

# Fund Balance and Reserve Policy

TOWARD A RESPONSIBLE FINANCIAL MANAGEMENT POLICY  
FINANCE DEPARTMENT

FEBRUARY 19, 2019



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# City of Loveland

## Fund Balance and Reserve Policy

### Purpose

The City of Loveland desires to establish a formal Fund Balance and Reserve Policy for all City funds that promotes responsible financial management by adhering to best budget practices and Generally Accepted Accounting Principles (GAAP). By maintaining sufficient fund balances and reserves, the City will be well positioned to do the following:

- Provide financial security and ensure continued delivery of City services
- Withstand the next economic downturn or other type of fiscal stress (revenue or cash shortfall, natural disaster, or other emergency)
- Promote stable tax rates, charges, and fees
- Protect the City's creditworthiness and bond rating
- Provide flexibility to respond to unanticipated opportunities
- Consider long-term financial planning needs

### Scope

This policy outlines fund balance targets and required reserves for all City funds. This policy does not address the fund balance and reserve requirement needs for the following Other Entities to which the City has financial and organizational connections, as they are managed by separate intergovernmental agreements or boards of directors:

- Northern Colorado Regional Airport
- Loveland Larimer Building Authority
- Loveland Fire Rescue Authority
- General Improvement District No. 1
- Loveland Special Improvement District No. 1
- Loveland Urban Renewal Authority
- Downtown Development Authority

This policy recognizes the unique needs and characteristics of each City fund and includes summary information by fund type along with detailed specifics for each individual fund. City funds are summarized by Fund Type in **Attachment 1**.

### Policy Guidance

The Government Finance Officers Association (GFOA), founded in 1906, has nearly 200 Best Practices regarding various areas of public finance. These Best Practices are approved by the

GFOA Executive Board and identify policies and procedures that contribute to improved government management. The following three Best Practices relate to fund balances and reserves:

**1. Fund Balance Guidelines for the General Fund**

- Establish a formal policy regarding the level of unrestricted fund balance to be maintained in the general fund for Generally Accepted Accounting Principles (GAAP) and budgetary purposes
- Maintain a minimum of two months of regular general fund operating revenues or general fund operating expenditures
- Consider the following factors while developing a fund balance and reserve policy: predictability of revenues and expenditures, perceived exposure to significant one-time outlays, general fund commitments to other funds, availability of resources in other funds, bond rating impacts and borrowing costs, other commitments and assignments
- Replenish expended fund balances within one to three years of use

**2. Working Capital Targets for Enterprise Funds**

- Adopt a target amount of working capital to maintain in each enterprise fund
- Develop a working capital target amount that best fits the characteristics of each fund
- Start with a baseline of 90 days' worth of working capital, then adjust up or down based upon each fund's particular characteristics
- A Working Capital Matrix for Enterprise, showing GFOA's recommended enterprise fund characteristics and City departmental ratings of each characteristic by fund, is included as **Attachment 2** to this policy

**3. Achieving a Structurally Balanced Budget**

- Adopt policies for operating funds to achieve and maintain a structurally balanced budget
- Identify items related to structural balance (recurring and non-recurring revenues, recurring and non-recurring expenditures, and reserves)
- Define a minimum amount of funds to hold in reserve

The Governmental Accounting Standards Board (GASB), established in 1984, is the source of Generally Accepted Accounting Principles (GAAP) used by state and local governments in the United States. The GASB issues pronouncements designed to provide taxpayers, legislators, municipal bond analysts, and others with useful information for decision-making. The GASB's major guidance related to fund balance is found in the GASB's Statement No. 54 (GASB 54) on Fund Balance Reporting and Governmental Fund Type Definitions.

GASB 54 defines five classifications of fund balance, which are summarized in the table below:

**Governmental Accounting Standards Board  
Statement No. 54 Fund Balance Classifications**

		Classification	Definition	Degree of Spendability
Restricted Fund Balance	}	Nonspendable	Resources that are not in a spendable form (inventories, prepaid items, or items required to be maintained intact).	Nonspendable
		Restricted	Resources constrained to specific purposes by external providers (creditors, grantors, contributors, and other levels of government) through laws and regulations.	
Unrestricted Fund Balance	}	Committed	Resources constrained by limitations the City imposes upon itself at its highest level of decision-making authority (City Council); limitations remain binding unless removed in the same manner.	
		Assigned	Resources a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates authority.	
		Unassigned	Resources available for any purpose; these resources are reported only in the General Fund.	Spendable

It is the unrestricted categories of fund balance, committed, assigned, and unassigned, that this policy focuses on, as the City has direct control over these categories.

## Policy

Fund Balance is defined as the difference between assets and liabilities in a governmental fund (General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Permanent Funds). Working Capital is defined as the difference between *current* assets and *current* liabilities for non-governmental funds (Proprietary Funds – Enterprise Funds and Internal Service Funds). For the sake of consistency and to promote a lower risk fund balance calculation strategy, Fund Balance calculations for each of the City’s Funds, regardless of fund type, follow a Working Capital model. Thus, for the purpose of this policy, Fund Balance and Working Capital are considered synonymous.

The City has nearly 50 funds and based upon the individual needs of each fund, fund balance targets and reserve requirements are summarized in the Fund Balance and Reserve Matrix, included as **Attachment 3** to this policy. Fund balance targets are largely based on set percentages of a fund’s operating expenditures or number of days’ worth of working capital to be held in reserve to meet the purposes outlined at the beginning of this policy.

