



MEMO

Department

To: Finance and Personnel Committee
From: Finance Director, Van Rossum
Date: 2/19/2025
Re: Fund Balance Policy Adjustment

Background information:

The City of Kaukauna is projected to have a surplus in its fund balance in its 2024 financial statements due to multiple factors. Cost savings have been realized as certain positions remained unfilled during the year, and department heads exercised fiscal responsibility in managing allocated budget line items. Additionally, revenues have exceeded budgeted projections, with significant contributions from the following lines:

- The Kaukauna Utilities PILOT payment exceeded budgeted amounts by \$122,000.
- Building inspection fees generated \$102,000 more than anticipated.
- Interest income surpassed budget estimates by \$867,000

Revenue adjustments have been considered in the 2025 budget for the continued higher-than-normal interest income the city is earning on its reserves. In the 2025 budget an increase of \$310,000 in projected interest income. Historically, a conservative approach has been applied to this revenue category due to the risk associated with fluctuating market conditions. The past few years have remained consistent allowing for a little more certainty on the actual revenues happening in the 2025 year. Staff will continue to monitor this line in future budgets and be proactive in the adjustments to avoid a major shift.

The City is in a strong financial position regarding stability, operational liquidity, and safeguarding against economic downturns or emergencies. This surplus presents an opportunity to reassess the undesignated fund balance policy, which is currently set at 15% of general fund operating expenditures. The 2024 year-end financial statements indicate a fund balance of 34.6%. In the past, we have only talked about the growing fund balance, and now have the opportunity to commit to the long-term financial stability of the city.

Adjusting the policy to maintain a minimum undesignated fund balance of 30% would align with best practices and financial prudence. This change will provide the following benefits to the City:

1. **Financial Stability & Risk Management** – Ensures the city has a financial cushion to manage unexpected shortfalls, emergencies, or economic downturns without immediately resorting to budget cuts or tax increases.
2. **Improved Creditworthiness** – A healthy fund balance enhances the city's credit rating, potentially leading to lower borrowing costs for future capital projects.
3. **Operational Flexibility** – Provides liquidity to cover unexpected expenditures, such as infrastructure repairs, emergency response costs, or fluctuating revenue streams.
4. **Tax Rate Stability** – Helps prevent sudden tax increases by allowing the city to smooth out revenue shortfalls over time rather than making abrupt adjustments to tax rates.
5. **Enhances Public Confidence** – Demonstrates fiscal responsibility to residents, businesses, and stakeholders, reinforcing trust in local government management.
6. **Compliance with Best Practices** – Aligns Kaukauna with the recommended reserves to cover at least three months of operating expenses.
7. **Supports Strategic Planning** – Provides a financial buffer that allows the city to pursue long-term projects and economic development initiatives without jeopardizing essential services.

Strategic Plan:

Increasing the fund balance threshold to 30% supports the City's long-term financial health and strategic objectives. This adjustment enhances fiscal resilience, promotes responsible governance, and aligns with efforts to maintain the City's strong economic standing.

Budget: No immediate funding request is associated with this policy adjustment. The proposal ensures that financial reserves are allocated appropriately to sustain long-term operational stability.

Staff Recommended Action:

Approve a policy adjustment to establish a minimum undesignated fund balance of thirty percent (30%) of general fund operating expenses and forward the attached resolution to the council for consideration.