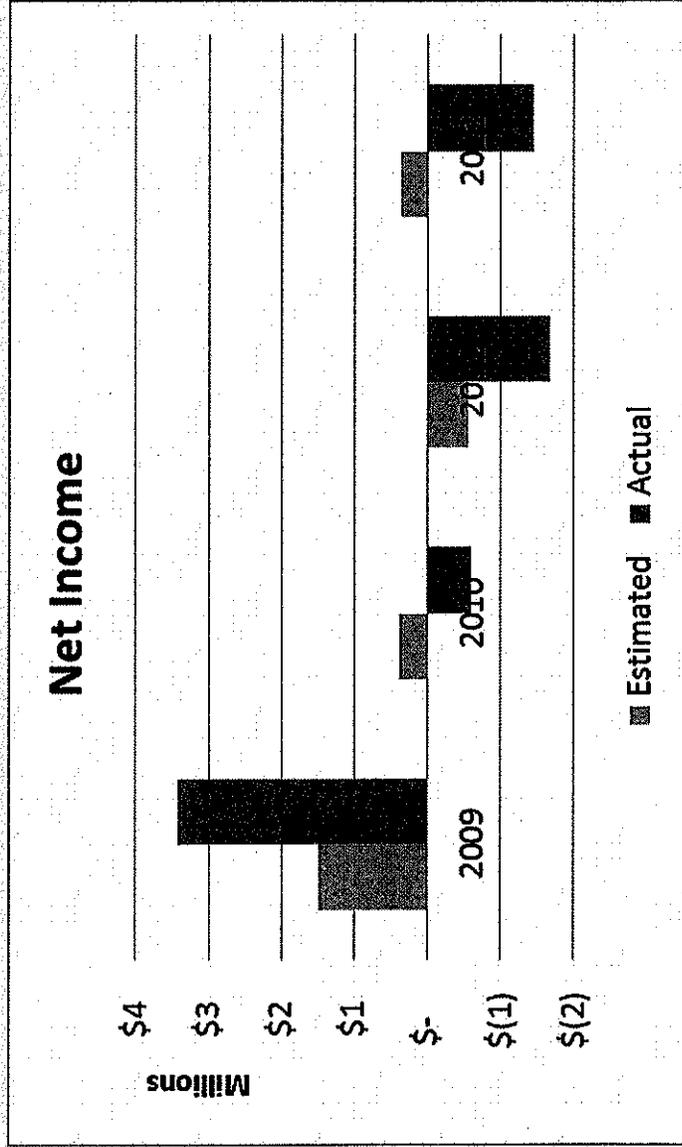
# Projections vs. Actual – Operating Income



Operating Income	2009	2010	2011	2012
Estimated	\$ 1,855,522	\$ 2,234,438	\$ 1,990,983	\$ 2,956,402
Actual	\$ 1,358,635	\$ 1,060,789	\$ 1,033,883	\$ 1,381,652
Difference	\$ (496,887)	\$ (1,173,649)	\$ (957,100)	\$ (1,574,750)



