



GENERAL FUND BALANCE POLICY GUIDELINE

City of Bristol, Virginia

I. INTRODUCTION:

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City sets the following goals: to maintain fund balance reserves sufficient to fund all cash flows of the City, to provide financial reserves for unanticipated or emergency expenditures and/or revenue shortfalls, and to provide funds for all existing expenses.

II. PURPOSE:

The purpose of this policy is to specify the composition of the City's financial reserves, set suggested minimum levels for certain reserve balances, and to identify certain requirements for replenishing any fund balance reserves utilized.

III. POLICY:

1. Fund Balance Categories:

For documentation of the City's fund balance position, communication with interested parties and general understanding, a clear and consistent system of classification of the components of the City's fund balances is necessary. The City's reporting and communication relating to fund balances will utilize the classifications outlined in generally accepted accounting principles (GAAP). GAAP dictates the following hierarchical fund balance classification structure based primarily on the extent to which the City is restricted in its use of resources.

- a. **Non-spendable Fund Balance:** These are fund balance amounts that are not in a readily spendable form, such as inventories or prepayments, or trust or endowment funds where the balance must remain intact.
- b. **Restricted Fund Balance:** These are amounts that have constraints placed on their use for a specific purpose by external sources such as creditors, or legal or constitutional provisions.
- c. **Committed Fund Balances:** These amounts are designated for a specific purpose or constraints have been placed on the resources by City Council. Amounts within this category require City Council action to commit or to release the funds from their commitment.

- d. Assigned Fund Balances: These are amounts set aside with the intent that they be used for specific purposes. The expression of intent can be by City Council or their designee and does not necessarily require City Council action to remove the constraint on the resources.
- e. Unassigned Fund Balances: These are amounts not included in the previously defined categories. The City's General Fund should report a positive Unassigned Fund Balance. Amounts in this classification represent balances available for appropriation at the discretion of City Council. However, City Council recognizes that the Unassigned Fund Balance needs to be comprised of liquid cash and investments to meet the City's cyclical cash flow requirements and be at a level sufficient to allow the City to avoid the need for short term tax anticipation borrowing. The Unassigned Fund Balance should also allow for a margin of safety against unforeseen expenditures that could include, but not be limited to, natural disasters, severe economic downturns, and economic development opportunities. Unassigned Fund Balance shall not be used for annual recurring expenditures, except for unforeseen emergency circumstances.

As of the date of this policy document, City Council recognizes that it shall budget an amount each year (the "Annual Budget Amount") toward rebuilding the Unassigned Fund Balance until the balance, at a minimum, reaches 18% of annual budgeted operating revenues (General and Solid Waste Funds excluding any pass through revenues and internal transfers) or an amount, if greater than 18%, that is sufficient to eliminate the need for annual cash flow Tax Anticipation Note borrowings (the "Policy Goal").

To the extent that the City has any remaining operating surplus after all expenditures (including the Annual Budgeted Amount) have been satisfied, the City shall apply at a minimum 50% of such remaining operating surplus to further accelerate the build-up of the Unassigned Fund Balance.

City Council recognizes that if amounts above the 18% Policy Goal exist, City Council could contemplate strategically utilizing these amounts, if appropriate. However, City Council also recognizes that maintaining an Unassigned Fund Balance above the minimum policy level may be beneficial to the overall well-being of the City. Should any amounts above the 18% Policy Goal exist they should only be appropriated for non-recurring expenditures as they represent prior year surpluses that may or may not materialize in subsequent fiscal years. Amounts above the 18% Policy Goal could be used for the following purposes :

- i. Fund additional reserves for use during an emergency, during periods of economic uncertainty or budget adversity, or for capital items. Such additional reserves shall be determined by City Council. . Once funds are transferred into reserve accounts, they may only be transferred out for the stated purpose by a majority vote of City Council. The goal of this policy is to fund \$ 5 million in this reserve.
- ii. Fund debt service reserves sufficient to meet the needs of the City's annual future general obligation bond debt service schedule as presented in the 5 year general obligation bond debt service plan.

2. Prioritization of Fund Balances:

As indicated, the fund balance classifications outlined above are based on the level of restriction. In the event expenditures qualify for disbursement from more than one fund balance category, it shall

be the policy of City of Bristol that the most constrained or limited fund balance available will be used first. Unassigned fund balance will be used last.

3. Replenishment of the Unassigned Fund Balance:

Upon the use of any Unassigned Fund Balance, which causes such fund balance to fall below either the Policy Goal and/or Minimum Initial Target levels, City Council must approve and adopt a plan to restore amounts used within 24 months. If restoration of the reserve cannot be accomplished within such period without severe hardship to the City, then the City Council will establish a different time period.