

Shelby County, Tennessee

Fund Balance Policy



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Shelby County Fund Balance Policy

Definition and Purpose

Fund Balance is a term used to express equity – the excess of what the County owns (assets) over what the County owes (liabilities) for a single fund. The purpose for establishing a Fund Balance Policy for Shelby County is to provide written guidance related to the maintenance and use of fund balance, specifically unassigned fund balance. Shelby County recognizes that the development of financial policies is essential to sound financial management. A fundamental element incorporated into these standards is the adoption of financial policies related to the development and maintenance of unassigned fund balance.

Reasons for establishing and maintaining an appropriate fund balance level are generally related to the management of economic uncertainty and risk mitigation. Sufficient resources must be available for the following reasons:

- To provide funds for emergency or unanticipated expenditures
- To ensure sufficient cash flow for operations
- To allow for fluctuations in revenue sources (including property taxes)
- To secure and maintain investment grade credit ratings for lower cost of debt

Best Practices

Best Practices of the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting (NACSLB) recommend within their comprehensive list of accepted budget processes and procedures that set the standards of excellence in state and local governmental budgeting that governments establish a formal policy on the level of unassigned fund balance in the general fund. Fund balance is defined in accordance with the Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions. Governmental fund balance may be composed of restricted, committed, assigned, non-spendable and unassigned amounts per GASB Statement 54. Credit rating agencies carefully monitor levels of unassigned fund balance in a government's general fund to evaluate the government's continued creditworthiness.

Scope of Policy

The fund balance policy should establish the intent and basis for maintaining a fund balance, the minimum and maximum levels of unassigned fund balance, acceptable uses of fund balance or the conditions under which the balances can be expended or committed, and the means for restoration to an acceptable fund balance range if the minimum level has been depleted or the maximum level has been exceeded.

Target Range for the General Fund

To ensure that sufficient resources are available to provide cash flow for operations, to adapt to variable economic conditions and unforeseen emergencies, and to ensure favorable bond ratings, the County will maintain unassigned fund balance in the General Fund of 20% to 30% of revenue, with intent to remain above 25% as required to meet cash flow requirements.

Adjustments for Restoring Targeted Levels for the General Fund

If at the end of a fiscal year, the General Fund balance falls below 25%, the County Mayor shall prepare and submit a plan to the County Commission for expenditure reductions and/or revenue increases. The County shall take actions necessary to restore the unassigned fund balance to acceptable levels within one year.

In the event the fund balance exceeds 30% at the end of any fiscal year, the excess is available for appropriation by one of, or a combination of, the following actions:

- One-time expenditures which do not increase recurring operating costs
- Establishment of, or increase in, legitimate reserves or designations of fund balance
- Planned small annual uses of fund balance to avoid the requirement of a significant budget adjustment once fund balance is below 30%.

Target Range for the Debt Service Fund

To ensure that sufficient resources are available for cash flow purposes in making all debt payments and to ensure favorable bond ratings, the County will maintain fund balance committed for debt payments in the Debt Service Fund of 20% to 30% of revenue. If fund balance is outside this range, steps must be developed based on five year projections and implemented in the budget process to restore to the target range.

Target Range for Other Funds

For all other funds, fund balances will be maintained at a level equal to 30 to 90 days of working capital, depending on the specific nature of the revenues and expenditures for that fund.

Legislative Oversight

Compliance with the provisions of this policy shall be reviewed as a part of the annual budget adoption process.

Adoption of Policy

This Fund Balance Policy was adopted by the Shelby County Board of County Commissioners on September 22, 2014, and replaces the previous policy approved by resolution of the County Commission approved on October 12, 2009, Item#20.