CITY OF LAWRENCE
General Fund Balance Policy

1.0 Purpose

The purpose of establishing a policy on the unrestricted balance in the General Fund is to provide a guideline for budgeting decisions and to insure that adequate reserves are established to fund operations by providing sufficient working capital, protection against uncollected taxes, shortfalls from municipal revenue sources, and cutbacks in distributions from the state or federal government. The General Fund is the primary operating fund of the City for its non-utility related operations. In addition, the City of Lawrence desires to maintain its current debt rating. Rating agencies are concerned about a government’s creditworthiness and the level of unreserved General Fund balance is part of their evaluation.

There is no formula for determining an appropriate fund balance. Items to consider include the timing of revenue collections, the local and national economic environment, the volatility of the major revenue sources, and the degree of protection desired to mitigate current and future financial risks. The City of Lawrence obtains a substantial portion of its revenue from sales taxes and franchise fees. Sales tax collections are derived from local retail sales. In Lawrence, these collections are very dependent upon both the local and national economies. The collection of franchise fees, particularly those based upon sales of electricity and natural gas, vary widely depending upon local weather conditions. As a result, the desired level of unreserved General Fund balance is higher than the minimum level designated by the Government Finance Officers Association recommended practice on the Appropriate Level of Unreserved Balance in the General Fund.

2.0 Policy

The City should budget for current year General Fund revenues to be sufficient to finance current year expenditures.

Due to the volatility of some of the major revenue sources, a minimum unreserved General Fund balance of 15% of actual expenditures is recommended.

To avoid a balance in excess of the level deemed sufficient for prudent fiscal management, a maximum unreserved General Fund balance of 30% of actual expenditures is recommended.

The unreserved General Fund balance does not include reservations of fund balance for the payment of encumbrances nor designations for purposes that are allowed under generally accepted accounting principles.

If the General Fund balance falls outside of the above parameters, budgeted revenues will be either greater or less than budgeted expenditures in subsequent years to bring the General Fund balance into compliance with this policy.