



MEMORANDUM

To: Mayor and City Council
From: Jennifer Miller, Director of Finance
Date: September 13, 2016
Reference: Consider approval of revisions to the written Fund Balance Policy of the City of Coppel
2030: **Sustainable City Government**

Introduction:

Financial policies provide for the basic framework for the financial management of the City. The policies are intended to assist the City Council and City staff in evaluating current activities and proposals for future programs. Fund Balance policies are written guidelines that document sound financial management principles that will provide a stable financial base for the City.

A fund balance policy improves the quality of decisions, identifies policy goals, and demonstrates a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a fund balance policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner.

The change that is being proposed to the Fund Balance Policy is to increase the Water and Sewer Fund's unrestricted fund balance from 90 days of expenditures to 180 days of expenditures.

Analysis:

Advantages of a Fund Balance Policy:

- Mitigates current and future risks (budgeted revenue shortfalls and increased budgeted expenditure costs)
- Promote stability and continuity
- Provides flexibility
- Provides liquidity (when resources become available versus when the expenditure is incurred)
- Provides time to correct revenue and expenditure fluctuations
- Provides funds for unanticipated expenditures
- Provides for extraordinary one-time expenditures
- Promotes long term and strategic thinking
- Provides staff with a framework to work from and assures Council that any proposal brought forward by staff meets the policy guidelines
- Assures continuity in financial operations whether there is a change in council or management

Conclusion:

Based on the Water and Sewer Fund's susceptibility to revenue shortfalls and management's inability to control a significant portion of expenses of the fund, it is proposed that unrestricted fund balance should be maintained at 180 days of expenditures instead of the current 90 days of expenditures.

Legal Review:

Agenda item did not require legal review.

Fiscal Impact:

Financial policies provide for the basic framework for the fiscal management of the City.

Recommendation:

The Finance Department recommends approval.