GFOA’s Fund Balance Guidelines for the General Fund Best Practice recommends maintaining a minimum of two months of regular general fund operating revenues or general fund operating expenditures. The City uses operating expenditures as the calculation basis.

To promote GFOA Best Practices and meet GASB requirements related to fund balance, the City will do the following:

1. Calculate minimum fund balance targets and reserve requirements for all City funds on an annual budget basis according to the Fund Balance and Reserve Matrix.
2. Promote a minimum General Fund Unassigned Fund Balance of \$1.5 million (on an annual budget basis).
3. Fund key General Fund reserves in the following priority order:
  - a. 3% TABOR Emergency Reserve
  - b. TABOR Excess Revenue Reserve
  - c. 15% Fiscal Contingency Reserve
  - d. General Fund Unassigned Fund Balance
  - e. Council Special Projects Reserve (5.0% of sales, use, and property taxes, with a cap of \$2 million until funding shortfalls for 15% Fiscal Contingency Reserve and General Fund Unassigned Fund Balance target are overcome)
4. Receive City Council approval and properly appropriate any planned usage of fund balance or reserves.
5. Replenish fund balance and reserve levels that fall below target levels within one to three years of use or as soon as fiscally feasible.
6. Expend surplus fund balance and reserves on one-time uses only, such as capital projects, equipment replacement, or one-time programming needs. Since it is not known whether surplus fund balance will exist in a given year, surplus fund balance should not be considered a funding source for ongoing operations and maintenance. Any expenditure of surplus fund balance requires City Council approval.
7. Continue to conduct financial master planning for the General Fund to promote adequate fund balance and reserve structural balance and sustainability.
8. Fully fund this policy over a period of 3-5 years (sooner if fiscally feasible).

## Monitoring

For the General Fund, the Financial Master Plan serves as the best source of documentation regarding fund balance and reserve requirements. The Financial Master Plan details ending fund balances, specific fund balance and reserve requirements, and unassigned fund balances for the most recently completed fiscal year, the current year's adopted and revised budgets, the subsequent year's proposed budget, and nine forecast years, for a comprehensive 10-year outlook. This outlook provides City Management and City Council with a long-term fiscal planning view needed to identify issues sooner rather than later and take measures to correct those issues for long-term fiscal sustainability.

Measures taken to monitor the City's fiscal position per the City's Fiscal Contingency Plan include:

- Monitoring economic indicators (Slope of the Yield Curve, Job Growth, Wages, and Unemployment, Interest Rates, and GDP – Manufacturing/Inventory/Retail Sales).
- Monitoring performance of the most impactful General Fund revenue streams (Use Tax, Sales Tax, Property Tax, Licenses and Permits, and Charges for Services).

- Monitoring rate of departmental expenditures to determine if expenses are occurring as projected.

If it is determined that the City's fiscal conditions are not meeting budget expectations, reviewing budget balancing alternatives contained within the Fiscal Contingency Plan and determining what options may need to be implemented in order to improve the City's fiscal position are in order. Budget Balancing Alternatives contained within the Fiscal Contingency Plan specific to Fund Balances and Reserves are detailed below.

**Interfund Loan** – a loan from a solvent fund with reserves above the requirement, per the Fund Balance and Reserve Policy, to a fund with expenses in excess of available resources. Interfund loans invoke annual interest rates based on the performance of the City's portfolio for the previous 12-months, which is adjusted annually. Timeframes for repayment of an interfund loan shall not exceed 10 years.

- Interfund loans should only be used for the acquisition of a capital asset or to fully or partially fund a capital project.
- Interfund loans should only be made from a fund that is solvent and can afford to make the loan without jeopardizing operations or planned capital projects for which the fund is responsible.
- Interfund loans should not be made from funds that are restricted to a specific use by an external provider or from funds that the City holds in trust.
- Interfund loans must be approved by City Council.

**Transfer from Fund Balances in Excess of Reserve Requirement** – transfer funding in excess of the required reserve amounts, per this Policy for one-time capital expenses.

- Funds with balances in excess of fund balance targets and reserve requirements can transfer excess amounts to other funds, in the form of interfund transfers.
- Any excess fund balance should be transferred to the funds of origin that contributed to the excess.
- Interfund transfers of excess reserves should be treated as one-time revenue and are not intended to fund on-going operations and maintenance.
- Interfund transfers must be approved by City Council.

**Access Fund Balance Reserves Below the Minimum** – accessing fund balance reserves that would temporarily place the reserve amount below the required threshold, in accordance with the City's Fund Balance and Reserve Policy.

- Based upon fiscal conditions and other needs, accessing fund balances and reserves below the minimum targets may be warranted.

- Accessing fund balances and reserves below the minimum targets should be done prudently and with caution – in conjunction with the exercise of other budget balancing alternatives.
- Fund balances and reserves should be replenished within one to three years of use or as soon as fiscally feasible.
- Accessing any fund balances and reserves, whether below the minimum target or not, requires City Council approval.