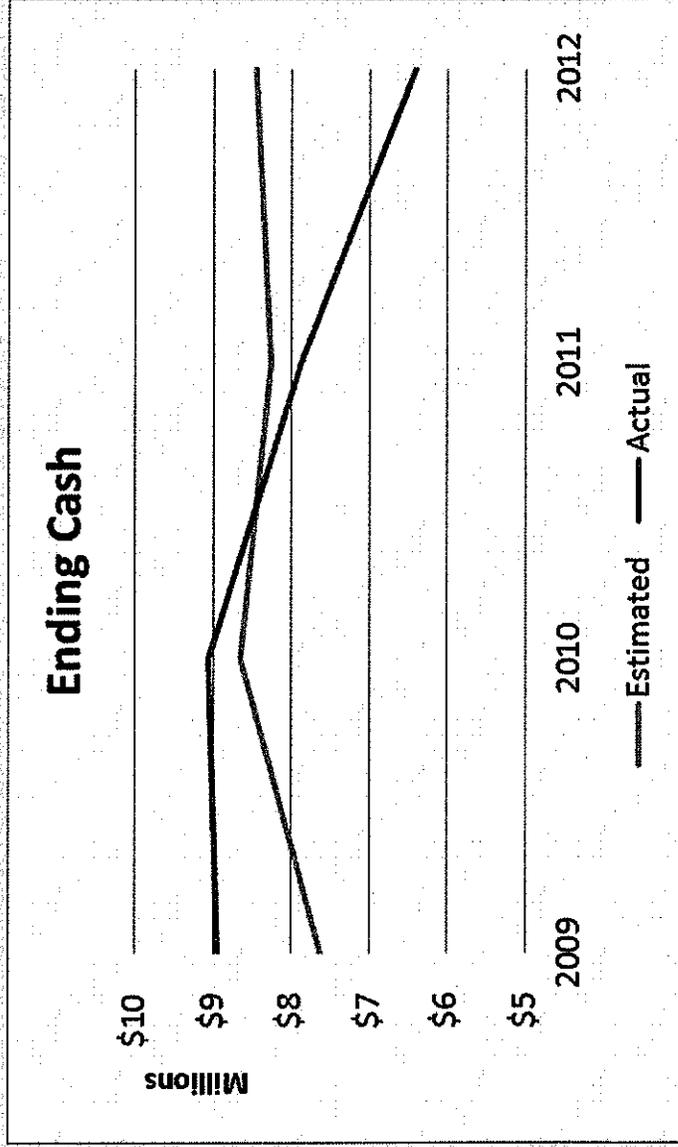
# Projections vs. Actual – Net Income



Net Income	2009	2010	2011	2012
Estimated	\$ 1,480,093	\$ 376,341	\$ (542,576)	\$ 369,048
Actual	\$ 3,416,252	\$ (588,126)	\$ (1,666,528)	\$ (1,435,893)
Difference	\$ 1,936,159	\$ (964,467)	\$ (1,123,952)	\$ (1,804,941)

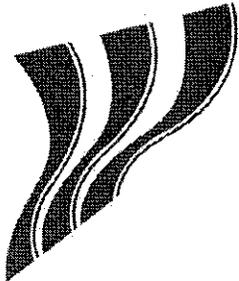


# Projections vs. Actual – Ending Cash



Ending Cash	2009	2010	2011	2012
Estimated	\$ 7,636,020	\$ 8,652,159	\$ 8,272,405	\$ 8,465,332
Actual	\$ 8,954,947	\$ 9,070,148	\$ 7,886,546	\$ 6,410,390
Difference	\$ 1,318,927	\$ 417,989	\$ (385,859)	\$ (2,054,942)





**CITY OF WILLMAR, MINNESOTA  
REQUEST FOR COMMITTEE ACTION**

**Agenda Item Number: 3**

**Meeting Date: January 28, 2013**

**Attachments:  Yes No**

**CITY COUNCIL ACTION**

**Date: February 4, 2013**

- |                                   |                                 |
|-----------------------------------|---------------------------------|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Denied |
| <input type="checkbox"/> Amended  | <input type="checkbox"/> Tabled |
| <input type="checkbox"/> Other    |                                 |

**Originating Department: Finance**

**Action Requested:** Introduction and passage of a resolution approving a Fund Balance Policy.

**Guiding Principle:** City Charter and Council Policy/Procedures, Generally Accepted Accounting Principles

**Introduction:** After monthly availability and possible discussion opportunities, staff is requesting action on the Policy submitted.

**Background/Justification:** Generally Accepted Accounting Principles (GAAP) and Bond Rating Agencies recommend formulation and adoption of Policy document.

