



City of Palestine Texas

Fund Balance Policy

Approved:  
June 13, 2016

### ***Purpose***

The Council recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the City and is fiscally advantageous for both the City and the taxpayer. This policy establishes goals and provides guidance concerning the desired level of fund balance maintained by the City to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. Specifically, the City desires to maintain adequate fund balance (reserves) in the City's various funds to:

- Provide sufficient cash flow for operations
- Provide for fluctuations in capital expenditure project spending
- Improve investment-grade bond ratings
- Ensure long-term fiscal sustainability

The City of Palestine operates much more independently than other Texas cities which have larger nearby municipalities for mutual aid, for instance, which increases vulnerability to such risks as natural disasters, fluctuations in revenue or impact of State or Federal decision-making. The City has implemented a fairly complex fund structure to assist in planning and preserving resources dedicated to various programs, services and funding sources. This provides the ability to assess the fund balance in each fund separately in terms of current and forecasted revenues, expenditures and potential changes.

### ***Definitions***

**Fund balance** - a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

**Classifications within Fund Balance.** GASB Statement 54 distinguishes fund balance classified based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

- 1) **Nonspendable fund balance** – amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).
- 2) **Restricted fund balance** – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).
- 3) **Committed fund balance** – 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 referring to the formal action that imposed the constraint originally (e.g., the council's commitment in connection with future construction projects).
- 4) **Assigned fund balance** – amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the City Council or by a designee to whom that governing body delegates the authority. (In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed but by definition, being account for in a separate fund, are intended to be used for the purpose of that fund).

- 5) **Unassigned fund balance** – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

### ***Policy***

The responsibility for designating funds to specific classifications shall be as follows:

**Committed Fund Balance** – the City Council, as the City's highest level of decision-making authority, shall establish, modify, or rescind a fund balance commitment by resolution.

**Assigned Fund Balance** – the City Manager and the Assistant City Manager / CFO may assign fund balance to a specific purpose.

### ***Minimum Unassigned Fund Balance***

**General Fund.** It is the goal of the City to achieve and maintain an unassigned fund balance in the general fund of not less than 25% of general fund expenditures. If the unassigned fund balance falls below its goal, the City shall develop a corrective action plan within the same year and take actionable steps. City Council shall seek to preserve fund balance in the budget process when considering new programs and services and will consider financial resources available or needed in other funds in assessing the adequacy of the general fund.

**Enterprise Funds.** It is the goal of the City to achieve and maintain an unassigned fund balance in the water, wastewater, sanitation and retail funds of not less than 15% of overall enterprise funds' expenditures. If the unassigned fund balance falls below its goal, the City shall develop a corrective action plan within the same year and take actionable steps. City Council shall seek to preserve fund balance in the budget process when considering pricing of services intended to fully or partially cover costs of those services.

### ***Order of Expenditure of Funds***

When an expenditure can be charted to multiple categories of fund balance (e.g., a project is being funded partly by a grant, funds set aside by the City, and unassigned fund balance), the most restricted category will be used first, then the next-most restricted category(ies).

### ***Excess Fund Balance***

Should the situation present itself where the City has an unrestricted fund balance in the general fund above the needs of the foreseeable future, it is the policy of the City that fund balance not be used as a funding source for ongoing recurring expenditures. For example, the City may achieve unexpected savings during a fiscal year, creating a one-time surplus. One-time fund balance surpluses are only to be used as a funding source for one-time expenditures.