**Freeze or Reduce Fund Balance Contributions** – annual contributions are made to funds with a required reserve amount per the City’s Fund Balance and Reserve Policy, like the Fleet Replacement Fund, Fleet Management Fund, Risk and Insurance Fund, and Employee Benefits Fund. This alternative proposes freezing contributions to that particular fund for a specified period of time.

- Annual contributions are made to meet minimum fund balance and reserve targets, whether through interfund transfers or charges for services related to internal service funds.
- Such contributions could be frozen or reduced for a specified period in order to prevent reserves in excess of the minimum target.
- Such contributions could be frozen or reduced for a specified period of time to provide relief to the General Fund in times of fiscal distress. This effort should not be undertaken without a plan to preserve or replenish affected fund balances as soon as fiscally feasible.
- Such decisions would be made in conjunction with the annual budget development process and would require City Council approval.

**Freeze or Reduce Voluntary Fund Contributions** – the General Fund makes annual, voluntary contributions to a variety of funds. Current examples of these funds include the Community Housing Development Fund, the Economic Incentives Fund, and the City Council Special Projects Fund. This alternative only applies to funds that do not have a required minimum fund balance, per the City’s Fund Balance and Reserve Policy. This alternative allows for escalation in that voluntary annual contributions can be reduced by a specified amount and that it can only be applied to specific funds.

- Voluntary fund contributions can be frozen or reduced for a specified period of time to provide relief to the General Fund in times of fiscal distress.
- This is considered a temporary (typically one-year) measure and requires City Council approval.
- Measures to freeze or reduce voluntary fund contributions should occur by City Council Resolution or Ordinance for funding policies that were put into place by City Council Resolution or Ordinance.
  - If such a measure is implemented, the following year the contribution amount shall be restored to the original contribution amount, unless directed otherwise by City Council.



## Reporting

During the annual budget process, the Finance Director will ensure Fund Balances are properly calculated for all City funds on an annual budget basis according to the Fund Balance and Reserve Matrix. Fund Balances will be reported in a comprehensive fashion when the draft annual budget is presented to City Council. The Fund Balance and Reserve Matrix serves as the tool for such reporting and contains documentation of minimum fund balance targets and reserve requirements for each City fund along with current amounts related to those targets and requirements to demonstrate achieved compliance with the Fund Balance and Reserve Policy. In the event fund balance targets and reserve requirements are not met, measures will be identified and proposed to achieve full compliance as soon as fiscally feasible.

On occasion, funds are added to the City's financial system of record to meet the needs of new projects, new debt issuances, and new services. Specific minimum fund balance targets or reserve requirements may also change with time. Thus, this Fund Balance and Reserve Policy will be revised periodically to remain current and relevant. Finance staff will review the Fund Balance and Reserve Matrix each year during the budget development process and propose changes to the City Council as needed.

## Definitions

1. **Appropriation** – A legal authorization made by the City Council to make expenditures and incur obligations for specific purposes.
2. **Capital Expenditures** – Expenditures resulting from a purchase that the City records as an asset, such as property, plant, or equipment (value of \$5,000 or greater on a unit basis).
3. **Capital Projects Fund** – A fund used to account for the revenues and expenditures related to capital projects. Capital projects are frequently funded by multiple funding sources, which are consolidated within a single fund to show the full cost of such projects in one location. The City's Capital Projects Fund houses activity related to non-enterprise projects other than the transportation projects. Transportation capital projects are housed within the Transportation Fund and Enterprise Fund related capital projects are housed with appropriate Enterprise Funds.
4. **Contributions** – Funding contributions made to Other Entities to which the City has financial and organizational connections. Examples include: the Loveland Fire Rescue Authority, the Loveland Larimer Building Authority, and the Northern Colorado Regional Airport.
5. **Council Special Projects Fund (CSPF)** – A fund established by City Council in 1999 that receives dedicated proceeds derived from 2.5% of all sales tax, use tax, and property tax, used to fund operating programs, special projects or capital improvements. All expenditures out of this fund must be approved and appropriated by City Council.

6. **Council Special Projects Fund (CSPF) Reserve** – The remaining balance of unallocated Council Special Projects Funding held in reserve for future City Council approved expenditures.
7. **Debt Service Fund** – A fund used to maintain a cash reserve used to pay for the principal and interest payments on certain types of debt. Examples of Debt Service Funds include the Foundry COP Debt Service, Water Debt Service, and Wastewater Debt Service Funds. The Foundry COP Debt Service Fund is categorized as an Other Governmental Fund and the Water and Wastewater Debt Service Funds are categorized as Enterprise Funds.
8. **Encumbrance** – An amount of appropriated funding committed and reserved, but not yet expended, for the purchase of a specific good or service, for which a purchase order or contract has been approved. Obligations ceased to be encumbrances when paid or when the actual liability is established.
9. **Enterprise Fund** – A fund that is self-supported through user fees. Examples of Enterprise Funds include the Water, Wastewater, Power, Stormwater, Solid Waste, and Golf Funds. Per the TABOR amendment, these funds cannot have more than 10% of their budget subsidized by another fund (i.e. the General Fund) or by annual grant revenue.
10. **Expenditure** – Payment for goods or services, including operating expenses that require the current or future use of net current assets, debt and capital outlays. Note that an encumbrance is not an expenditure, but a reserves funds to be expended in the current fiscal year.
11. **Fiduciary Fund** – A fund to account for an activity of the City as a trustee over funds allotted to meet a current or future financial obligation, usually on an actuarially sound basis. Example: Special Improvement District Fund, which is an Other Entity not covered by this policy.
12. **Fiscal Contingency Plan** – A framework to identify and respond to fiscal stress, to promote budget resiliency, adopted by City Council on November 6, 2018.
13. **Fund** – An accounting entity with a self-balancing set of accounts, which is segregated from other funds, to carry on specific activities or attain certain objectives.
14. **Fund Balance** – The net position of a governmental fund (difference between assets, liabilities, deferred outflows of resources, and deferred inflows of resources).
15. **Fund Balance Target** – A target level of fund balance to be held in reserve to meet the purposes of the Fund Balance and Reserve Policy.
16. **Fund Type** – In governmental accounting, funds are classified into three major fund types: governmental, proprietary, and fiduciary.
17. **General Fund** – One of five governmental fund types. The general fund typically serves as the chief operating fund of a government. The general fund is used to account for all financial resources not accounted for in some other fund. Financed mainly by sales tax and property tax.
18. **Generally Accepted Accounting Principles (GAAP)** – Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the basic financial statements of an entity. GAAP encompasses the convention, rules, and

