



MEMORANDUM

June 15, 2012

TO: Board of Mayor and Aldermen
FROM: City Administrator Eric S. Stuckey
Assistant City Administrator Russ Truell
SUBJECT: Policy for Utilization of Reserve Funds

Purpose

The purpose of this agenda item is to consider approval of a policy regarding the use of reserve funds under circumstances where related expenses exceed annual budgeted amounts or in the case of an economic or natural disaster.

Background

The Government Accounting Standards Board (GASB), in its Statement 54, established regulations that apply to various reserves in the General Fund of municipalities. The City of Franklin implemented those regulations two years ago. The GASB also recommended that policies be adopted regarding the use of those reserves and their replenishment, if and when they are utilized for expenditures.

Staff has prepared a default policy to govern the use and replenishment of reserves. This policy can be modified later and tailored to specific reserve funds as the Board of Mayor and Aldermen see fit. The majority of the language in the proposed policy was incorporated from written guidance on General Fund: Fund Balance Policy from the Municipal Technical Advisory Service (MTAS), written by Gail Cook, 9/15/2010.

Financial Impact

No direct impact to General Fund.

Options

Approve or disapprove the proposed utilization policy for reserves.

Recommendation

Staff recommends approval.

General Fund

Fund Balance Policy Addendum

Order of Use of Funds

Stabilization Funds

Maintaining a Financial Stabilization Account is a necessity for sound financial management and fiscal accountability. The City's governing body has the authority to establish a Financial Stabilization Account that will be a **Committed Fund Balance**.

A Financial Stabilization Account is established for the purpose of providing funds for an urgent event that affects the safety of the general public (e.g. flood, tornado, etc.) or financial stability.

At June 30, 2011, the City of Franklin had \$17,180,294 in its stabilization account as follows:

<u>Urgent Event</u>	<u>Percent of Total 33%</u>	<u>Amount</u>
Contingency	5%	\$2,603,075
Emergency	5%	\$2,603,075
Cash Flow Stabilization	14%	\$7,288,609
Debt Service	3%	\$1,561,845
Property/Liability/Health	4%	\$2,082,460
Other Post Employment Benefits	<u>2%</u>	<u>\$1,041,230</u>
	33%	\$17,180,294

Authority to Commit Funds

The Board of Mayor and Aldermen has the authority to set aside funds for a specific purpose. Any funds set aside as Committed Fund Balance requires the passage of a resolution by a simple majority vote. The passage of a resolution must take place prior to June 30th of the applicable fiscal year. If the actual amount of the commitment is not available by June 30th, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available.

Default Order of Use of Funds

By default, when both restricted (by outside parties) and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it. When **committed (by the Board)**, assigned (usually by management) and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last.

Potential Use of Funds Resolution

The recognition of an urgent event must be established by the Board of Mayor and Aldermen or their designee (e.g. City Administrator). If established by the Board's designee, the specific urgent event must be reported to the governing body at their next meeting.

Potential urgent events are:

1. Disaster (flood, tornado, etc.) that funds must be expended prior to any potential reimbursement.
2. Health claims or other specific expenditures included within the stabilization fund exceeding a specified threshold. This would allow the stabilization funds in the General Fund to be used in cases of the specific expenditures exceed 10% of budgeted amount, or a specific amount such as \$100,000.

If due to an urgent event, funds are needed from the stabilization fund in excess of funds currently budgeted:

1. Anticipated funds in excess of budgeted funds will be temporarily deducted from the Stabilization fund.
2. After actual expenditures used are determined, a budget amendment will be submitted to the City's governing body to amend the budget for the excess funds used if unassigned funds are available.
3. In the event that unassigned funds are not available, the Board will replenish the Financial Stabilization Account balance to the established minimum level within four years in equal increments unless otherwise provided.