

Fund Balance Policy

Revised February 8, 2021

PURPOSE

The purpose of this policy is to ensure financially prudent guidelines and parameters are maintained, which is a key element of the City's financial stability.

One part of the City's financial stability is maintaining adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.

This Policy will ensure that the City maintains adequate fund balances for the purposes of:

- Providing sufficient cash flow for daily operations
- Maintaining a high bond rating to secure low borrowing costs
- Offsetting significant revenue constraints and shortfalls
- Providing funds for unforeseen expenditures
- Demonstrating a commitment to long-term financial planning

DEFINITIONS

Fund Equity – A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance – An accounting distinction is made between the portions of fund equity that spendable and non-spendable. These are classified in five categories:

- 1) Non-spendable fund balance – includes amounts that are not in a spendable form or are required to be maintained intact. Examples are inventory or permanent funds.
- 2) Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants, court security, and child safety fees.
- 3) Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally.
- 4) Assigned fund balance – comprises amounts intended to be used by the City for specific purposes. Intent can be expressed by City Council or by an official or body to which the City Council has delegated the authority. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) Unassigned fund balance – is the residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

POLICY

Committed Fund Balance

The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the City Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance

The City Council has authorized the City Manager or designee to assign fund balance to a specific purpose as approved by this Fund Balance Policy.

Minimum Unassigned Fund Balance

General Fund – It is the policy of the City to achieve and maintain an unassigned fund balance in the General Fund equal to 20 percent of estimated operating expenditures for the current Annual Budget.

Enterprise Funds – All enterprise funds (Water & Sewer and Solid Waste) will maintain working capital equal to 10 percent of the estimated operating expenditures for the current Annual Budget. Balances of less than the prescribed levels shall only be allowed with specific approval of City Council.

Internal Service Funds – All internal service funds will maintain appropriate balances to support the operational needs of the respective fund. The fund balances will be reviewed during the Annual Budget process.

If unassigned fund balance exceeds the target set by policy, the City will use surpluses for one-time expenditures. A surplus in the unassigned fund balance is considered a one-time revenue source and should not be used to fund recurring operational needs. Surplus unassigned fund balance in the General Fund may be transferred to the Capital Reserve Fund. If unassigned fund balance falls below the target, the City will reduce recurring expenditures to eliminate any structural deficit for such period as necessary until the unassigned fund balance meets the minimum balance as required by this Policy. The City shall make reasonable efforts to fully replenish the fund balance within three years of a deficit onset.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds. As an example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance.

Monitoring and Reporting

The Finance Director will be responsible for monitoring and reporting the City's fund balances. The City Manager is responsible for making recommendations to City Council on the use of fund balance surpluses during the Annual Budget process.