procedures necessary to define accepted accounting practices at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provides a standard by which to measure financial presentations.

19. **Government Finance Officers Association (GFOA)** – Founded in 1906, the GFOA is the premier organization representing public finance officials throughout the United States and Canada. The GFOA provides training, best practice guidance, and other materials to its members.
20. **Governmental Accounting Standards Board (GASB)** – The body that sets accounting standards specifically for state and local governments.
21. **Governmental Fund** – There are five types of governmental funds – general fund, permanent funds, special revenue funds, capital projects funds, and debt service funds. All five of these fund types are defined within this list of definitions.
22. **Internal Services Fund** – A fund used for activities that provide support services to other City departments. Examples of Internal Service Funds include the Fleet Replacement, Fleet Management, Risk and Insurance, and Employee Benefits Funds.
23. **Operating Expenditures** – Expenditures incurred by the City as a result of performing normal operations, such as personal services, supplies, purchased services, and administrative overhead. Operating expenditures include contributions to Other Entities, but do not include capital and transfers. Operating Expenditures serve a basis for calculating fund balance targets and reserve requirements.
24. **Other Governmental Fund** – A fund that is related to the General Fund, but that is separated to promote transparency. Examples of Other Governmental Funds include the City of Loveland Transit, Economic Incentives, and Capital Projects Funds.
25. **Permanent Fund** – A fund used for activities related to a perpetual care or endowment purpose. The only permanent fund the City has is the Perpetual Care Fund related to the Loveland Burial Park. Though technically considered a Permanent Fund, the Perpetual Care Fund is categorized as a Special Revenue Fund to streamline Budget Fund Summaries.
26. **Proprietary Fund** – A business-like fund of the City. Proprietary Funds include Enterprise Funds and Internal Service Funds.
27. **Re-appropriation** – An act of appropriating applicable remaining balances at the end of a fiscal year to incorporate those remaining balances in the subsequent fiscal year’s budget for continuation of on-going projects, contracts, and financial obligations.
28. **Reserve** – Funds set aside for the purpose of paying for capital needs, providing for obligations and liabilities, and meeting emergency needs. City Council approval is required before expending any reserves.
29. **Reserve Requirement** – Cash required to be held in reserve for a specific purpose (grants, donations or contributions from external providers) or to meet federal or state laws or regulations.

30. **Revenue** – Funds that the government receives as income such as tax payments, user fees, charges, special assessments, fines, grants and interest income to support the services provided.
31. **Special Revenue Fund** – A fund used to account for proceeds of specific revenues that are legally restricted to be spent for specific purposes. Examples of Special Revenue Funds include the Conservation Trust, Community Development Block Grant, Art in Public Places, Lodging Tax, and Capital Expansion Fee Funds.
32. **Tax Payer Bill of Rights (TABOR)** – Also known as Amendment 1 (Article X, Section 20), TABOR is a state constitutional amendment approved by Colorado voters in 1992. TABOR limits “Fiscal Year Spending” by limiting the amount of revenue a government may retain. The revenue limit in a given year is the amount of revenue collected in the prior year adjusted for inflation and local growth. TABOR also requires the state and local governments to maintain a 3% Emergency Reserve. Loveland voters have authorized the City to retain TABOR Excess revenues. Those revenues must be spent on public safety, street maintenance and construction, and park maintenance and construction. The current voter approved measure sunsets at the end of 2024.
33. **TABOR 3% Emergency Reserve** – A reserve required by the TABOR state constitutional amendment. The reserve is required to be 3% of the City’s “fiscal year spending” and is calculated on an appropriate practical basis to be 3% of the City’s TABOR eligible expenditures.
34. **TABOR Eligible Revenue** – The City’s actual fiscal year revenue less any TABOR allowable exclusions. This serves as the amount to which the City’s TABOR limit is compared to determine if there is any TABOR Excess Revenue.
35. **TABOR Excess Reserve** – The remaining balance of unallocated TABOR Excess Revenue held in reserve for future expenditures authorized by City Council. Revenue must be spent on police and fire, street maintenance and construction, and park maintenance and construction. The City’s current TABOR ballot measure sunsets December 31, 2024.
36. **Transfers** – Amounts distributed from one fund to finance activities in another fund. Transfers are shown as an expenditure in the originating fund and a revenue in the receiving fund.
37. **Working Capital** – The Proprietary Fund (Enterprise and Internal Service Funds) equivalent of Fund Balance. Proprietary Funds distinguish between current (within a year) and long-term assets and liabilities. The working capital of a Proprietary Fund is calculated as the current assets minus the current liabilities.

