

# ENTERPRISE FUND BALANCE POLICY

## ADMINISTRATIVE POLICY STATEMENT

GENERAL SUBJECT: Enterprise Fund Balance Use

SPECIFIC SUBJECT: Unrestricted Cash and Investments

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## PURPOSE

To establish a consistent method for applying cash balances resulting from Unrestricted Cash and Investments for Proprietary Funds.

## STATEMENT OF POLICY

The purpose of this policy is to identify appropriate levels of Unrestricted Cash and Investments for Proprietary Funds. By doing so, the City of Beloit intends to stabilize long-term rates, reduce tax subsidies, and provide guidance on appropriate uses of Unrestricted Cash and Investments.

## Section 1. General Guidelines

- A. Tax Subsidized Enterprise Funds The City has several enterprise funds that are subsidized by tax levy. Although all efforts have been made to stabilize the reliance on tax levy, significant shifts in levy can occur from year to year. Therefore, the budgetary levy is granted to an enterprise fund in entirety during the year. Gains or losses resulting from operations during the year are reflected in that enterprise fund. From time to time, profits can result even though a tax subsidy is part of the revenue stream. When this results, the resulting unrestricted net assets are used to stabilize future levy requirements.
- B. Self supporting Enterprise Funds The City is moving toward a position of having all enterprise funds become self supporting. However, significant cash balances can result due to the intensive capital nature of enterprise funds. Therefore, the City needs to determine adequate levels of Unrestricted Cash and Investments. The City should not use Unrestricted Cash and Investment balances for the provision of general governmental services. This does not prohibit the reimbursement of contributed capital or a payment in lieu of taxes.

## SECTION 2. USES OF UNRESTRICTED CASH AND INVESTMENTS TAX SUPPORTED

### ENTERPRISE FUNDS

- A. Goal to Eliminate Levy Support When fees are not charged for certain services the City provides, excess demand for these services can arise. A primary use of fees for service is to regulate the demand for the service and avoid frivolous use. Many enterprise fund operations were supported in part or in entirety by taxes in the past. Knowing that the City cannot

replace taxes with fees in a short period of time, the goal is to gradually reduce tax subsidies to zero.

- B. Method The City will set user rates to gradually cover the entire cost of the service within 10 years. In those years when total fund revenues exceed total fund expenses, the resulting Unrestricted Cash and Investments shall be used to stabilize and reduce the tax subsidy.

### SECTION 3. USES OF UNRESTRICTED CASH AND INVESTMENTS SELF-SUPPORTING

#### ENTERPRISE FUNDS

- A. Goal to Stabilize Rates for Services From time to time, rates will have to be raised in enterprise funds. However, rates should be used to cover the cost of operations only. Rates are stabilized through the prudent application of depreciation expense among other tools.
- B. Measurements Industry standards, bond covenants, revenue concentration, and cash flow requirements should be used as general guidelines for determining adequate Unrestricted Cash and Investment reserves. Acquisition of capital equipment should be considered as a current expense and rates should include the accumulation of funds to replace equipment. Plant and land are considered under the matching principle and should be borrowed for to assure that the customers, who use the plant, pay for its construction.
- C. Methods In general, depreciation of capital equipment with a useful life of less than 10 years should be covered by existing fees and not borrowed for. Plant and equipment with useful lives of 20 years or greater and costs greater than \$1,000,000 should be borrowed for and whenever possible revenue bonds should be used. This practice should be consistent with the Debt Policy at all times, including refinancing or retirement of existing debt. Repair, improvement, and routine replacement of existing plant and equipment should be included in the existing rate structure.