

GENERAL FUND BALANCE POLICY FOR THE CITY OF ELGIN

INTRODUCTION

To maintain a financially prudent fund balance program, the City of Elgin (the "City") has adopted the guidelines and policies set forth in this document titled "General Fund Balance Policy" (the "Fund Balance Policy"). The purpose of creating the Fund Balance Policy is to establish and codify the objectives and best practices for determining the targeted-minimum levels of unrestricted cash balances for the City and to assist all concerned parties in understanding the City's approach to fund balance maintenance.

The Fund Balance Policy is intended to serve as a benchmark, or frame of reference against which, current and future decisions related to funding and use of unrestricted cash balances by the City can be compared.

Per Governmental Accounting Standards Board (GASB) Statement No. 54, the terms associated with the use of unrestricted cash balances are classified as restricted, committed, assigned or unassigned. Definitions for each of these terms are described as follows:

- Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation (currently, certain Municipal Court, Red Light Camera and Police Seizure Special Revenue Funds, are the only restricted balances of the City).
- Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the City (the Cash Reserve Fund, in the following Policy Statement, are all committed funds).
- Assigned fund balance amounts are intended to be used by the City for specific purposes (currently, Sidewalk and Park in Lieu, are all assigned funds).
- Unassigned (Unrestricted) fund balance is the classification for the City's general fund of all spendable amounts not contained in the other classifications.

POLICY STATEMENT

In managing its unrestricted General Fund Balance the City will set limits for a Committed Fund Balance (the "Cash Reserve Funds"). It is the City's policy to set limits to:

- Maintain a Stabilization Cash Reserve Fund balance (Approximately 3 months operating expenses) in the amount of \$2,000,000.
- Establish a Legal Counsel Cash Reserve Fund balance in the amount of \$250,000.
- Establish a Capital Project Cash Reserve Fund balance for a one-time dedicated capital project for road improvements in the amount of \$500,000.

Total Committed Fund Balance Amount: \$2,750,000.

GOALS & OBJECTIVES

Maintaining a Cash Reserve Fund by adhering to a fund balance policy is not only a prudent fiscal management tool, but also an important factor in the analysis of financial stability. The City should maintain a prudent level of financial resources to protect against service reductions or tax increases because of temporary revenue shortfalls or unanticipated one-time expenditures. The Cash Reserve Funds may be used to address unanticipated revenue shortfalls or unforeseen expenditures, providing a first defense against deficit spending and helping to maintain liquidity when budgeted overages become inevitable.

Maintaining a Cash Reserve Fund is among the most effective practices a government can apply to maintain a favorable credit rating. The accumulation of prudent reserves in more favorable economic times could be a resource to sustain the City in inevitable economic downturns or unforeseen and/or emergency expenditures.

USE OF STABILIZATION CASH RESERVE FUNDS

The Stabilization Cash Reserve Fund balance should be used for one-time capital projects or emergency operational expenditures only if all of the following conditions occur:

1. A rare and extraordinary event (e.g. natural disaster, man-made disaster, or large and unanticipated reduction or elimination of State/City revenue), or the one-time funding of a capital project or an operating initiative that will result in material, recurring reductions in future operating expenditures or material, recurring increases in operating revenues.
2. The City has made a complete and rational analysis, with justifying evidence that the Stabilization Cash Reserve Fund can be maintained in the future.
3. At such time that these reserve funds are expended, the City Council shall adopt a repayment schedule for replenishment of these reserves.

USE OF LEGAL COUNSEL CASH RESERVE FUNDS

The Legal Counsel Cash Reserve Fund balance should be used for unexpected or unanticipated legal expenses, as named by the City.

USE OF CAPITAL PROJECT CASH RESERVE FUNDS

The Capital Project Cash Reserve Fund balance should be used to set aside funds for specific projects, as named by the City.

FUND BALANCE POLICY REVIEW

The Fund Balance Policy guidelines, outlined herein, are only intended to provide general direction regarding the future use and maintenance of the Cash Reserve Funds.

Since the guidelines contained in the Fund Balance Policy requires regular updating in order to maintain relevance and to respond to the changes inherent in the capital markets, the City plans to revisit the Fund Balance Policy from time to time.

This policy will be reviewed as needed. At that time, the Mayor/City Council will consider any recommendations for any amendments, deletions, additions, improvements or clarification.

PASSED, ADOPTED AND APPROVED by the City Council of the City of Elgin this the 5th day of March 2019.

CITY OF ELGIN, TEXAS:

Chris Cannon, Mayor

ATTEST:

Amelia Sanchez, City Secretary