## Attachments

1. City Funds by Fund Type
2. Working Capital Matrix for Enterprise Funds
3. Fund Balance and Reserve Matrix

### City Funds by Fund Type

General Fund	Other Governmental Funds	Special Revenue Funds	Enterprise Funds	Internal Service Funds
<i>Main City operating fund; houses operations largely supported by tax revenues</i>	<i>Other Funds related to the General Fund, but that are separated to promote transparency</i>	<i>Funds that account for revenues received for specific purposes that cannot be used for general City operations</i>	<i>Funds that account for governmental business operations</i>	<i>Funds that account for services provided by one City department to other City departments</i>
<ul style="list-style-type: none"> <li>▪ General Fund</li> </ul>	<ul style="list-style-type: none"> <li>▪ Foundry COP Debt Service</li> <li>▪ City of Loveland Transit</li> <li>▪ Economic Incentives</li> <li>▪ Capital Projects Fund</li>   <li>▪ Foundry Construction Project</li> </ul>	<ul style="list-style-type: none"> <li>▪ Perpetual Care*</li> <li>▪ Parks Improvement</li> <li>▪ Conservation Trust</li> <li>▪ County Open Space Sales Tax</li>   <li>▪ Community Housing Development</li>   <li>▪ Community Development Block Grant</li> <li>▪ Art in Public Places</li> <li>▪ Lodging Tax</li> <li>▪ Police Seizures &amp; Forfeitures</li> <li>▪ PEG Access Fee</li> <li>▪ Transportation</li> <li>▪ Parking Facility Fund</li>   <li>▪ Capital Expansion Fee Funds</li>   <li>▪ Fiber Network</li> </ul>	<ul style="list-style-type: none"> <li>▪ Water</li> <li>▪ Water SIF</li> <li>▪ Raw Water</li> <li>▪ Water Debt Service</li>   <li>▪ Water Bond Debt 2015</li>   <li>▪ Wastewater</li> <li>▪ Wastewater SIF</li> <li>▪ Wastewater Debt Service</li> <li>▪ Power</li> <li>▪ Power PIF</li> <li>▪ Municipal Fiber</li> <li>▪ Municipal Fiber PIF</li>   <li>▪ Municipal Fiber Debt Service</li>   <li>▪ Stormwater</li> <li>▪ Solid Waste</li> <li>▪ Golf</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fleet Replacement</li> <li>▪ Fleet Management</li> <li>▪ Risk &amp; Insurance</li> <li>▪ Employee Benefits</li> </ul>

\* Technically, the Perpetual Care Fund is a Trust/Agency Fund, however, is categorized as a Special Revenue Fund for efficiency as it is the only such fund within the City.




# Working Capital Matrix for Enterprise Funds
































































(based on the Government Finance Officers Association's (GFOA) Best Practice titled Working Capital Targets for Enterprise Funds)

**GFOA recommends:**






















- Developing a target amount of working capital that best fits the need for each fund.
- Starting with a baseline of 90 days worth of working capital, then adjusting up or down based upon each fund's particular characteristics.
- Considering the characteristics listed below when establishing working capital targets for each fund.

**Key:**

-  Characteristic may warrant adjusting working capital target down
-  Characteristic does not warrant adjusting working capital target up or down; deemed to have little or no influence
-  Characteristic may warrant adjusting working capital target up

Enterprise Fund Characteristics	Rationale	Higher or lower target may be needed based upon characteristics of each fund are indicated below						
		Water	Raw Water	Wastewater	Power	Stormwater	Solid Waste	Golf
1 Support from General Government	If the Fund receives a subsidy from the General Fund, a lower target is warranted.							
2 Transfers Out	If the Fund makes transfers to other Funds or contributions to Other Entities to meet financial obligations, a higher target is warranted.							
3 Cash Cycles	If the Fund experiences significant seasonality or volatility in its cash position throughout the year, a higher target is warranted.							
4 Customer Concentration	If the Fund's customer base is not very diversified or concentrated, a higher target is warranted.							
5 Demand for Service	If the Fund's demand for service is not steady and more, a higher target is warranted.							
6 Control Over Rates and Revenues	If the Fund is revenue constrained and doesn't have the ability to change rates/fees, a higher target is warranted.							
7 Asset Age and Condition	If a Fund's infrastructure is older and in need of greater repairs, a higher target is warranted.							
8 Volatility of Expenses	If the Fund's expenditures are variable and volatile (vs. fixed and controllable), a higher target is warranted.							
9 Control Over Expenses	If the Fund's expenditures can't be easily reduced, a higher target is warranted.							

**Other Considerations:**

10 Management Plans	If there are plans for capital spending, etc. within the Fund, targets should be adjusted to represent a more accurate amount available to manage financial risk.							
11 Separate Targets for Operating and Capital Needs	Consider implementing separate targets for operating and capital needs.							
12 Debt Position	Consider the amount and type of debt a Fund may have when setting targets.							

