

# Finance Committee Meeting

## Topic: Fund Balance



City of Lockport, NY

August 2, 2022

# What Fund Balance and how is it Calculated?

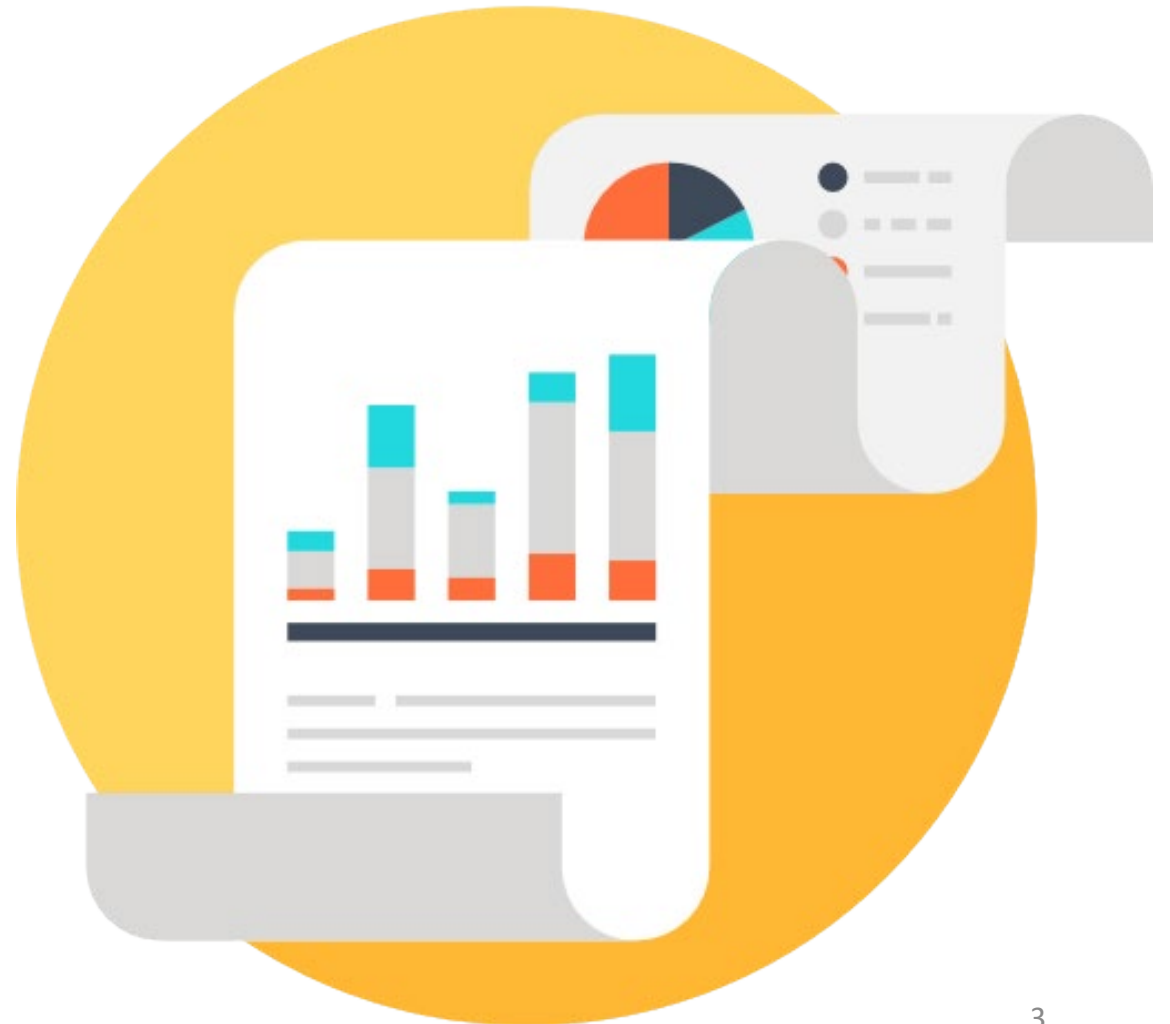
- Fund balance is the “total accumulation of operating surpluses and deficits since the beginning of the entities’ existence.”
- As mentioned in the Introduction to the Balance Sheet presentation, Fund Balance is also calculated as:

$$\begin{array}{l} \text{Assets (what we own)} \\ - \text{Liabilities (what we owe)} \\ \hline \text{Fund Balance (equity)} \end{array}$$



