

# Business Item

Management Committee



Committee Meeting Date: December 13, 2023

For the Metropolitan Council: January 10, 2024

## Business Item: 2023-306

Target Fund Balance Policy (FM 2-3) Update

<b>District(s), Member(s):</b>	All
<b>Policy/Legal Reference:</b>	Target Fund Balance Policy (FM 2-3)
<b>Staff Prepared/Presented:</b>	Marie Henderson, Deputy (Acting CFO), 651-602-1387
<b>Division/Department:</b>	Regional Administration, Finance

### Proposed Action

That the Metropolitan Council authorize the Regional Administrator to amend the Council's Target Fund Balance Policy for Metro Mobility funds and Metropolitan Area Transportation Sales and Use Tax in accordance with the attached revised Target Fund Balance Policy.

### Background

The Council's Finance and Asset Management Policy (FM 2-2) requires that financial resources be restricted by each organizational unit. The policy further provides that each unit will respond to year-end deficits and surpluses generated by that unit. To promote responsible financial management, it is prudent for the Council to adopt target fund balances for each operating fund. The target fund balance is intended to help the operation fund/unit meet cash flow needs to ensure adequate protection for unanticipated events. The targets are intended to be benchmarks and not absolutes.

### Rationale

The change for Metro Mobility is moving from 10% of annual budgeted operating expenditures to 5% budgeted operations is due to the program being a state funded program starting in the state's fiscal year 2026. This will allow the reserves to move to a new lower level over time and to remain prudent with the fund resources. This also adds an operation reserve balance for the new Metropolitan Area Transportation Sales and use tax that began October 1, 2023, to help manage the cash flow volatility.

### Thrive Lens Analysis

**Accountability** – Following best practices with the Government Finance Officers Association (GFOA), using a conservative and fiscally responsible approach to financial management.

**Stewardship** – Following responsible financial management and strategy with the use of the Councils' resources.

### Funding

This action has no funding impact.

**Small Business Inclusion**

There are no direct impacts to small business with this action.

## POLICY

### Target Fund Balance Policy

FM 2-3

**Category:** Financial Management

**Business Unit Responsible:** RA: Finance

**Policy Owner:** Deputy Chief Financial Officer

**Policy Contact:** Marie Henderson, Deputy Chief Financial Officer

**Synopsis:** The Council has a number of operating programs, which should be supported by adequate reserve funds to meet unanticipated events. This policy is to define appropriate target fund balance levels for Council operating funds.

## POLICY

In keeping with Council policy guidance and to promote responsible financial management, it is prudent for the Council to adopt target fund balances for each operating fund. The target fund balance is intended to help the operating fund and operational unit meet cash flow needs and ensure adequate protection for unanticipated events. The targets are intended to be benchmarks and not absolutes.

The funds and associated target balances are:

Operating fund/unit target balance	
<b>General Fund</b>	10% of annual budgeted operating expenditures.
<b>Metropolitan Transportation Services</b>	
Metro Mobility	<del>10</del> 5% of annual budgeted operating
Contracted Services - Fixed Route/Transit Link	10% of annual budgeted operating expenditures
Transportation Planning	30% of annual budgeted operating expenditures
<b>HRA</b>	8.3% of annual budgeted operating expenses
<b>Metro Transit, bus, and rail</b>	8.3% to 12.5% of annual budgeted operating expenses
<b>Environmental Services</b>	10% of annual budgeted operating expenses
<b>Self-Insurance (Medical, Dental)</b>	25% to 35% of annual budgeted operating expenses
<b>Motor Vehicle Sales Tax</b>	\$15 million for cash flow, due to monthly revenue volatility
<b><u>Metropolitan Area Transportation Sales and Use Tax</u></b>	<b><u>2% of Transportation Sales tax, due to monthly revenue volatility</u></b>

The reserve targets will be reviewed with the management committee periodically for adequacy.

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## PURPOSE AND SCOPE

Setting appropriate target fund balances is prudent financial risk management and aligns with Government Finance Officers Association (GFOA) best practices.

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## IMPLEMENTATION & ACCOUNTABILITY

Each division is responsible for monitoring fund balances and reporting on progress toward achieving that target balance.

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## RESOURCES

### Related Policy:

- [FM 2-2 Finance and Asset Management Policy](#)

### Resources

- [Government Finance Officers Association](#)

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## HISTORY

### Version 4 – Template Update

10/12/2020 - Updated content into new template.

### Version 3 – Approval Date ([Business Item 2020-148](#))

06/10/2020 – Changed the Metro Transit to target balance fund to a range and added target fund balance for Self-insurance (medical and dental) and Motor Vehicle Sales Tax to this policy.

### Version 2 – Approval Date

12/12/2012

### Version 1 – Approval Date

12/05/2001

### Last Reviewed Date

06/10/2020

### Next Content Review Date

07/15/2021

### Former Reference #

3-8

### Version

4

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## RESOURCES

### Related Policy:

- [\*FM 2-2 Finance and Asset Management Policy\*](#)

### Resources

- [\*Government Finance Officers Association\*](#)
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## HISTORY

### Version 5 – Approval Date (Business item 2023- 306)

12/13/2023 - Changed Metro Mobility target fund balance from 10% to 5% based on budgeted expenditures. Added Metropolitan Area Transportation Sales and Use Tax to this policy

### Version 4 – Template Update

10/12/2020 - Updated content into new template.

### Version 3 – Approval Date ([\*Business Item 2020-148\*](#))

06/10/2020 – Changed the Metro Transit to target balance fund to a range and added target fund balance for Self-insurance (medical and dental) and Motor Vehicle Sales Tax to this policy.

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### Former Reference #

3-8

### Version

5