

CITY OF PORTLAND, MAINE FUND BALANCE POLICY

PURPOSE OF FUND BALANCE

The purpose of this policy is to establish a key element of the financial stability of the City by setting guidelines for the General Fund balance. Unreserved fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unreserved fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations. The School Department is part of the City's General Fund, and is as such included in its fund balance.

DEFINITIONS

Fund Equity. A fund's equity is generally the difference between its assets and its liabilities. In the case of the City's general fund, its major governmental operating fund, only those financial assets – those that are cash or other liquid assets, and only certain liabilities – those expected to be liquidated in the near term – are considered in the computation of the general fund balance. Non-financial fixed assets, such as streets, and long-term liabilities, such as bonds payable, are accounted for in other funds of the City.

Fund Balance. Net assets, or the difference between assets and liabilities in a governmental fund, is considered Fund Balance.

The Governmental Accounting Standards Board (GASB), who establishes financial reporting rules for governments, separates fund balance into five classifications that comprise a hierarchy based primarily on the restrictions placed on the funds.

1. **Nonspendable.** This classification represents funds that are inherently nonspendable. Resources that must be maintained intact pursuant to legal or contractual requirements are nonspendable, such as the capital of a revolving loan fund. This can include assets that will never convert to cash such as inventory, or will not convert to cash within the current fiscal year such as the long term portion of accounts receivable.
2. **Restricted.** These funds are limited by externally enforceable limitations on use. This includes limitations from the entity providing the money, such as grantors. Also, this classification includes funds with limitations placed by law or enabling legislation, such as charter or state law.
3. **Committed.** Funds in this classification are those with limitations the government places on itself. The purpose of these funds is decided by Council action and also requires Council action to change the purpose.
4. **Assigned.** Assigned fund balance has limitations based on the intended use of the funds. The assigned use can be established by the Council or the City Manager as described in the financial statements, such as self-insurance assignments and fund balance to be used in the subsequent year's budget.

5. Unassigned. Residual net resources, or the balance after restricted, committed and assigned, are classified as unassigned fund balance. This is the amount of fund balance, formerly referred to as “unreserved, undesignated” fund balance, that is available to address emergencies and provide fiscal stability. This is the classification governed by this Fund Balance Policy.

Considerations. Credit rating agencies determine the adequacy of the unassigned fund balance using a complex series of financial evaluations. The size of the fund balance is an important, but not the only consideration in the City’s rating. Other important factors are the reliability of a government’s revenue sources, economic conditions, community wealth factors, cash position, debt ratios, management performance, and fiscal decisions made by the legislative body.

The Government Finance Officer’s Association of the US & Canada (GFOA) recommends, for cities of comparable size to Portland, maintaining a total fund balance of as high as 25% of annual general fund expenditures. This percentage varies depending on individual community situations, based on the above mentioned considerations and risk. Also, GFOA recommends that cities of any size maintain an unrestricted General Fund balance of no less than two months of regular general fund operating revenues or expenditures, whichever is more predictable.

OTHER PROVISIONS

Maintenance. In the event that the unassigned general fund balance is so calculated to be less than the policy anticipates, the City shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Except in extraordinary circumstances, unassigned fund balance should not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the City. It should be used primarily to insure adequate assigned balances, to respond to unforeseen emergencies, to provide cash flow, and to provide overall financial stability.

Administrative Responsibilities. The Finance Director shall be responsible for monitoring and reporting the City’s various assignments. The City Manager is directed to make recommendations to the Finance Committee of the City Council on the use of unassigned funds both as an element of the annual operating budget submission and from time to time throughout the year as needs may arise.

Annual Report. The Finance Director shall annually submit a report to the Finance Committee of the City Council outlining the status of the City’s various components of the fund balance. This report shall be submitted within thirty days of the receipt of the annual financial audit. The Finance Director shall also provide status reports at other times to the Finance Committee or the City Council as may be requested.

POLICY

It is the goal of the City to achieve and maintain an unassigned General Fund balance equal to 12.5% of expenditures. The City considers a balance of less than 8.3% to be cause for concern, and will work to restore the balance as soon as possible (see "*Maintenance*").