**Notes:**

Golf #5	Demand for service is generally steady. However, it could be affected by external economic conditions (i.e. a recession).
Golf #6	Control over rates and revenues can charge higher fees but this may impact demand, potentially resulting in the same or even less revenue.
Golf #11	Capital needs may be delayed/suspended if the fund were facing financial difficulties.
Golf #12	Debt position would warrant adjusting working capital target up if debt were incurred for clubhouse construction.
Water, Wastewater, and Power	Minimum fund balance targets deemed sufficient to meet needs of respective general and capital funds.
Raw Water	Minimum fund balance is defined as \$2.7 million, based on bonding requirements.

**City of Loveland  
Fund Balance and Reserve Matrix**

Fund	Department Managed By	Fund Balance Classification	Policy Recommendation (calculated on annual budget basis)	Fund Balance/ Reserve Target	2019 Budget	Surplus/ (Shortfall)
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<b>General Fund (100)</b>						
1 • 3% TABOR Emergency Reserve	Finance	Restricted	TABOR Emergency Reserve as required by the Colorado State Constitution - 3% of TABOR Eligible Revenue (Can only be used in a declared emergency)	\$ 2,665,909	\$ 2,665,909	\$ -
2 • TABOR Excess Revenue Reserve		Restricted	Remaining balance of unallocated TABOR Excess Revenue held in reserve for future expenditures authorized by City Council; revenue must be spent on police and fire, street maintenance and construction, and park maintenance and construction; current voter approved ballot measure sunsets on 12/31/24	\$ 325,000	\$ 325,000	\$ -
3 • 15% Fiscal Contingency Reserve		Committed	Fiscal Contingency Reserve to serve as key General Fund reserve - 15% of operating expenditures (including contributions to Other Entities and operating transfers, excluding capital and transfers related to capital)	\$ 13,586,198	\$ 8,962,326	\$ (4,623,872)
4 • General Fund Unassigned Fund Balance		Unassigned	Target of \$1.5 Million in General Fund Unassigned Fund Balance to provide a reasonable amount for unanticipated needs at the start of the year and ward against revenue projection shortfalls	\$ 1,500,000	\$ 232,630	\$ (1,267,370)
5 • Council Special Projects Fund Reserve		Committed	Remaining balance of unallocated Council Special Projects Funding held in reserve for future expenditures; by City Council Ordinance No. 5640, 5.0% of Sales, Use, and Property Taxes are placed in this General Fund Reserve Account; expenditures from this reserve account shall be made for operating programs, special projects or capital improvements as authorized by City Council	\$ 674,760	\$ 674,760	\$ -
6 • Museum Donations		Restricted	Remaining balance of unspent Museum donations to be held in reserve for future Museum expenditures	\$ 542,855	\$ 542,855	\$ -
7 • Police Donations		Restricted	Remaining balance of unspent Police donations to be held in reserve for future Police expenditures	\$ 19,496	\$ 19,496	\$ -
8 • Library Donations		Restricted	Remaining balance of unspent Library donations to be held in reserve for future Library expenditures	\$ 279,695	\$ 279,695	\$ -
<b>Total - General Fund</b>					<b>\$ 19,593,913</b>	<b>\$ 13,702,671</b>

