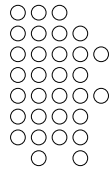


Best Practices on Fund Balance

CSMFO



Key Questions



- What is the right level of fund balance?
- What factors influence the "right" level of fund balance?
- What are the most important elements of a fund balance policy?
- How can you develop a strategy for using fund balance for budgetary stabilization?
- What are the implications of GASB Statement No. 54 for fund balance strategy and policy?

The Right Level of Fund Balance?



- What part of fund balance to measure?
 - Traditionally, measure "unreserved" balance
 - Under 54, use "unrestricted" balance
- How to measure
 - Fund balance as a percent of
 - Regular revenues or...
 - Regular expenditures
 - Choice depends upon which is more predictable

The Right Level of Fund Balance?



- What does GFOA recommend?
 - As a baseline for the general fund:
 - 5 to 15% of regular operating revenues
 - 1 to 2 months of regular operating expenditures
- S&P's views on available fund balance
 - Low: Below 0%
 - Adequate: 1%-4%
 - Good: 4%-8%
 - Strong: 8%-15%
 - Very strong: Above 15%

Factors Influencing the “Right” Level?



- GFOA recommendation just a baseline
- Need to adjust based on local conditions
- Conduct an analysis
 - Catalogue major influencing factors
 - Analyze past experience on factors
 - Judge implications for fund balance

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Factors to Consider



- Vulnerability to Extreme Events & Public Safety
- Government Size
- Budget Practices

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Factors to Consider



- Own Source Revenue Stability
 - Potential for shortfall in important revenue sources?
- Intergovernmental Revenue
 - Importance and dependability?
- Expenditure Volatility

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Factors to Consider



- Leverage
 - Equipment replacement
 - Long-term debt
- Borrowing Capacity
 - External and internal borrowing capacity?
- Liquidity
 - How much liquidity is usually available?
- Other Reserves
 - What level of fund balance are in other funds?

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Factors to Consider



- Designations
 - Any “Designations” or “Assignments”?
- Growth
 - High growth expected?
- Capital Projects
 - Do critical projects have a funding source?

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Factors to Consider



- Political Support
 - Is there a level of reserves that resonates?
 - Can elected officials be engaged in the analysis?
 - How likely are officials to look to reserves versus cut spending?

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Most Important Policy Elements?



- Fund balance target levels
 - Consider breaking into subcategories
 - Key word: **credibility**
- How to reach target levels
 - Broad guidance in policy
 - Use a long-term financial plan for more specifics
- Conditions for use of reserves
 - Use of Reserves
 - Authority to Use Reserves
 - Replenishment of Reserves
 - Excess Reserves

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Using Reserves for Stabilization?



- Describe how reserves fit into “bridging” strategy
- Have a credible fund balance policy
- Get skilled at distinguishing between one-time and permanent decreases
 - If it is permanent, how long is the downturn expected to last?
- Develop a plan for after it is used
 - How will it be replaced?
 - By when will it be replaced?

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Impact of GASB 54

- 54 shifts the focus of “fund balance”
- 5 categories of fund balance
 - Non-spendable fund balance
 - Inherently non-spendable
 - Restricted fund balance
 - Externally enforceable limitations on use
 - Committed fund balance
 - Self-imposed limitations
 - Assigned fund balance
 - Limitation resulting from intended use
 - Unassigned fund balance
 - Residual net resources

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Not Typically Relevant to the Policy

- Use constrained by outside parties
- Non-spendable fund balance
 - Long-term portion of loans receivable
 - Principle of an endowment
- Restricted fund balance
 - Externally imposed by creditors, grantors, contributors or laws or regulations of other governments
 - Imposed by law through constitutional provisions or enabling legislation.

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A Policy Typically Covers...

- “Unrestricted fund balance,” which comprises three 54 categorizations...
 - Committed fund balance
 - Limitations imposed by government on itself
 - Assigned fund balance
 - Assigned to a particular intended use
 - Unassigned fund balance
 - Anything that doesn't fall into the other categories

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The End

- Resources
 - *Financial Policies: Design & Implementation*
 - “Fund Balance: New & Improved”
 - April 2009 GFR
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