# Why are Fund Balances Important?

- Healthy fund balances allows the City to maintain enough cash for day-to-day operations.
- They also equip the City with reserves in the event of increased services delivery costs and/or unexpected revenue shortfalls.

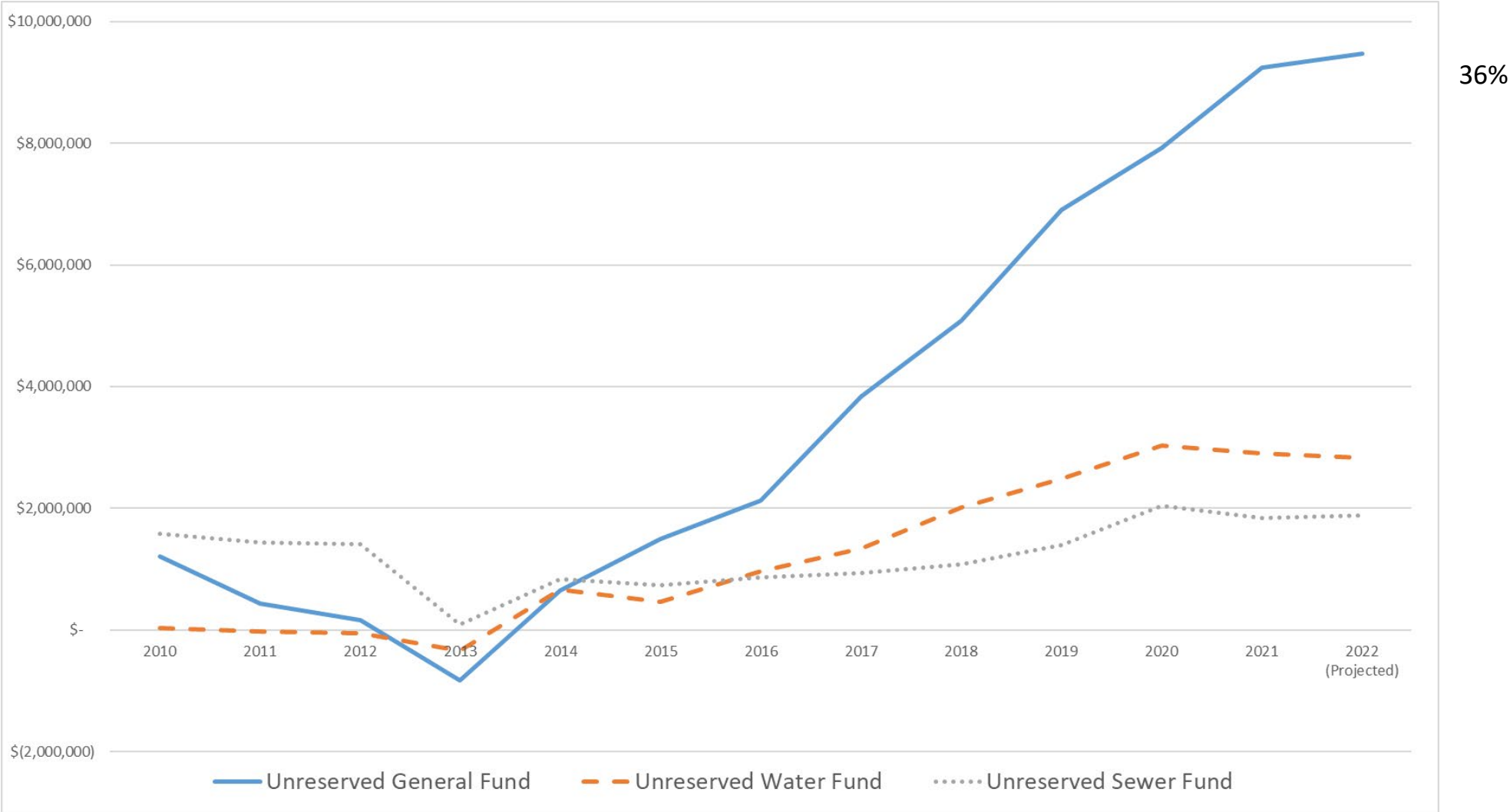