<b>Other Governmental Funds</b>						
9 • Foundry COP Debt Service (101)	Finance	Restricted	Fund established to pay off debt associated with the Foundry Parking Facility project; fund balance requirement per the lease/purchase ordinance			
10	Public Works	Restricted	Balance of any unexpended grant or outside revenues related to transit operations or capital projects			
11 • City of Loveland Transit (105)		Assigned	Balance of any other non-General Fund revenues held in reserve for future Transit Fund needs; since the Transit Fund receives a General Fund operating subsidy, it is expected that this Fund would maintain a \$0 Fund Balance outside of any Restricted Fund Balance requirements			
12 • Economic Incentives (106)	Economic Development	Assigned	The General Fund annually contributes \$450,000 to this fund; there is no minimum fund balance required - all funds can be appropriated and spent on approved economic incentives			
13	Finance	Restricted	Balance of any unexpended grant or outside revenues related to capital projects			
14 • Capital Projects Fund (120)		Assigned	Since the Capital Projects Fund receives transfers from other funds, it is expected that this Fund would maintain a \$0 Fund Balance outside of any Restricted Fund Balance requirements			
15 • Foundry Construction Project (123)	Finance	Restricted	Single purpose fund for the construction of the Foundry Parking Facility; existing fund balance is needed for the construction of the project and there are no fund balance requirements upon completion of the project			
<b>Total - Other Governmental Funds</b>				<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Fund	Department Managed By	Fund Balance Classification	Policy Recommendation (calculated on annual budget basis)	Fund Balance/ Reserve Target	2019 Budget	Surplus/ (Shortfall)
<b>Special Revenue Funds</b>						
16 • Perpetual Care (140)	Parks & Recreation	Restricted	All accumulated Fund Balance reserved to provide cemetery maintenance in perpetuity once it is at capacity; perpetual care fees are restricted and may never be spent, so that interest earned on the principal fee amount is sufficient enough to provide future ongoing maintenance			
17 • Parks Improvement (200)	Parks & Recreation	Restricted	North Lake Park Train Donations - reserve of donated funds reserved for future replacement of train			
18		Assigned	Residual Fund Balance - remaining funds reserved for future needs of the Parks Improvement Fund			
19 • Conservation Trust (201)	Parks & Recreation	Restricted	Maintenance/Emergency Reserve - designated cash reserve of \$500,000 for Loveland's Recreational Trail system			
20		Restricted	Residual Fund Balance - remaining funds reserved for future needs of the Conservation Trust Fund			
21 • County Open Space Sales Tax (202)	Parks & Recreation	Restricted	Maintenance/Restoration Reserve - designated cash reserve of \$1,200,000 for Open Lands in Loveland			
22		Restricted	Residual Fund Balance - remaining funds reserved for future needs of the County Open Space Sales Tax Fund			
23 • Community Housing Development (203)	Executive & Legal	Committed	Formerly known as the Affordable Housing Fund, this Fund is funded by a dedicated allocation of 1.25% of sales tax for use on affordable housing and homelessness initiatives; this Fund has a rolling maximum cap of \$2,000,000, per Resolution #R-21-2017			
24 • Community Development Block Grant (204)	Executive & Legal	Restricted	Balance of any unexpended Federal Housing and Urban Development (HUD) grant funding reserved for expenditure on applicable Community Development Block Grant (CDBG) programming; grant funds are apportioned 20% for Administration and 80% for sub-recipient grants, of which 65% is for public services and 15% is for brick and mortar projects			
25 • Art in Public Places (205)	Cultural Services	Committed	Art in Public Places was established by City Council Ordinance in 1985; this Fund is funded by a dedicated 1% of the cost of projects per City of Loveland Municipal Code Chapter 12 Section 60 Art in Public Places; funds are used for the acquisition, display, maintenance and repair, and related administrative expenses for public art; by internal practice, 70% of estimated revenues is appropriated for art capital projects each year; all remaining Fund Balance within this Fund is considered Committed and reserved for future public art expenditures			
26 • Lodging Tax (206)	Economic Development	Restricted	Established by Ordinance in 2009, the Lodging Tax Fund is funded by a 3% tax on the lodging price paid for lodging services provided in the City; lodging tax revenues are used for tourism, conventions and related activities within the City by marketing the City and sponsoring community events; any remaining fund balance is committed to the purpose of the Lodging Tax Fund			
27 • Police Seizures & Forfeitures (207)	Police	Restricted	This fund houses proceeds obtained through state or federal asset forfeiture proceedings in connection with relevant criminal activity. This fund also houses various court fees paid to the Northern Colorado Drug Task Force in connection with relevant cases associated with the unlawful distribution of controlled substances. All proceeds, received by the City, are derivative of funds distributed, to the City, under an Intergovernmental Agreement concerning the formation and operation of the Northern Colorado Drug Task Force, of which the financial management component is maintained by the Larimer County Sheriff's Office pursuant to the Guide to Equitable Sharing for State and Local Law Enforcement Agencies for federal monies and Article 13 of Title 16, C.R.S. for state monies. These monies are intended for overtime and equipment for police investigation.			



Fund	Department Managed By	Fund Balance Classification	Policy Recommendation (calculated on annual budget basis)	Fund Balance/ Reserve Target	2019 Budget	Surplus/ (Shortfall)
28 • Public, Educational & Government Access Fee (210)	Information Technology	Committed	This Fund is funded by Public, Educational & Government Fee revenue based upon the Cable Franchise agreement; funds are used to upgrade City equipment used to broadcast City Council meetings and other Government programming on the Comcast cable service; funds can only be used for capital equipment			
29		Restricted	Balance of any unexpended grant or outside revenues related to transportation capital projects			
30 • Transportation (211)	Public Works	Assigned	Balance of any other non-General Fund revenues held in reserve for future Transportation Fund needs; since the Transportation Fund receives a General Fund operating subsidy, it is expected that this Fund would maintain a \$0 Fund Balance outside of any Restricted Fund Balance requirements			
31 • Parking Facility (212)	Public Works	Assigned	Fund for operating and maintaining the Foundry Parking Facility; funded by specific pledged revenues along with a General Fund subsidy to make the fund whole; this fund can build fund balance during years that there is no General Fund subsidy			
32 • Parks Capital Expansion Fee (260)	Parks & Recreation	Restricted	Capital Expansion Fee funds are held in reserve for future capital projects; fund balances will vary depending upon the timing of capital projects; there is no minimum fund balance requirement for these funds			
33 • Recreation Capital Expansion Fee (261)	Parks & Recreation					
34 • Trails Capital Expansion Fee (262)	Parks & Recreation					
35 • Open Lands Capital Expansion Fee (263)	Parks & Recreation					
36 • Law Enforcement Capital Expansion Fee (265)	Police					
37 • Library Capital Expansion Fee (266)	Library					
38 • Museum/Rialto Capital Expansion Fee (267)	Cultural Services					
39 • General Government Capital Expansion Fee (268)	Finance					
40 • Streets Capital Expansion Fee (269)	Public Works					
41 • Fiber Network (280)	Information Technology	Assigned	This Fund is funded by revenues received from Platte River Power Authority's leasing of their dark fiber in Loveland; funds are used for upgrading and expanding the City's fiber network			
<b>Total - Special Revenue Funds</b>				\$ -	\$ -	\$ -

