

ORDINANCE NO. _____

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF DENTON, TEXAS, AMENDING THE CITY'S FUND BALANCE POLICY; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the Governmental Accounting Standards Board ("GASB") has adopted Statement 54, a new standard for governmental fund balance reporting and governmental fund type definitions that became effective in governmental fiscal years starting after June 15, 2010; and

WHEREAS, the City Council of the City of Denton adopted a "Fund Balance Policy" on September 20, 2011 with passage of Ordinance No. 2011-157; and

WHEREAS, the City Council of the City of Denton amended its "Fund Balance Policy" on September 15, 2015 with passage of Ordinance No. 2015-271; and

WHEREAS, the City Council of the City of Denton desires to amend its "Fund Balance Policy" specifically for the General Fund's minimum unassigned fund balance and Non-Governmental Funds' operating reserve levels; NOW, THEREFORE,

THE COUNCIL OF THE CITY OF DENTON HEREBY ORDAINS:

SECTION 1. The City Council hereby amends the policy entitled "Fund Balance Policy," attached hereto and made a part hereof, as an official policy of the City of Denton, Texas.

SECTION 2. The attached amended Policy shall be filed in the official records with the City Secretary.

SECTION 3. This Ordinance shall become effective immediately upon its passage and approval.

PASSED AND APPROVED this the _____ day of _____, 2016.

CHRIS WATTS, MAYOR

ATTEST:
JENNIFER WALTERS, CITY SECRETARY

BY: _____

APPROVED AS TO LEGAL FORM:
ANITA BURGESS, CITY ATTORNEY

BY:  _____

CITY OF DENTON

FUND BALANCE POLICY (Revised 9/20/16)

Purpose and Overview

The purpose of this policy is to establish guidelines for fund balance levels within each of City of Denton's funds. It is essential that the City maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, or adverse circumstances. The fund balance level is also designed to provide an appropriate amount of working capital for the City's general operations. In general, the City of Denton should strive to avoid appropriating fund balance for recurring expenses. However, in the event that fund balance is used to support recurring expenses, the budget should clearly identify the uses of fund balance and provide an explanation of the circumstances requiring the use of fund balance. In addition, the budget should also address the future potential uses of fund balance for operating expenditures.

Definitions and Categories

Fund Balance – Defined as the difference between a fund's assets and liabilities. According to the Governmental Accounting Standards Board (GASB) statement number 54, fund balance must be allocated into one the following five categories:

1. *Non-spendable Fund Balance* – includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact. Examples include inventory or endowments.
2. *Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and hotel occupancy taxes.
3. *Committed Fund Balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
4. *Assigned Fund Balance* – comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the 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. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
5. *Unassigned Fund Balance* – is the residual classification of the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

Note: The above fund balance categories only apply to governmental funds.

FUND BALANCE POLICY (Continued)

Fund Balance Policy

Committed Fund Balance

The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is an ordinance adopted by the City Council. The ordinance must either adopt or rescind the commitment, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance

The City Council authorizes the City Manager or his/her designee as the official authorized person to assign fund balance to a specific purpose approved by this fund balance policy.

Order of Expenditure of Fund Balance

When multiple categories of fund balance are available for expenditure and approved for use by the City Council (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds. Normally this would result in the use of restricted, then committed, then assigned, and lastly, unassigned fund balance.

Minimum Unassigned Fund Balance

It is the goal of the City to achieve and maintain a minimum unassigned fund balance in the general fund equal to 20% of budgeted expenditures. An additional 5% resiliency reserve (25% combined total) may be maintained to safeguard against unusual financial circumstances or economic downturns.

Non-governmental fund balances

The fund balance categories discussed above do not apply to proprietary funds according to GASB 54. While not required by the GASB, the City recognizes the need to apply a minimum balance policy to the proprietary funds maintained by the City. Therefore, the City shall maintain a minimum ending working capital balance (current assets minus current liabilities) of at least eight percent (8%) of budgeted expenditures for each of the proprietary funds. If the working capital level should fall below the desired minimum, the City will implement necessary corrective action within a five-year plan to restore the working capital balance to 8% of budgeted expenditures.

Additionally, for the Electric, Water, Wastewater, and Solid Waste Funds, operating reserves are also established according to the unique operational aspects of each utility. Factors that affect the target operating reserve levels include revenue stability, expense and demand volatility, infrastructure age, debt levels and management plans for the use of the operating reserve funds. The operating reserve levels are intended to minimize the fluctuation in rates due to unforeseen revenue and expenditure variances. The operating reserve level is established at a range of 8% - 12% of expenses for the Electric Fund, at a range of 20% - 31% of expenses for the Wastewater Fund, at a range of 25% - 42% of expenses for the Water Fund, and at a range of 6% - 10% of expenses for the Solid Waste Fund. If the operating reserve balance falls below the desired minimum of the range, the City will implement necessary corrective action within a five-year plan to restore the rate reserve balances to the levels outlined above.