**Fiscal Impact:** Long term stability of the City of Willmar.

**Alternatives:** Amend the policy or sections but a policy is required.

**Staff Recommendation:** Introduce a resolution and approve the Policy as submitted.

**Reviewed by:** Steven B. Okins, Finance Director

**Preparer:** Steven B. Okins, Finance Director

**Signature:**

**Comments:**

**CITY OF WILLMAR, MN**  
**FUND BALANCE POLICY**

**I. PURPOSE**

The purpose of this policy is to establish the specific guidelines for the level of fund balances available for current and future spending in the governmental funds. The fund balance policy addresses a minimum level of unrestricted fund balance to be maintained, how the unrestricted fund balance can be used or spent down and how that fund balance will be replenished if it falls below the minimum level. In addition, the City sets a stabilization amount for use in emergency situations or when revenue shortages or budgetary imbalances arise. The policy also addresses when fund balances will be restricted to specific purposes. For the purpose of this policy any reference to the City Administrator shall mean the City Administrator or his or her designee.

**II. BACKGROUND**

Government Accounting Standards Board (GASB) Statement No. 54 was enacted to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. In governmental funds, a City should identify fund balance separately between non-spendable, restricted, committed, assigned or unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

Proprietary funds' equity will be managed as a separate business-like enterprise as allowed by U.S. Generally Accepted Accounting Principals (GAAP). The funds will be monitored through operations and their rate structures. Examples of Proprietary funds include Hospital, Municipal Utilities and Sewer. Proprietary fund balances will be classified as either invested in capital assets net of related debt, restricted or unrestricted.

**III. CLASSIFICATION OF FUND BALANCE/PROCEDURES**

**1. Nonspendable**

- This category includes fund balance that cannot be spent because it is either (i) not in spendable form or (ii) is legally or contractually required to be maintained intact. Examples include inventory, prepaid items, endowments and land held for resale.

**2. Restricted**

- Fund balance should be reported as restricted when constraints placed on those resources are either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation. Examples include bond or grant proceeds, tax increments and park dedication fees.

### 3. Committed

- Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts.
- The City's highest level of decision making authority (City Council) will annually or as deemed necessary commit specific revenue sources for specified purposes by formal action. This formal action must occur prior to the end of the reporting period, however, the amount to be subject to the constraint, may be determined in the subsequent period. A committed fund balance cannot be a negative number.

### 4. Assigned

- Amounts that are constrained by the government's intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General fund includes amounts that are intended to be used for specific purposes.

### 5. Unassigned

- Unassigned fund balance represents the residual classification for the General fund. Includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General fund. The General fund should be the only fund that reports a positive unassigned fund balance amount.
  - a. The City will maintain an unrestricted fund balance in the General fund of an amount not less than 100% of the next year's budgeted expenditures of the General fund. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.
  - b. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded by property taxes (funding source) within five years (period over which replenishment will occur).

## IV. STABILIZATION ARRANGEMENTS

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

The City will set aside amounts by resolution as deemed necessary that can only be expended when certain specific circumstances exist. The resolution will identify and describe the specific circumstances under which a need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely.

V. MONITORING AND REPORTING

The City Council shall annually review fund balances in relation to this policy in conjunction with the development of the annual budget.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1.) committed 2.) assigned and 3.) unassigned.

A negative residual amount may not be reported for restricted, committed, or assigned fund balances in the General fund.

VI. GOVERNMENTAL FUND DEFINITIONS

GASB Statement 54 provides clarification of the governmental funds definitions. The definitions are added to the fund balance policy to clearly define their reporting requirements. It is also important to understand the fund classification when determining the classification of their fund balances.

General Fund – Used to account for all financial resources not accounted for in another fund.

Special Revenue Funds – Used to account for reporting the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes (other than debt service or capital projects).

- One or more specified restricted or committed revenues are the foundation for the fund (comprise a substantial portion of fund's inflows).
- Other inflows (i.e. interest and transfers) may be reported in fund, if restricted, committed or assigned to the specified purpose of the fund.
- Restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of inflows of the fund.
- Exception for specific revenue rules – General fund of Blended Component Unit (EDA).

Debt Service Funds – Used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest payments.

Capital Projects Funds – Used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

#### VII. ENTERPRISE FUND EQUITY

Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises, where the City intends the cost of providing goods or services to the public be financed or recovered primarily through user charges. The City's enterprise funds include the Rice Memorial Hospital, Willmar Municipal Utilities and Sewer funds.

