

Fund Balance Policy Executive Summary

The City currently has 37 funds to account for all City expenses. However only 10 of these have operating expenses, the General Fund, the five enterprise operating funds, the Conservation Trust Fund, the Open Space Fund and the Lodging Tax fund. All other funds are capital in nature.

The reserve policy is aimed primarily at the operating funds. The purpose was to set a policy on the appropriate amount to keep in reserve in order to maintain operations in the event of volatile economic conditions, natural disasters and situation that would cash flow issues due to the timing of expenses and the receipt of revenues.

In 2010 and 2011 CFAC and staff explored what was considered best practices form other cities and national organizations and found a wide range of values considered appropriate ranging from 5% of expenses to as high as 30% of expenses.

The decision at the time was to set the in the policy to maintain in unassigned fund balance a target of 15% of operating expenses, which at the time equated to roughly three months of operating expense. This was considered adequate time for the City to take a reasoned response to the financial conditions without significant disruptions t operations. The policy recognized that the City may not be able at all times to maintain the reserve at this level and provided direction on the timing to restore the reserve.

Capital funds are not affected by the policy. Reserves within the capital funds are managed based on the Capital Program, with the requirement using the Pay-as you go philosophy, that there should be adequate reserve within the capital fund before a project is scheduled to begin to fund the project.