

# CITY OF MERRIAM

## CITY COUNCIL POLICY MANUAL

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### **POLICY NO. 127**

#### **FUND BALANCE AND RESERVE POLICY**

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The City Council is committed to maintaining a prudent level of financial resources to protect against reducing service levels or raising taxes and fees due to temporary economic conditions or unforeseen one-time expenditures. The Government Finance Officers Association (GFOA) recommends that governments maintain a fund balance of no less than 5% to 15% of revenues, or one to two months of operating expenditures. Appropriate fund balance targets are expected to differ from city to city, based on each city's specific circumstances. Factors to consider include size of the government, diversification of revenue and volatility of revenue sources.

Maintaining fund balance at a prescribed level involves two components: 1) budgeted reserves and 2) the amounts that revenues exceed budget and expenditures are below budget, due to conservative budgeting practices.

- 1.01 It shall be the policy of the City of Merriam to budget an amount in General Fund reserves equal to no less than the greater of 1) 15% of budgeted General Fund revenues for that same budget year, or 2) 2 months of budgeted General Fund operating expenditures for that same budget year. Merriam relies heavily on sales tax revenues, which may be directly impacted by economic upturns and downturns or state law changes that affect situs of sales. These conditions warrant reserves budgeted at the high end of the GFOA recommended practice range.
- 1.02 Revenues will be budgeted conservatively, so that the City ends each year with a fund balance of at least 10% of budgeted revenues in addition to fund balance remaining due to unspent budgeted reserves.
- 1.03 The City of Merriam will budget an amount in the Risk Management Reserve each year equal to no less than 7.5% of General Fund budgeted revenues for that same budget year.
- 1.04 The City will maintain a Major Equipment Replacement Schedule that monitors replacement of the City's vehicle fleet and other major equipment. Each annual budget will provide for sufficient reserves in the Equipment Reserve Fund to fund upcoming purchases in a systematic manner so that the General Fund does not vary significantly from year to year in the amount of transfers to the Equipment Reserve Fund.

- 1.05 City Council may approve use of budgeted reserves in the case of emergency events or conditions that result in unanticipated expenditure requirements or revenue fluctuations within a fiscal year, or to take advantage of an extraordinary opportunity. The budgeted reserves must begin to be restored in the next budget process following their use. Budgeted reserves and fund balance requirements should be restored to policy standards within two years (budget cycles) after use of reserves.
- 1.06 To the extent that budgeted reserves exceed policy requirements, they may be accessed subject to Council Policy No. 106.

**APPROVED BY THE GOVENING BODY ON APRIL 25, 2005**