



FUND BALANCE POLICY

SUBJECT: Fund Balance Policy

EFFECTIVE: September 19, 2017

PREPARED BY: Finance Department

SUPERSEDES: Fund Balance Policy

APPROVED BY: City Commission

APPLICABLE TO: City Employees & Elected Officials

1.0 POLICY

The City of Lawrence is committed to wise stewardship of all public funds entrusted to its care. The City's Fund Balance is the accumulated difference between assets and liabilities within governmental funds. This responsibility includes the establishment and maintenance of adequate cash balances and reserves. A sufficient fund balance allows the City to:

- meet its contractual obligations;
- provide funds for new and existing programs established by City Commission;
- mitigate negative revenue implications of federal or state budget actions;
- mitigate economic downturns, fund disaster or emergency costs;
- provide funds for cash flow timing discrepancies;
- fund non-recurring expenses identified as necessary by City Commission; and
- maintain its credit-worthiness.

2.0 GOVERNMENTAL FUND BALANCE TYPE DEFINITIONS

The following classifications, defined by governmental accounting standards, serve to enhance the usefulness of fund balance information:

Non-spendable Assets legally or contractually required to be maintained, or assets not in spendable form, such as inventory or prepaid items. Such constraint is binding until the legal requirement is repealed or the amounts become spendable.

Restricted – Assets with externally imposed constraints, such as those mandated by creditors, grantors or contributors, or laws and regulations. Such constraint is binding unless modified or rescinded by the applicable external body, law or regulations

Committed – Assets with a purpose formally imposed by resolution or Ordinance of the Governing Body of the City, binding unless modified or rescinded by the Governing Body.

Assigned Fund Balance – Assets constrained by the express intent of the Governing Body or City Manager. Encumbrances shall be considered to be assigned, unless they specifically meet the requirements to be committed or restricted.

Unassigned Fund Balance – All amounts not included in other fund balance classifications. The unassigned fund balance serves as a measure of expendable available financial resources.

3.0 GENERAL FUND UNASSIGNED FUND BALANCE RESERVE

The City's policy is to accumulate adequate reserves to protect the City during economic downturns or large scale emergencies. The City also maintains reserves that are required by law or contract and that serve a specific purpose. These types of reserves are considered restricted and are not available for other uses. Within specific funds, additional reserves may be maintained according to adopted policies

The Government Finance Officers Association (GFOA) is a professional association of state and local finance officers in the US and Canada whose members are dedicated to the sound management of Government financial resources. GFOA recommends that "governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund." ¹

The GFOA recommended, at a minimum, that general-purpose governments, regardless of size, incorporate in its financial policies that unrestricted fund balance in their general fund be no less than two months of regular general fund operating revenues or regular General Fund operating expenditures (16.6%).

There are several factors to take into account in determining the amount of reserves to retain:

- The likelihood of extreme events
- revenue stability,
- expenditure volatility,
- leverage,
- liquidity,
- growth, and
- capital projects

The City receives the majority of its General Fund revenue through property taxes (28%) and, sales taxes (40%)², which provides it with a moderate risk of instability in the collection of those revenues. Sales tax revenues are more prone to fluctuations with the economy. Property taxes are levied in one fiscal year to fund the operations of the following fiscal year. The City has a five year projection of the revenue, expenditures and fund balances of all funds. Which is updated on a monthly basis and reviewed annually as part of the budget development process. One of the main benefits of fiscal planning for the property tax supported funds is to avoid large fluctuations in the property tax and warn of potential deficits.

¹ Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund (CAAFR, Budget) (2015), Government Finance Officers Association

² City of Lawrence adopted 2018 Budget

Were a natural disaster or other extreme event to strike, the City would likely require a large draw on its reserves.

In addition, the level of reserves available to the City plays a part in the credit rating of the City. The rating agencies assign higher ratings in part for those communities that show ability to access funds in emergency situations. The way a community shows ability to do so is to have a history and forecast of liquidity and fund balances for unforeseen events. A higher credit rating often translates to lower interest rates, which impacts the taxpayer directly, particularly in the case of debt supported by tax levies.

Given the moderate level of risk, the City's goal target range for General Fund Reserve – Unrestricted Fund Balance is 25% of the following year's expenditure budget. This includes: 20% allocated for liquidity, revenue stream volatility, unexpected expenditures and capital outlay; 2.5% for emergency scenarios; and 2.5% for equipment purchased on a pay-as-you-go basis. The target for the unassigned General Fund balance would exclude other categories of fund balance that are committed or assigned.

4.0 USE OF UNASSIGNED FUND BALANCE

The General Fund Unassigned Fund Balance may be reduced to a level below the 25% target level to provide temporary funding for emergency needs in the case of a natural disaster, prolonged economic downturn, or other non-recurring need at the Governing Body's discretion.

5.0 REPLENISHMENT OF UNASSIGNED FUND BALANCE

If it is anticipated at the completion of any fiscal year that the projected amount of fund balance in the General Fund will be less than the minimum established target, the balance shall be restored to the minimum target amount within a five-year period.