Enterprise Funds						
42 • Water (300)	Water & Power	Assigned	Operating Reserve - 120 days of operating expenditures (rate consultant recommendation to be met by 2029)			
43 • Water SIF (301)	Water & Power	Restricted	System Improvement Fee funds are held in reserve for future capital projects; fund balances will vary depending upon the timing of capital projects; there is no minimum fund balance requirement for these funds			
44 • Raw Water (302)	Water & Power	Restricted	Water revenues and charges for services for purchase of water rights and storage needs; fund balance will vary depending upon the timing of purchases and projects; there is no minimum fund balance requirement for this fund			
45 • Water Debt Service (303)	Water & Power	Restricted	Fund established to pay off debt associated with water treatment plan expansion; fund balance requirement per the bond ordinance			
46 • Water Bond Debt 2015 (304)	Water & Power	Restricted	Fund established to pay off debt associated with water treatment plan expansion; fund balance requirement per the bond ordinance			
47 • Wastewater (315)	Water & Power	Assigned	Operating Reserve - 120 days of operating expenditures (rate consultant recommendation to be met by 2029)			
48 • Wastewater SIF (316)	Water & Power	Restricted	System Improvement Fee funds are held in reserve for future capital projects; fund balances will vary depending upon the timing of capital projects; there is no minimum fund balance requirement for these funds			
49 • Wastewater Debt Service (317)	Water & Power	Restricted	Fund established to pay off debt associated with wastewater treatment plan expansion; fund balance requirement per the bond ordinance			
50 • Power (330)	Water & Power	Assigned	Operating Reserve - 120 days of operating expenditures (rate consultant recommendation to be met by 2029)			
51 • Power PIF (331)	Water & Power	Restricted	Plant Improvement Fee funds are held in reserve for future capital projects; fund balances will vary depending upon the timing of capital projects; there is no minimum fund balance requirement for these funds			

Fund	Department Managed By	Fund Balance Classification	Policy Recommendation (calculated on annual budget basis)	Fund Balance/ Reserve Target	2019 Budget	Surplus/ (Shortfall)
52 • Municipal Fiber (335)	Water & Power	Restricted	Rate Mitigation Reserve - \$4 million starting amount to be used for stabilizing rates or defeasing debt			
53		Committed	Operating Reserve - number of days or percentage of operating expenditures to be determined			
54 Municipal Fiber PIF (336)	Water & Power	Restricted	Plant Improvement Fee funds are held in reserve for future capital projects; fund balances will vary depending upon the timing of capital projects; there is no minimum fund balance requirement for these funds			
55 • Municipal Fiber Debt Service (337)	Water & Power	Restricted	Fund established to pay off debt associated with broadband utility infrastructure; fund balance requirement per the bond ordinance			
56 • Stormwater (345)	Public Works	Committed	Operating Reserve - 15% of operating expenditures			
57		Assigned	Residual Fund Balance - remaining funds reserved for future needs of the Stormwater Fund			
58 • Solid Waste (360)	Public Works	Committed	Operating and Equipment Replacement Reserve - 25% of operating expenditures			
59		Assigned	Residual Fund Balance - remaining funds reserved for future needs of the Solid Waste Fund			
60	Parks & Recreation	Committed	Operating Reserve - Highest Two Month Average of operating expenditures	\$ 750,000		
61 • Golf (375)		Committed	Buckingham Reservoir Required Reserve - In 2007, Lakeside Nine/Marostica paid \$150,000 to the City for Buckingham Reservoir recreational use rights with the understanding that the funds would be used by the City for additional water rights or capital improvements for the Reservoir, this payment and associated interest earned are held in reserve for appropriate future expenditure	\$ 175,300		
62		Committed	Deer Meadows Metropolitan District Easements - In 2007, the City entered into an agreement to provide permanent stormwater easements and improvements to the District, for which the District paid \$58,200; this payment and associated interest earned are held in reserve for appropriate future expenditure	\$ 90,200		
63		Assigned	Residual Fund Balance - remaining funds reserved for future needs of the Golf Fund			
<b>Total - Enterprise Funds</b>				<b>\$ 1,015,500</b>	<b>\$ -</b>	<b>\$ -</b>

Internal Service Funds						
64 • Fleet Replacement (500)	Public Works	Committed	Fleet Replacement Reserve - 25% of the total capital asset value owned by the fund			
65 • Fleet Management (501)	Public Works	Committed	Operating Reserve - 25% of non-personnel related operating expenditures			
66 • Risk & Insurance (502)	Human Resources	Committed	Workers' Compensation Reserve - a minimum of 65% of the actuarial expected level with an undiscounted rate (not including any return on the investment of that ultimate amount)			
67		Committed	Property & Casualty Reserve - the minimum of three times the current per occurrence deductible amount for Property and the same for Casualty (Liability)			
68		Assigned	Residual Fund Balance - remaining funds reserved for future needs of the Risk & Insurance Fund			
69 • Employee Benefits (503)	Human Resources	Committed	Operating Reserve - per Resolution #R-86-2016, 20% of total projected Expenditures; a "premium holiday" will be awarded the following year for each year that this reserve requirement is exceeded			
70		Assigned	Residual Fund Balance - remaining funds reserved for future needs of the Employee Benefits Fund			
<b>Total - Internal Service Funds</b>				<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>