# City of Lockport Historic Fund Balances

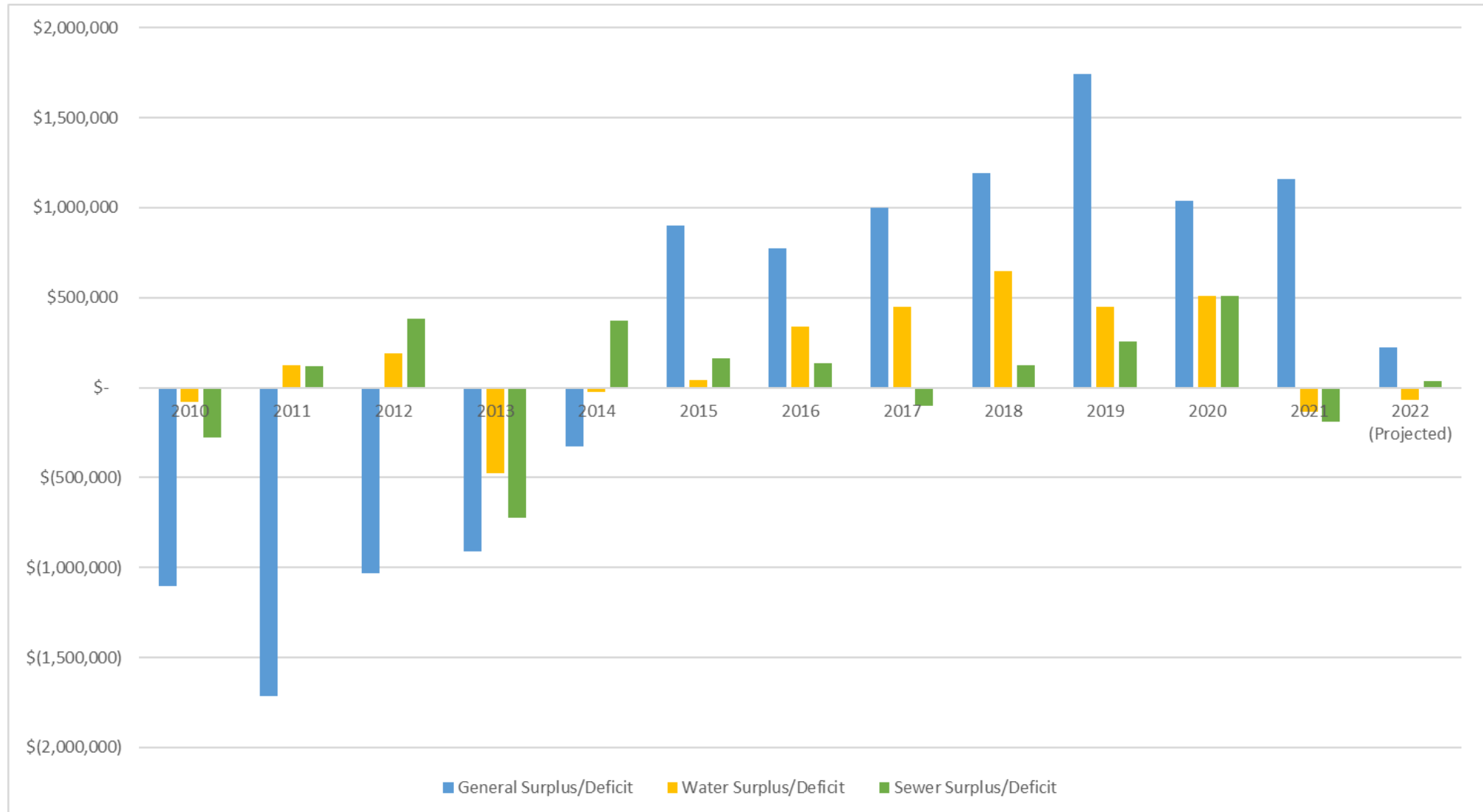
While the City currently maintains excess fund balances in most funds, this was not always the case. The City has a long history of not maintaining sufficient balances as well as having routine budgetary deficits.



