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Review of Fund Balance Reserve Policy for General Fund



General Fund Reserve Balance Calculation

Per Ordinance 7428

	FY17	FY18	FY19	FY20	FY21	Projected FY22
Revenues	\$ 67,168,594	\$ 70,646,058	\$ 76,458,547	\$ 80,318,934	\$ 78,639,047	\$ 83,580,945 *
Expenditures	65,848,773	69,023,881	72,014,097	81,909,575	75,842,559	82,121,883 **
Net Change in Fund Balance	1,319,821	1,622,177	4,444,450	(1,590,641)	2,796,488	1,459,062
Fund Balance - beginning of FY	\$ 25,439,328	\$ 26,759,149	\$ 28,381,326	\$32,825,776	\$ 31,235,135	\$ 34,031,623
Fund Balance - end of FY	\$ 26,759,149	\$ 28,381,326	\$ 32,825,776	\$31,235,135	\$34,031,623	\$35,490,685
Fund Balance - Nonspendable, Restricted, Committed, and Assigned	5,167,826	2,082,174	2,276,442	\$1,274,024	\$3,841,012	\$3,841,012
Fund Balance - Unassigned	\$ 21,591,323	\$ 26,299,152	\$ 30,549,334	\$ 29,961,111	\$ 30,190,611	\$ 31,649,673
GF Reserve Balance Fund Policy (16.67%)	\$ 11,194,766	\$ 11,774,343	\$ 12,743,091	\$ 13,651,596	\$ 13,106,508	\$ 13,930,158
Ending Fund Balance as a % of expenditures	40.64%	41.12%	45.58%	38.13%	44.87%	43.22%
Unassigned Ending Fund Balance as a % of expenditures	32.79%	38.10%	42.42%	36.58%	39.81%	38.54%
Ending Fund Balance as a % of revenues	39.84%	40.17%	42.93%	38.89%	43.28%	42.46%
Unassigned Ending Fund Balance as a % of revenues	32.14%	37.23%	39.96%	37.30%	38.39%	37.87%

*General Fund revenue projections based on mid year projections presented to Finance & Budget Committee 2/7/22.

**General Fund expenditure projections based on adopted budget plus amendments to date.

History of Current Policy

- Ordinance No. 7428 adopted Feb 6, 2014
- Based on Government Finance Officers' Association Best Practices
- Purpose of creating reserve balance available to address emergencies and provide for economic stability

Current Policy

- Section 1-Maintain minimum of two average months (16.67%) of revenue or expenditures (greater of) from prior fiscal year
- Section 2-Budgeted expenditures can't exceed annual recurring revenue, with exceptions in Section 4
- Section 3-Excludes amounts that are restricted, committed, and assigned

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- Section 4-When Fund Balance is below required amount
 - City Manager must adjust following year's budget to restore balance
 - In event of "extraordinary expenditure," fund balance must be restored within 3 years

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- Section 5-When Fund Balance exceeds required amount
 - If fund balance exceeds 20% of recurring annual revenues, excess funds may be reappropriated by majority vote of Council for one-time expenses
 - If fund balance exceeds minimum but is less than 20%, excess funds may be reappropriated by super majority vote of Council

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- Section 6-City Manager recommends use of unassigned funds (in budget or as needs arise)
 - Finance Director to monitor and report to Council various fund restrictions and assignments
- Section 7-Finance Director to submit report on various components of General Fund Balance; provide status reports as requested

GFOA Best Practices

- GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.
- Guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period.
- Governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.

Factors for Consideration

- 1. The predictability of revenues and the volatility of expenditures
- 2. Perceived exposure to significant one-time outlays
- 3. The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds
- 4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds
- 5. Commitments and assignments

Use and Replenishment

- The fund balance policy should define conditions warranting its use, and if a fund balance falls below the government's policy level, a solid plan to replenish it.
- In that context, the fund balance policy should:
 1. Define the time period within which and contingencies for which fund balances will be used
 2. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge
 3. Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished

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- Generally, governments should seek to replenish their fund balances within one to three years of use.
- Factors influencing the replenishment time horizon include:
 1. The budgetary reasons behind the fund balance targets
 2. Recovering from an extreme event
 3. Political continuity
 4. Financial planning time horizons
 5. Long-term forecasts and economic conditions
 6. External financing expectations

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Revenue sources that would typically be considered for replenishment of fund balance include:

