



City of Aransas Pass

Fund Balance Policy

Purpose:

The purpose of this policy is to establish a key element of the financial stability of the City of Aransas Pass by setting guidelines for the 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, such as natural disasters and other similar circumstances. This policy will ensure the City maintains adequate fund balances in the operating fund with the capacity to:

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

Definition:

Fund Balance – An accounting distinction is made between the portions of fund balance that are spendable and non-spendable. These are divided into five categories:

1. Non-spendable fund balance – this includes amounts that are not in spendable form or are required to be maintained intact. Examples are inventory and endowment.
2. Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. An example include grants.
3. Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action by the Aransas Pass City Council. Commitments may be changed or lifted only by the City Council.
4. Assigned Fund Balance – comprises amounts intended to be used by the City for specific purposes. Intent can be expressed by the City Council or by an official or officials to which the Council delegates the authority. Assigned Fund Balance represents the amount that is not restricted or committed. Such assignments cannot exceed the available fund balance in any fund.
5. Unassigned Fund Balance – the residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

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Committed Fund Balance

City Council action, in the form of a resolution, is required to establish, modify or rescind a fund balance commitment. 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.

Assigned Fund Balance

The City Council has authorized the City Manager as the official authorized to assign the fund balance to a specific purpose as approved by this policy.

Target Unassigned Fund Balance

The City's goal is to achieve and maintain an unassigned fund balance in the General fund equal to 40% of budgeted operating expenditures. In the event the fund balance is calculated to be less than the policy stipulates, the City shall plan to adjust expenditures to restore the balance.

Appropriation of Unassigned Fund Balance

To reduce the Unassigned Fund Balance below 40%, there must be Council approval. If a disaster causes significant reduction in city revenues, the fund balance could be reduced below 40% to provide funding to maintain city services at their pre-disaster levels. The fund balance may be used this way until revenues recover.

Reserve Mandate

There shall be maintained in the budget an annual 3% General Fund Reserve. This reserve is mandated by the City Charter and may be used on emergency or unexpected expenditures. It also can be used to prevent a reduction in the fund balance below 40%.

Replenishment of Fund Balance Reserves

If the unassigned fund balance falls below 40% or if it is anticipated that at the completion of any fiscal year, the projected fund balance will be less than the minimum requirement, the City Manager shall prepare and submit a plan to City Council to restore the required level. The plan shall detail the steps necessary for the replenishment of the fund balance as well as an estimated timeline for achieving such, not to exceed five years. In the event the fund balance is calculated to be less than 40%, the 3% reserve, as mandated by the City Charter, may be used to replenish the fund balance.

Accumulation of the Fund Balance

The unassigned fund balance may be allowed to accumulate above the 40% target to accommodate operating and unexpected capital expenses. It is not recommended that the unassigned fund accumulate above 50%.

Monitoring and Reporting

The Finance Director shall be responsible for monitoring and reporting the City's Fund Balance and reserves. 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.