


CITY MANAGER'S OFFICE MEMORANDUM

TO: Jim Scholl, City Manager
FROM: Mark Z. Finigan, Assistant City Manager 
DATE: September 9, 2010
SUBJECT: Fund Balance Policy

FUND BALANCE POLICY

POLICY

The City will establish and maintain reservations of Fund Balance/Retained Earnings in each of the various governmental and proprietary fund type funds of the City. For purpose of initially establishing the balance and maintaining hereafter, the City shall retain the minimum requirement for each fund. Additional funds will be retained in the Unreserved Fund Balance to the extent available to reach target levels.

DEFINITIONS

Fund Balance - The cumulative difference of all revenues and expenditures. Where the term Fund Balance is utilized, the term Retained Earnings may be substituted for proprietary funds.

- **Reserved Fund Balance** - portion of the Fund Balance that is legally restricted to a specific use or otherwise not available for appropriation or expenditure.
- **Unreserved Fund Balance** - a measure of how much Fund Balance is left over at the end of the current fiscal year which can be used for the subsequent fiscal year's budget which is not obligated or specifically designated and can be used to meet contingencies and working capital requirements.

FUND BALANCE GOALS

A. General Fund - In the General Fund, there shall be maintained an Unreserved Fund Balance equivalent to a minimum of **twenty (20%)** percent and a maximum of **twenty-five (25%)** percent of the current fiscal year operating expenditures and transfers out less capital outlay budgeted for the fund. For purposes of this calculation, the expenditures shall be the budget as originally adopted by ordinance in September for the subsequent fiscal year. This reserve shall be in addition to all other required reserves or designation of fund balance.

B. Special Revenue Funds - Special revenue funds are created to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. No specific reservation of Fund Balance is created by virtue of enactment of this policy. The amount of any reservation of Fund Balance shall be governed by the legal authority underlying the creation of the individual funds.

C. Debt Service Fund - Debt service funds are typically subject to the creation of very specific reserve amounts as part of the ordinance or resolution which authorizes the issuance of the bonds. This policy does not create any specific reservation of Fund Balance within any Debt Service Fund. Reserve requirement for any outstanding bond issue will be consistent with the ordinance or resolution authorizing the issuance of the bonds.

D. Capital Projects Fund - The Capital Projects Fund is created to account for resources designated to construct or acquire general fixed assets and major improvements. These projects may extend beyond a single fiscal year. No specific reserve requirement is established for the Capital Projects Fund. However, at a minimum, the fiscal year end Reserved Fund Balance, and estimated revenues for the ensuing fiscal year must be sufficient to meet all outstanding fund encumbrances.

E. Enterprise Funds - For each enterprise fund, there shall be created a reservation of Retained Earnings equal to a minimum of **twenty (20%)** percent and a maximum of **twenty-five (25%)** percent of the current fiscal year operating expenditures and transfers out less capital outlay budgeted for the fund. For the purposes of this calculation, the current fiscal year budget shall be the budget as originally adopted by ordinance in September for the subsequent fiscal year. This reserve shall be in addition to all other required reservations of Retained Earnings including, but not limited to, amounts reserved for debt service and/or amounts reserved for renewal and replacement of long lived assets.

Policy for the Sewer, Stormwater and Solid Waste Fund should provide for Commission Approved exceptions. There are times when short term drops in Retained Earnings are part of a sound rate making policy (10 year outlook).

An exception to the above Enterprise Funds policy is the Transit Fund. This fund operates annually on a breakeven basis primarily supported through State and

Federally funded grants, with an annual subsidy from other City fund(s) necessary to meet the operating and capital requirements of the Transit Fund. While this policy does not dictate the necessity of an operating reserve, it is recommended the Transit Fund strive to maintain a minimum 5% to a maximum 10% reserve level.

F. Internal Service Funds – These funds are generally intended to operate on a "break-even" basis. In any fiscal year when it is projected that the actual amount of unreserved retained earnings will be less than or equal to zero at year end, it will be necessary to either increase the rates charged or reduce expenses or both. As this policy relates to the City's Insurance Fund, it is assumed an adopted 50% confidence rate for funding requirements for all claims reported and unreported, as provided for the City's annual actuarially review.

MINIMUM RESERVE REQUIREMENTS

In the event funds are not available to initially establish minimum required balances, the Unreserved Fund Balance target shall be achieved by adding a designated amount to the budget to cover the deficiency over a period not to exceed five (5) fiscal years.

UTILIZATION OF MINIMUM RESERVES

Appropriation from the minimum Unreserved Fund Balance shall require the approval of the City Commission and shall be only for one-time expenditures, such as capital purchases, and not for ongoing expenditures unless a viable revenue plan designated to sustain the expenditures is simultaneously adopted.

REPLENISHMENT OF MINIMUM RESERVE DEFICITS

If it is anticipated at the completion of any fiscal year that the projected or estimated amount of Unreserved Fund Balance will be less than the minimum requirement, then the City Manager shall prepare and submit in conjunction with the proposed budget a plan for the expenditure or expense reductions and/or revenue increases necessary to restore the minimum requirements in the subsequent budget year or other appropriate period.

UTILIZATION OF SURPLUS RESERVES

In the event that the Unreserved Fund Balance exceeds the maximum requirements, the excess may be utilized for any lawful purpose approved by City Commission. It is recommended that the first priority be given to utilizing the excess within the fund in which it was generated. In order to minimize the long term effect of such use, the excess shall be appropriated to fund one time expenditures or expenses which do not

result in recurring operating costs, or other one time costs including the establishment of or increase in legitimate reservations or designations of fund balance or reservations of retained earnings in other funds.

ANNUAL REVIEW

Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process.