

**CITY COUNCIL (OR GOVERNING BODY/COMMISSION)
POLICY DIRECTIVE**

INDEX NUMBER:

DATE: November 16, 2009

BODY: City Council

SUBJECT: Fund Balance Policy (Replaces Policy 92.27)

Purpose

To establish an appropriate level of fund balance in the General Fund, define the components of fund balance, and direct officials in the methods to be used for increasing or decreasing fund balance when trends indicate fund balance will fall outside the minimum/maximum levels.

Policy

Fund balance is created from excess revenues over expenditures. It is a fund's net assets, mostly made up of cash and investments and, unless otherwise restricted, available for spending. There are five components of fund balance, namely:

1. **Nonspendable Fund Balance.** This portion of fund balance is *nonspendable* because of its form, for example inventory and non-financial assets, or because of legal or contractual requirements.
2. **Restricted Fund Balance.** This portion of fund balance is *restricted* due to external limitations placed on the use of the funds. The restriction typically comes from outside the local government as a condition of the revenue source.
3. **Committed Fund Balance.** Fund balance is *committed* if a limitation is set in place by formal action of the City Council prior to the end of the fiscal year. The limitation remains binding until the City Council takes formal action to remove it.
4. **Assigned Fund Balance.** Fund balance may be *assigned* to reflect the intended use of the resource. The assignment of funds may come from the City Council or from a designee of the City Council, for example the Board of Public Works or the City Manager. Less formality is needed to impose, remove, or modify a constraint reflected in *Assigned Fund Balance*. No funds other than the General Fund may have Unassigned Fund Balance, therefore any amounts remaining in excess of Nonspendable, Restricted, or Committed funds in funds other than the General Fund will automatically be reported as *Assigned Fund Balance*. If any portion of existing fund balance will be used to eliminate a projected deficit in the subsequent year's budget, this amount will also be categorized as *Assigned Fund Balance*.

5. **Unassigned Fund Balance.** The General Fund, and no other governmental fund, may have resources that cannot be classified in one of the four categories described above. Only the General Fund can report a surplus, an *Unassigned Fund Balance*.

Because Nonspendable and Restricted fund balance are not available for spending due to external enforceable conditions this fund balance policy is focused on the appropriate level of General Fund Unrestricted fund balances, those classified as Committed, Assigned, and Unassigned.

Financial flexibility, provided by adequate fund balance, is needed to cushion the impact of unanticipated emergencies and revenue shortfalls. These include loss of major taxpayers, loss of state revenue sharing, infrastructure emergencies and other economic distresses that serve to impair the City's ability to deliver essential community services. Without this cushion taxpayers would be subject to millage increases, cuts in services, and/or deferred investment in and maintenance of infrastructure.

Minimum/Maximum Unrestricted Fund Balance

Minimum Unrestricted fund balance shall be the sum of the top two taxpayers' total annual City tax or 25% of General Fund revenue, whichever is higher.

Maximum Unrestricted fund balance shall be the sum of the minimum, plus an infrastructure emergency reserve of \$1 million, plus an operating reserve of 15% of General Fund expenditures.

The minimum/maximum range will be determined each year and reported as part of the fiscal budget.

Remedy for Maintaining Minimum/Maximum Fund Balance Range

When fund balance approaches its minimum threshold the following measures, in priority order, shall be used to build up fund balance:

1. Cut or delay pay-as-you-go capital improvements from the CIP.
2. Cut general operating expenses.
3. Increase rates and charges funding specific services to make them self-sufficient where possible.
4. Increase millage.

When fund balance approaches its maximum threshold the following measures, in priority order, shall be used to reduce fund balance:

1. Fully fund the Employee Defined Benefit pension, if not already at full funding.
2. Fully fund the OPEB Annual Required Contribution, if not already at full funding.
3. Pre-fund or accelerate capital improvements in the CIP by transferring funds to the Capital Improvement budgets.
4. Move up the debt schedule for existing bond payments to lower the City's debt burden.
5. Reduce millage.