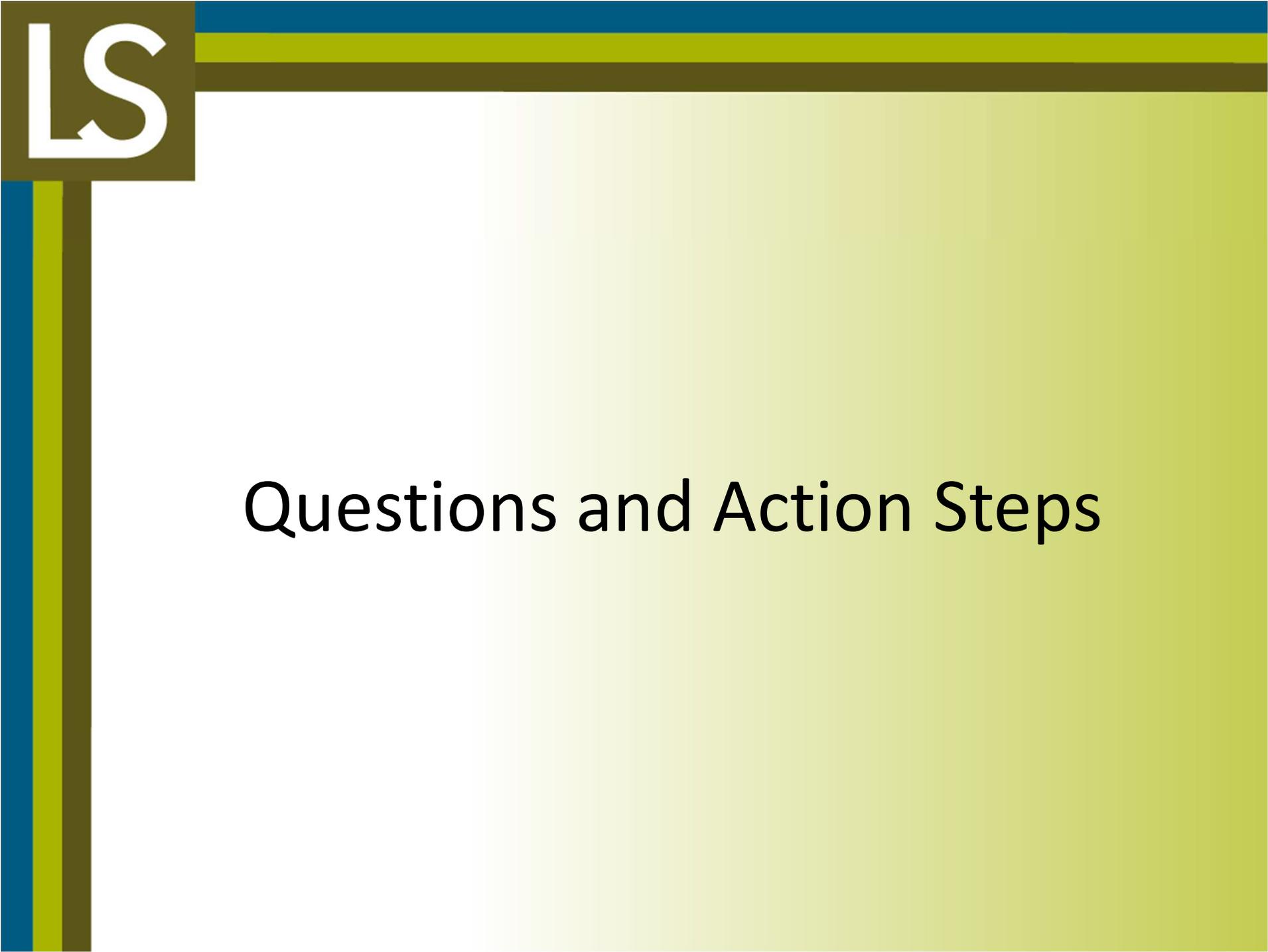
- Nonrecurring revenues
- Budget surpluses
- Excess resources in other funds (if legally permissible and there is a defensible rationale)

Year-end surpluses are an appropriate source for replenishing fund balance.

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Unrestricted Fund Balance Above Formal Policy Requirement

- If unrestricted fund balance exceeds formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future, City should consider a policy as to how this would be addressed.
- Policy may include public education or communication to explain changes in fund balance.
- In all cases, use of those funds should be prohibited as a funding source for ongoing recurring expenditures.



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Questions and Action Steps