# Unreserved Fund Balances, 2010 to 2022



# Annual Budgetary Surpluses (Deficits), 2010 to 2022



# What is an Appropriate Fund Balance?

- The NYS OSC does not require a standard minimum dollar or percentage amount to be required for municipalities to maintain.
- Instead, they recommend that each government adopt a fund balance policy that establishes a 'reasonable amount.'

*As there is no standard, this definition will vary between entities!*

# What is a Reasonable Amount?



Reasonability can be determined by analyzing:

- Composition of fund balance (is it all cash?)
- Timing of cash receipts and disbursements
- Volatility of revenue sources in the fund
- Contingent appropriations (such as upcoming union agreement, legal settlements, capital plans, etc.)
- Many other factors...



# City of Lockport Fund Balance Policy

The current city policy was established in early FY 2022 and can be found on the City of Lockport Finance Department webpage. It establishes the following requirements:

- **General Fund** = must maintain unrestricted balance equal to 17% of the following year's budgeted expenditures (*projected* to end FY 2022 with 36%)
- **Enterprise Funds** (water, sewer, refuse) = must maintain 25% of the following year's budgeted expenditures as cash throughout the year (*ended* FY 2021 with 61/42/24% respectively)
- **Internal Service Funds** (health insurance, worker's compensation) = must maintain cash in the amount of unpaid expenses on balance sheet plus 10% of annual operating budget (met in both funds on 12/31/2021)

# Fund Balance and Tax Equity

Having an excessively high fund balance is as much as a disservice to citizens as having negative fund balance. *Why is this?*



- Most budgets are constructed as balanced, that is, *no use of fund balance, and no contribution to fund balance.*
- The purpose of a budget is to have a financial plan. Having it purposefully be excessively conservative to be 'safe' (or in surplus) at year end is not appropriate. If that were the goal, we should budget for surpluses to contribute to fund balance for the year (this is okay to do).
- Excess surplus may mean we have taxed our citizens too much for the year! We should be more accurate in future budgets to avoid this.

# How Can Fund Balance be Used?

- At times, it may be needed for “increased services delivery costs and/or unexpected revenue shortfalls.”
- Per our policy - “available fund balances shall not be used for ongoing operating expenses, unless a determination has been made that available balances are in excess of required guidelines and plans have been established to address any future operating budget shortfalls.”
- Typically, entities use excess balances for one-time costs, such as a specific projects, capital expenditures, etc.
- *When using fund balance for one-time uses, always make sure that there is enough cash balance left afterwards for operating activities!*

# ~Fund Balance Takeaways~

- Fund balance represents all prior year budgetary surpluses/deficits.
- As we know from the balance sheet, not all of the fund balance is cash. Even unrestricted fund balance can comprise of other elements.
- While the City maintains adequate fund balance today, this was not always the case!
- Not enough fund balance is bad for cash flow while too much fund balance is bad for tax equity.
- Fund balance can be used under specific conditions.