

Financial Management Policy 5

Fund Balance Minimums

Issue Date: 01/12/21

Reviewed Date: 12/05/24

Version: 6

Issued by: City Council

Objective:

To set minimum fund balances as to mitigate risk, maintain good standing with rating agencies, and ensure cash is available when revenue is unavailable. The policy sets minimum fund balances, not targets or maximum balances. Each fund should be evaluated by staff to determine the appropriateness of maintaining fund balances above the minimums set in this policy. Contingencies for severe weather, prolonged drought, and anticipated capital spending should be considered independently from this policy.

Applicability:

Funds—This policy applies to all City funds. It does not apply to URA, DDA, PFA and Library.

Authorized by:

City Council Resolutions 1994-174, 2008-038, 2014-058, 2017-101, 2021-010

5.1 Governmental Funds and Fund Balances

To set minimum fund balances so as to mitigate risks, maintain good standing with rating agencies, and ensure cash is available when revenue is unavailable. The policy sets minimum fund balances, not targets or maximum balances. Each fund should be evaluated by staff to determine the appropriateness of maintaining fund balances above the minimums set in this policy. Contingencies for severe weather, prolonged drought, and anticipated capital spending should be considered independently from this policy.

The Equity on balance sheet of a governmental fund is called Fund Balance. The current classifications of Fund Balance in governmental funds are primarily based on the origin of the constraints. The following categories are in decreasing order of constraints.

<u>Non-Spendable</u>	Permanent endowments or assets in a non-liquid form
<u>Restricted</u>	Involve a third party: State Legislation or contractual agreements
<u>Committed</u>	Set by formal action of the City Council
<u>Assigned</u>	By staff, and/or residual balances in a Special Revenue Fund
<u>Unassigned</u>	Remaining balances in governmental funds

Minimums outlined in section 5.3 relate only to **Assigned and Unassigned** balances.

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5.2 Proprietary Funds and Working Capital

Internal Service Funds and Enterprise Funds are accounted for nearly identical to the private sector. The balance sheets include long term assets and long term liabilities. The resulting Equity section on their balance sheet, called Net Position, is not always a good measure of spendable financial resources. To get to spendable financial resources, a common calculation is to take Current Assets and subtract Current Liabilities, with the net result called Working Capital.

To further refine, for purposes of this policy, certain required restrictions are further subtracted and result in **Available Working Capital**. Some examples of required restrictions are unspent monies for Art in Public Places, Water Rights, and existing appropriations for capital projects. The minimums outlined in section 5.3 relate to Available Working Capital.

5.3 Minimum Balances

The following Minimum Balances refers to Assigned and Unassigned Fund Balances in governmental funds and Available Working Capital in the Internal Service Funds and Enterprise Funds.

A. General Fund

~~60-45~~ Day Liquidity Goal - The Commitment for Contingency should be at least ~~60-45~~ days (~~1712.5~~%) of the subsequent year's originally adopted budgeted expenditures and transfers out. The calculation for the minimum level shall exclude expenditures and transfers out for large and unusual one-time items.

Important note – the ~~60-45~~ Day Liquidity Goal is in addition to the Emergency Reserves required by Article X, Section 20(5) of the State Constitution. This reserve must equal 3% of non-exempt revenue and can only be used for declared emergencies. Fiscal emergencies are specifically excluded by the State Constitution as qualifying use of this reserve.

B. Special Revenue Funds

No minimum balance is required.

C. Debt Service Funds

No minimum balance is required.

D. Capital Project Funds

No minimum balance is required.

E. Enterprise Funds

Enterprise funds focus on working capital rather than fund balance.

Enterprise Funds shall maintain a minimum Available Working Capital equal to 25% of Operating Expenses, less Depreciation. Exception1: In the case of L&P, operating expenses will include purchased renewable energy for resale but will not include regular purchased power for resale (i.e. Platte River Power Authority). Exception 2: In the case of Golf, the minimum fund balance will be 12.5%.

Important note – The Water Fund holds a balance for Restricted Water Rights. The balance equals the amount of cash in-lieu-of water rights payments and raw water surcharges less any expenses for acquiring water rights and water storage;

The enterprises funds should also be accumulating available working capital above these minimums for the purposes of funding future capital projects.

F. Internal Service Funds

Each fund is a unique operation and will maintain a minimum Available Working Capital as follows:

601	Equipment Fund	8.3%	Of annual operating expenses, excluding depreciation
602	Self-Insurance Fund *	25.0%	Of annual operating expenses
603	Data & Communications Fund	0.0%	N/A
604	Benefits Fund	25.0%	Of annual medical and dental expenses
605	Utility Customer Service Fund	0.0%	N/A

* Self Insurance Fund will be measured against Available Unrestricted Net Position instead of Available Working Capital.

5.4 Below Minimum

When circumstances result in balances below the minimum, staff should develop a plan to restore minimums fund balances and present it to Council Finance Committee.

Definitions

Non Spendable Fund Balances: *Applicable to governmental funds. Permanent endowments or assets in a non-liquid form such as long term inter-agency loans.*

Restricted Fund Balances: *Applicable to governmental funds. Involve a third party such as State Legislative requirements, voter ballot language, or the Contractual Agreements with parties external to the City.*

Committed Fund Balances: *Applicable to governmental funds. Involve a of formal action by the City Council. An example is traffic calming revenues are required to be spent on traffic calming activities. Any unspent monies at end of year are classified as Committed to traffic calming in the General Fund.*

Assigned Fund Balances: *Are applicable to governmental funds. Assignments can be made by senior management. They represent the intent to use the monies for a specific purpose. An example of this it this the one time Harmony Road monies transferred by the State to the City. Although required to be used on Harmony Road, staff intends to use the monies only on Harmony Road improvements. These monies are considered when measuring compliance with minimum fund balances.*

Unassigned Fund Balances: *Are applicable only to the governmental funds. These monies are considered when measuring compliance with minimum fund balances.*

Working Capital: *Is a term applicable to Internal Service and Enterprise Funds. It is the difference between Current Assets and Current Liabilities. Not all Working Capital is available. Available Working Capital does not include Restrictions for debt, Art in Public Places, approved capital appropriations, and other restrictions.*

Unrestricted Net Position: *Is a term applicable to Internal Service and Enterprise Funds. Not all Unrestricted Net Position is available. Available Unrestricted Net Position does not include unused Art in Public Places monies, approved capital appropriations, and other commitments.*

Liquidity: *Assets range from cash to land. The more easily and quickly an asset can be converted to cash determines its relative liquidity.*

Reserves: *A legacy term that previously referred to fund balances, or fund balances set aside for a specific purpose. It is no longer used on financial statements.*

Fund Balance: *Is a term applicable to governmental funds. Fund balance or Equity is the difference between assets, liabilities, deferred outflows of resources and deferred inflows of resources. Since governmental funds do not have long term assets and long term debt on their balance sheet, fund balance is similar and approximates working capital in the private sector and enterprise funds.*

Getting Help

Please contact the ~~Accounting Manager~~ Controller with any questions at 970.224.416.67722436.