It is the City's intent to cover all operating and non-operating expenses through user charges to eliminate the impact on taxpayers. User charges will be reviewed annually to ensure adequate rates are charged for the services provided.

Enterprise funds' equity will be classified in one of the following categories:

- *Investment in Capital Assets, Net of Related Debt.* The component of net assets which is the difference between assets and liabilities of proprietary funds that consists of capital assets less both accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction or improvement of the capital assets.
- *Restricted.* The component of net assets which is the difference in assets and liabilities of proprietary funds that consist of assets with constraints placed on their use by either external parties (i.e. creditors or grantors) or through constitutional provisions or enabling legislation.
- *Unrestricted.* The difference between the assets and liabilities of proprietary funds that is not reported as Investment in Capital Assets, Net of Related Debt or Restricted net assets.

The City Council will not establish a minimum required level for equity in proprietary funds other than the funds should cover their own operating and non-operating costs.

#### IV. OTHER POLICY CONSIDERATIONS

The City will use all *budgetary and financial accounting options* available to maintain the minimum level of fund balance available for appropriation in the General and Special Revenue Funds. Some options available include the following items:

- A specific budgeted revenue increase (i.e. ad valorem property tax increase).

- Increase fees for services.
- Reduction of expenditures in the budget.
- Transfers from other available funds.
- Sale of capital assets.

The City Council requires positive fund balances for all governmental, proprietary and fiduciary funds, with a few exceptions. The Council will allow a negative fund balance in the following instances:

- A project may be in a developmental phase in which all appropriations have not yet been received. It is anticipated the appropriations will be received within the fiscal year or early the following fiscal year. The City Administrator will present anticipated revenue sources to the Council when a deficit occurs for this reason.
- An emergency occurred and all appropriations to pay for the emergency have not been received yet. The City Administrator will keep a current listing of anticipated revenue sources to pay for the emergency.
- Pledges for a project are expected to be received over a period of time. In this case, a long-term receivable may be recorded if the pledges are assured to be received. If the receipt of the pledges is not guaranteed, the receivable cannot be recorded. The project (fund in some cases) will carry a negative balance until all pledges are received.
- An inter-fund loan is not appropriate or not available to cover the fund deficit.

The City Administrator will report shortfalls or surpluses in the projected fund balance levels to the City Council as soon as found to be a significant impact.

If a *fund deficit* occurs, a written plan by the City Administrator to move the fund out of the deficit is required. The City Council is responsible for reviewing and approving the financial plan. The City Administrator will monitor the plan's effectiveness on a monthly basis. The City Administrator will report the plan's effectiveness to the City Council on a quarterly basis.

A *fund surplus*, above all internal and external constraints, may also occur. In this case, the Administrator will notify the City Council to discuss the circumstances of the surplus and determine whether or not the established threshold is effective. Some appropriate plans for using fund surpluses include the following items (but are not limited to):

- Move budgeted expenditure into a future year due to unforeseen circumstances.
- Fund a one-time project or project planning that would not normally be budgeted in the on-going operations of the City.

- Return unused dollars to donors.
- Transfer excess funds to another City fund to finance a project or cover a shortfall.

The City's *credit rating* for debt financing and investing will also be considered in the level of required General fund balance. The City Council may further restrict the required fund balance level to meet a higher credit rating need if possible. The City's credit rating is reviewed annually by the City Administrator, Finance Director, and bond counsel when necessary. The City Administrator shall be responsible for conducting rating reviews.

#### IV. REPORTING REQUIREMENTS

The City's audit firm shall provide a City presentation of the previous year's financial condition in the modified and full accrual basis of accounting after the audit is completed. Any deficiencies presented by the auditor will be followed up by the City Administrator with a written plan to comply with this policy. The audit presentation will occur before June 30<sup>th</sup> following the previous year's end.

Adopted by the Willmar City Council on this ?<sup>th</sup> day of ?, 2012.

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Frank Yanish  
Mayor

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Carlene Stevens  
City Administrator