

RESOLUTION NO. 703

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TERRELL, TEXAS, ESTABLISHING A FUND BALANCE POLICY FOR THE CITY OF TERRELL AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, a Fund Balance Policy is a key element of financial stability of the City of Terrell by setting guidelines for maintaining a fund balance; and

WHEREAS, the maintenance of adequate levels of unassigned fund balance will mitigate financial risk to the City that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and other similar circumstances; and

WHEREAS, unassigned fund balance is an important measure of economic stability; and

WHEREAS, the City Council desires to establish a Fund Balance Policy to ensure that the City maintains adequate fund balances in the City's various operating funds with the capacity to provide sufficient cash flow for daily needs; secure and maintain investment grade bond ratings; offset significant economic downturns or revenue shortfalls and provide for unforeseen expenditures related to emergencies.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF TERRELL, TEXAS, THAT:

SECTION 1

The City Council has reviewed the City of Terrell Fund Balance Policy (Revised for GASB 54) as shown on the attached Exhibit "A", and

SECTION 2

The City Council hereby adopts the City of Terrell Fund Balance Policy (Revised for GASB 54) as shown on the attached Exhibit "A" as the City's Fund Balance Policy.

SECTION 3

All Resolutions or parts of Resolutions in force with provisions relating to this Resolution, which are inconsistent or in conflict with the terms or provisions contained herein, are hereby repealed to the extent of any such conflict only. The non-conflicting sections, sentences, paragraphs, and phrases shall remain in full force and effect.

SECTION 4

This Resolution shall become effective immediately upon its passage and approval.

APPROVED AND ADOPTED at a regular meeting of the Terrell City Council on this _6th day of September, 2011.

Hal Richards Mayor

Attest:

John Rounsavall, City Secretary

Approved as to form:

Greg Shumpert, City Attorney

Exhibit “A”

City of Terrell Fund Balance Policy Revised for GASB 54

Purpose

The purpose of this policy is to establish a key element of the financial stability of the City of Terrell by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability and it is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and other similar circumstances. This policy will ensure the City maintains adequate fund balances in the City’s various operating funds with the capacity to:

- 1 Provide sufficient cash flow for daily financial needs,
- 2 Secure and maintain investment grade bond ratings,
- 3 Offset significant economic downturns or revenue shortfalls, and
- 4 Provide funds for unforeseen expenditures related to emergencies.

Definitions

Fund Equity – A fund’s equity is generally the difference between its assets and its liabilities.

Fund Balance – The fund equity of a governmental fund for which an accounting distinction is made between the portions that are spendable and nonspendable. Fund balance is classified into five categories:

- 1) **Nonspendable fund balance** – includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaids) or because

they must remain in-tact such as the principal of an endowment.

- 2) **Restricted fund balance** – includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.

- 3) **Committed fund balance** – includes the portion of net resources upon which the City Council has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a *formal action* of the City Council. Commitments may be changed or lifted only by the Council taking the same *formal action* that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

- 4) **Assigned fund balance** – includes the portion of net resources for which an *intended* use has been established by the City Council or the City Official authorized to do so by the City Council. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.

- 5) **Unassigned fund balance** – includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

Policy

Committed Fund Balance

The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at the City's Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period (i.e. the Council may approve the calculation or formula for determining the amount to be committed).

Assigned Fund Balance

The City Council authorizes the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose as approved by this fund balance policy.

Minimum Unassigned Fund Balance

The City's goal is to achieve and maintain an unassigned fund balance in the general fund equal to 18.00% of expenditures. The City considers a balance of less than 8.00% to be cause for concern, barring unusual or deliberate circumstances. In the event that the unassigned fund balance is calculated to be less than the policy stipulates, the City shall plan to adjust budget resources in subsequent fiscal years to restore the balance.

Replenishment of Minimum Fund Balance Reserves

If unassigned fund balance unintentionally falls below 8.00% or if it is anticipated that at the completion of any fiscal year the projected unassigned fund balance will be less than the minimum requirement, the City Manager shall prepare and submit a plan to restore the minimum required level as soon as economic conditions allow. The plan shall detail the steps necessary for the replenishment of fund balance as well as an estimated timeline for achieving such.

These steps may include, but are not limited to, identifying new, nonrecurring, or alternative sources of revenue; increasing existing revenues, charges and/or fees; use of year end surpluses; and/or enacting cost saving measures such as holding capital purchases, reducing departmental operating budgets, freezing vacant positions, and/or reducing the workforce. The replenishment of fund balance to the minimum level shall be accomplished within a three-year period. If restoration of the reserve cannot be

accomplished within such a period without severe hardship to the City, then the Council shall establish an extended time line for attaining the minimum balance.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

Appropriation of Unassigned Fund Balance

Appropriation from the minimum unassigned fund balance shall require the approval of the Council and shall be utilized only for one-time expenditures, such as capital purchases, and not for ongoing expenditures unless a viable revenue plan designed to sustain the expenditure is simultaneously adopted.

The Council may appropriate unassigned fund balances for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the established minimum.

Monitoring and Reporting

The Director of Finance shall be responsible for monitoring and reporting the City's various reserve balances. The City Manager is directed to make recommendations to the Council on the use of reserve funds both as an element of the annual operating budget submission and from time to time throughout the fiscal year as needs may arise.

Compliance with the provisions of the policy shall be reviewed as a part of the annual operating budget adoption process and subsequent review will be included in the annual

audit and financial statement preparation procedures.