

## **COUNCIL POLICY NO. C-11**

**TITLE:** GENERAL FUND BALANCE/RESERVE POLICY

**POLICY:** See attachment.

**REFERENCE:** Finance Committee Report dated 1/26/09, Agenda Item No. 4.2 (a)

## **Policy on Fund Balance/Reserves: General Fund**

**Purpose:** This policy establishes a Fund Balance goal for the General Fund. Sound financial management practices include establishing designated and undesignated Fund Balances sufficient to provide resources for events and service needs that were unanticipated during budget development; cover cash flow needs during a fiscal year; and provide a source of funds to sustain services during a temporary slowing in revenue and/or a source of bridge funding to allow transition to sustainable service levels.

**Scope:** This policy applies to the General Fund.

### **Definition of Terms:**

Fund Balance – On a budgetary basis the Fund Balance is the sum of the Contingency Account, Service Stabilization Reserve and the Unappropriated Ending Fund Balance. In the Comprehensive Annual Financial Report it is identified in the schedule titled Statement of Revenues, Expenditures and Changes in Fund Balance.

Contingency Account – A budgetary account used to appropriate resources that can be used to address events or service needs that were unanticipated during budget development. With City Council adoption of a transfer resolution, funds are transferred from the Contingency Account to an operating program.

Service Stabilization Reserve – A reserve established to provide resources in the event of a material decrease in projected revenue during a given fiscal year, which will impact the upcoming fiscal year. The Service Stabilization Reserve allows the continuation of services for a finite period until additional resources are identified or a transition to a sustainable service level is completed. If the Service Stabilization Reserve is used to balance a City Manager budget proposal, the City Manager must include a plan for identifying additional resources or the transition to a sustainable service level. The Budget Committee will review a City Manager's plan during the review of the City Manager's Recommended Budget.

Unappropriated Ending Fund Balance – An amount set aside in the budget to be used as cash carryover for the following year's budget, providing a cash resource until other revenue is received. During a fiscal year, state law prohibits transfers from this account except in the event of a calamity or natural disaster.

### **Related Financial Policies**

- Stable Financial Environment
- Balanced Budget

## Policy Statement

The Fund Balance goal for the General Fund is 15% of current budgeted revenues. For purposes of preparing the budget, the Fund Balance shall consist of the total of the Contingency Account, Service Stabilization Reserve and Unappropriated Ending Fund Balance. Funds appropriated and available to meet unanticipated events, service needs or revenue shortfalls during a current fiscal year shall consist of two components; 1) the Contingency Account, budgeted at \$500,000 and 2) the Service Stabilization Reserve budgeted at \$2,000,000 for a total of \$2,500,000. The remaining portion of the Fund Balance shall be unappropriated. Until the goal is reached, resources may be added to the Fund Balance in the following manner.

1. \$250,000 per year through the budget development process.
2. Available proceeds from events such as asset sales or legal settlements.
3. 50% of the difference between any Audited Ending Fund Balance and the Budgeted Beginning Fund Balance for the following fiscal year.

Example:

2006 Audited Ending Fund Balance	\$1.7m
2007 Budgeted Beginning Fund Balance	<u>1.0m</u>
Difference	\$700k
Addition to Fund Balance	\$350k

Fund Balance resources can be used in the following circumstances.

1. Contingency can be used with City Council adoption of a transfer resolution to meet expenditure requirements resulting from events or service needs not anticipated during budget development.
2. Service Stabilization Reserves can be used by the City Manager to offset an unanticipated loss of revenue within a fiscal year or to balance a budget proposal in the event anticipated revenues may be insufficient to meet the expenditures necessary to maintain current services. Utilization of the Service Stabilization Reserve must be within the context of a multi-year financial plan designed to bring services to a sustainable level through additional resources, service reductions or a combination of such actions.
3. Unappropriated Ending Fund Balance can be accessed only as allowed by state law.
4. If Fund Balance is utilized to balance a budget proposal, replenishing the Fund Balance to the goal percentage shall be in accordance with the methods described above.