

GENERAL FUND BALANCE POLICY

ADMINISTRATIVE POLICY STATEMENT

GENERAL SUBJECT: Appropriate Uses of General Fund Balance

SPECIFIC SUBJECT: Appropriate Levels and Uses General Fund Unrestricted Fund Balance

PURPOSE

The purpose of this policy is to identify appropriate levels and uses of Unrestricted Cash and Investments from General Fund Unrestricted Fund Balance. By doing so, the City of Beloit intends to stabilize long-term property tax rates, reduce other governmental tax subsidies, and provide guidance on appropriate uses of General Fund Unrestricted Fund Balance.

STATEMENT OF POLICY

It is essential that the City of Beloit maintain adequate levels of fund balance to provide working capital, mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures), and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning. The purpose therefore is to establish a consistent method for applying cash balances resulting from General Fund Unrestricted Fund Balance above Debt Policy maximums (15% of Operating Revenues), or restoration of balances in the event that the City falls below minimal levels. This policy augments § 65.90 (5) (a) of the Wisconsin State Statutes.

Section 1. general guidelines and definitions

- A. Operating Revenues Defined: as identified in the Debt Policy include General Fund revenues, Debt Service Fund revenues, Special Revenue Fund revenues, and levies for Enterprise Funds.
- B. Fund Balance Definitions: Effective with the fiscal year beginning January 1, 2010, the City must implement the requirements of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* which requires fund balance to be identified, for financial reporting purposes, as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance includes assets that are not spendable such as capital assets and nonliquid assets like inventories and prepaid items. Restricted fund balance would include those resources that are externally restricted usually by creditors, contributors, and other levels of government such as grant programs. Committed fund balance is limited in use by formal legal constraints that the government itself has imposed on how funds will be spent. Assigned fund balance reflects a government's intended use or earmarking of resources. Unassigned fund balance is a government's net resources that have not been restricted, committed, or assigned to specific purposes within the City's general fund and is available to be used for any purpose. Unrestricted fund balance includes committed, assigned and unassigned fund balances. The Debt Policy establishes a minimum of between "10 to

15% of operating revenues at all times.” Unrestricted Fund balance is the remaining current assets the City of Beloit has available to run day to day operations, and has in case of an emergency revenue shortfall or program expense overrun. When referring to Unrestricted Policy minimums, this policy compares current year budget to the last year’s audited Financial Statements.

- C. General Fund Balance Overview The City of Beloit currently receives 60% of its General Fund revenues in a State Shared Revenue payment in November. The City operates in a negative cash collection position in all but 3 months of the year. The variance between peak to trough collections are a high of about \$13 million to a net cash outgo of about \$8 million.

SECTION 2. UNRESTRICTED FUND BALANCE (USES OF UNRESTRICTED CASH AND INVESTMENTS TAX)

- A. Provide Adequate Liquidity to Avoid Short-Term Borrowing. Because payables such as salaries and wages often precede receipt of revenues such as State Shared Revenue, the City must keep adequate cash to pay vendors and employees without increasing the cost of operations through short-term borrowing.
1. Measurements Industry standards, revenue concentration, and cash flow requirements should be used as general guidelines for determining adequate Unrestricted Fund Balance levels. In general, industry standards call for a minimum of two months of regular General Fund operating revenues or two months of regular operating expenditures, whichever are most predictable, as an adequate minimum for unrestricted fund balance.
The City of Beloit has not had substantially unpredictable cash collections. About 90% of the City’s cash collections come from a combination of property tax and intergovernmental revenues. Revenue concentration is very strong; currently about 50% of the General Fund’s revenues are collected in November. This concentration makes the receivable cycle highly erratic with cash collections varying by about 300% and cash disbursements varying by about 250% on a month to month basis. These variances in cash flow necessitate a higher level of liquidity to avoid short-term borrowing. Due to the nature of the City of Beloit’s cash flow, 15% of operating revenues or 3 months General Fund Budgeted expenditures, whichever is higher, should be considered the minimum General Fund Unrestricted Fund Balance necessary.
 2. Methods Any draws on Unrestricted Fund Balance below the lower limits of 15% of operating revenue or 3 months of General Fund operating expenditures should not be allowed. Balances available, in excess of General Fund 3 months operating expenses, should be applied in the manners indicated below. The application of Unrestricted Fund Balance in the current year requires pursuant to § 95.90 (5)(a).

- B. Goal to Minimize Service Interruptions (Current Budget Year Stop Gap) Amounts in excess of the above mentioned policy limits are available to provide for future rate stabilization in the form of investments in future property tax base growth, or mitigating the actual loss of revenues without substantial reductions in services to the citizens, or for emergency expenses to cover one time increases in service costs.
1. Measurements Property tax growth in the form of either increases in average assessed value of taxable property or new growth in taxable property has lagged the State average. In addition, the City must maintain a competitive tax rate and a desirable level of services in order to insure businesses and residents are attracted to remain and grow here. Service levels must be similar to other local communities and comparable to other communities the size of Beloit.
 2. Methods Amounts above the mentioned limits should be available if unexpected shortfalls in revenue or emergency expenditures are incurred during the current budget year. If, however, these unexpected events were to continue and would result in a projected tax rate increase of over 10%, the City should begin to implement service reductions in the current year's budget as well as applying available Fund Balance. The Council must vote to adopt both the use of Unrestricted Fund Balance and the service reductions.
- C. Goal to Stabilize Tax Rates (Future Years) Amounts above mentioned policy limits are available to provide for rate stabilization in the form of investments in future property tax base growth or mitigating the potential loss of revenues without substantial reductions in services to the citizens.
1. Measurements Beloit is dependent on State Shared Revenues for about 60% of its General Fund budget. With the State's philosophy about support of local government services changing, the City must prepare for the future risk associated with reductions in this revenue source. In addition, property tax growth in the form of either increases in average assessed value of taxable property or new growth in taxable property has lagged the State average. Finally, the City must maintain a competitive tax rate and a desirable level of services in order to insure businesses and residents are attracted to remain and grow here.
 2. Methods Amounts above the mentioned limits should be considered available if future shortfalls in revenue or significant increases in expenditures would result in a projected tax rate increase in excess of 10%. If it is known that revenues will be diminishing or that expenses will be increasing at a significant rate over several years, the available balance should be used to level the impact of the loss of revenue or increase in expenses in conjunction with a reduction in services provided. In this event, the draw must be promulgated over a multi-year plan using long-term forecasting and the Council must vote on the application of Unrestricted Fund Balance in conjunction with the service reductions covered in the multi-year plan at the same time it adopts the annual budget.

- D. Action Necessary When Fund Balance Falls below Minimum
In the event that General Fund Unrestricted fund balance should fall below the policy minimums, the City will levy sufficient taxes to replenish the fund.
- E. Recognition of Interdependency of all Fund Types Administered by the City of Beloit
In addition to the General Fund, the City manages the financial activities of several enterprise funds, a library, health benefit internal service, Tax Incremental Districts, and health and public safety special revenue fund operations. The City recognizes that on occasion, these operations will augment or drain financial resources of the General Fund. This policy does not segment the financial resources of the City into separate financial operations and the interdependency remains necessary for prudent and efficient fiscal management. In addition, the City may deem it prudent to apply resources from several funds in order to achieve the goals and objectives stated in this policy.

Adopted July, 2002