



## Memorandum

**To:** City Council  
**From:** Ben Cowan  
**Date:** 12/29/2015  
**Re:** Fund Balance Policy Amendment

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As was discussed during various budget work sessions, the Council discussed a few changes to the existing fund balance policy. Please find attached staff's recommended modifications to the existing Fund Balance Policy, which was adopted on September 9, 2014.

As a summary, here are the significant changes:

- 1) **Greater detail regarding the definition of fund balance and the calculation of the reserves.** Since proprietary funds are operated similar to businesses, the fund balance can be confused with net position. While some of the terminology is a little technical, the recommended language change will allow enforcement of the reserves by our auditors, creditors, etc. to be interpreted without using the massive balances that are accumulated in some funds due to the installation of capital assets such as infrastructure. Since these assets are not in a spendable form, they should not be used to determine whether the City has sufficient reserves to be able to pay its bills and respond to unforeseen circumstances.
- 2) **Exceptions to the expenditures being used to calculate the minimum and maximum thresholds in the General Fund.** In general, every time \$1.00 of cost is added to the general fund, \$0.33 to \$0.40 must be added to the reserve. The Council acknowledged that certain expenditures may not be appropriate for this type of treatment. For example, the new agreement passing through the vendor fee reduction to the visitor center will automatically fluctuate based on actual vendor fees taken. Therefore, if an economic downturn is experienced, the contract obligation is automatically reduced in a like amount. This represents no threat to the City's reserves and can be prudently removed from the required reserve calculation, if desired.
- 3) **Adjustment of the Communications Fund reserve level.** During the September 2, 2015 Gunnison Regional Communications Board meeting, the Board expressed that the \$250,000 level was not necessarily required. Since there are no major capital replacements needed (the estimate for a total replacement of all computer equipment is only \$90,000) and funding can also be used from the Gunnison/Hinsdale Combined Emergency Telephone Service Authority, those present felt the existing reserve is sufficient (approximately \$125,000 at 12/31/14). The support to approve a fee increase in an amount necessary to reach the existing fund balance recommendation of \$250,000 was absent.

A few other changes to the verbiage to help convey the intent of the policy are also included.

**Requested Action:** A motion to approve the City of Gunnison Fund Balance Policy, as amended, as of January 12, 2016.



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## FUND BALANCE POLICY

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### Fund Balance Purpose

It is essential that the City of Gunnison maintain adequate levels of fund balance to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures), meet emergency obligations, avoid interruptions in cash flow, generate interest income, and maintain a sound bond rating. Fund balance levels are an important consideration in long-term financial planning and credit agencies carefully monitor levels of funds to evaluate a government's continued creditworthiness. This policy establishes appropriate levels of reserves, or Fund Balance, for each fund within the City's operations, recognizing the unique needs and differing situations for the various funds.

- Each fund should maintain a fund balance at a level that will provide for a positive cash balance throughout the fiscal year, which will reduce the likelihood of having to enter into short-term debt to pay for current operating expenditures.
- Adequate fund balances will be maintained so major unplanned occurrences will not jeopardize the financial position of the City.
- Fund balance may be used as appropriate (and approved by the City Council) under sound management practices when current revenues are not adequate to cover current expenditures.

### Fund Balance

For the purposes of this policy, ~~The Fund Balance (cash reserves) represents~~ is defined as accumulated revenues over expenditures that may be appropriated for use by City Council. More specifically, Fund Balance is associated with the current financial measurement focus as measured during budget development. Available resources (current assets minus current liabilities) will be used to calculate adherence to the below policy statement. Within the Fund Balance, specific reserves have been set aside as prescribed by this Reserve Policy. Excluding the TABOR or other ~~legal~~ reserves imposed by law or otherwise restricted due to contractual obligations, the reserves may be adjusted depending on current city financial conditions. It is the policy of the City Council to ensure the fiscal health of the community against unforeseen circumstances by maintaining reserves at sufficient levels for operations to continue.

### **GOVERNMENTAL FUNDS**

#### ~~Governmental Funds (General Fund)~~

- Because of the City's dependence on sales tax revenue in a tourism-based economy, a cautious approach to managing fund balance reserves is warranted.
- **Unrestricted Fund Balance**  
Unrestricted fund balance comprises the committed, assigned, and unassigned fund balance categories. Within the unrestricted fund balance, the unassigned reserves should be a minimum of thirty-three percent (33%) of approved General Fund operating expenditures (excludes capital projects and transfers). Within the unrestricted fund balance, unassigned reserves should not exceed forty percent (40%) of approved General Fund operating expenditures. Council may authorize, through



long-term financial planning and budget processes, the transfer of excess unassigned reserves to assigned or committed reserves for a designated future capital expense.

- **Exceptions**

The City Council may exempt the following expenditures from the above and foregoing minimum and maximum thresholds for unassigned reserves:

- Pass-through Expenditures to Another Entity – Pass-through expenditures for another entity wherein such expenditures are automatically adjusted depending on fluctuations in a specific revenue stream due to legislation or contract terms.
  - Transfers to Other Funds – One-time, non-operational transfers to other budgetary funds within the City of Gunnison.
  - One-Time Expenditures – Capital expenditures or specific one-time expenditures as identified by the City Council.
- **Restricted Fund Balance - TABOR Reserve**  
Article X, Section 20 of the Colorado Constitution requires a three percent (3%) reserve for emergencies. The use of this reserve is restricted to the purpose for which it was established and can be used solely for declared emergencies, which excludes financial emergencies.

### **Special Revenue Funds (Conservation Trust and Ditches)**

- In general, no minimum reserve is required.
- The desired minimum reserve should be the subsequent year's annual operating expenditures (unassigned reserves should exceed one-hundred (100%) of approved operating expenditures). This would allow for one budget cycle to determine funding of expenditures if the single revenue source were discontinued.

### **PROPRIETARY FUNDS**

#### **Enterprise Fund**

- ~~Due to the fact each division within the Enterprise Fund is primarily funded through user fees (with the exception of the recreation division, i.e. pool, rink, trails), the desired reserve levels are based on critical infrastructure and equipment needs rather than a percent of operating expenses.~~
- **Electric Division** – due to the critical equipment in the electric substations, the desired reserve level is \$1,000,000.
- **Water Division** – due to the critical needs of water storage tanks, the desired reserve level is \$1,000,000.
- **Sewer Division** – due to the critical operations of the wastewater treatment plant, the desired reserve level is \$1,000,000.
- **Refuse Division** – due to the critical operations of collecting trash, the desired reserve level is \$300,000.
- **Communications Division** – due to the critical operations of emergency dispatching, the reserve level is ~~\$250,000~~ 15% of total expenditures. The desired reserve level is 25% of total expenditures.
- **Recreation Division**
  - **Pool**
    - i. The minimum reserve is the amount required by bond covenants.
    - ii. In addition, it is recommended that \$250,000 also be reserved for equipment replacement and building expansion.



- **Rink**
  - i. The minimum reserve is the amount required by bond covenants.
  - ii. In addition, it is recommended that \$100,000 also be reserved for equipment replacement.
- **Trails**
  - i. No minimum reserve is required.
  - ii. It is recommended that \$35,000 be reserved for equipment replacement.
- **Other Recreation Improvements**
  - ii. No minimum reserve is required.

#### **Internal Service Fund (Fleet)**

- In general, no minimum reserve is required.
- Due to potential fluctuations in operating costs for fuel and unexpected repairs, etc., the desired minimum reserve level should be eight percent (8%) of operating expenditures and the maximum should not exceed ten percent (10%).
- These limits should provide adequate funding for emergency replacement of equipment located within the fleet shop.