

CITY of ROCHESTER
New Hampshire
Proposed FUND BALANCE POLICY

ADOPTED BY ROCHESTER
CITY COUNCIL in SEPTEMBER 2014

Purpose and Scope

The following policy has been adopted by the City of Rochester, New Hampshire. This policy is intended to ensure that the City maintains adequate fund balances and reserves in order to:

- Provide sufficient cash flow for the daily financial needs,
- Secure and maintain investment grade bond ratings,
- Offset significant economic downturns or revenue shortfalls, and
- Provide funds for the unforeseen expenditures related to emergencies.

This policy supplements the provisions promulgated under and it is superseded by the City's General Ordinances regarding the City's fund balance and reserve policies. Specifically, Chapter 7-62.

Definitions

Fund type definitions: The following definitions will be used in reporting activity in governmental funds across the City. The City may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

- **General Fund** is used to account for all financial resources not accounted for and reported in another fund.
- **Special Revenue Funds** are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- **Enterprise Funds** are used to account for the City's business type activities where goods and/or services are provided to the general public and a user fee is charged.
- **Capital Projects Funds** are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.
- **Permanent Funds** are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's purposes.

Fund balance reporting in governmental funds. Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

Non-spendable	<i>Not available for appropriation.</i> Not available for spending either now or in the future because they are legally or contractually required to be maintained intact.	
Restricted	<i>Available for spending for a specific purpose.</i> Constraints on spending that are legally enforceable as stipulated in the Charter, by outside parties or enabling legislation.	
Unrestricted	Committed	<i>Not available for appropriation.</i> Constraints on spending that the City has imposed upon itself by the highest level formal action. Majority vote is required to approve a commitment however two thirds vote is required to remove a commitment.
	Assigned	<i>Available for appropriation.</i> Resources intended for spending for a specific purpose set by the governing body itself or by some person or body delegated to exercise such authority in accordance with policy established by the Council.
	Unassigned	<i>Available for appropriation.</i> Residual amounts not contained in any other classification. Reported in the general fund only.

Operational Guidelines

The following guidelines address the classification and use of fund balance in governmental funds:

Classifying Fund Balance Amounts

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include non-spendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance Reporting

Encumbering amounts for specific purposes for which resources have already been restricted, committed, or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 54.

Prioritization of Fund Balance Use

When expenditure is incurred for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

General Fund Unassigned Fund Balance

Purpose. The Rochester City Council recognizes that the establishment and maintenance of fiscal responsibility and the promotion of property tax stabilization are goals which promote the public health, safety and welfare of the City of Rochester and its inhabitants. Therefore, it is the purpose of the Rochester City Council in adopting this section to establish a mechanism whereby the fiscal integrity of the City is strengthened and maintained, and the long-term stability of the City's property tax rate is promoted, through the establishment of a systemic and disciplined process for the prudent and planned utilization of revenues. In adopting this section, the Rochester City Council recognized that it is prudent financial practice for municipalities such as Rochester to establish and maintain a minimum General Fund unassigned fund balance (as hereinafter more particularly defined) of between 8% and 17% of total General Fund expenditures. General Fund expenditures include City, County, and School collectively.

This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

Minimum General Fund unassigned fund balance requirement.

The General Fund unassigned fund balance of the City, at the end of any fiscal year, as established and reported to the State of NH on form MS-535 "Financial Report of the Budget" and confirmed within the notes of the City's annual audited financial statements, shall for the purposes of this section be designated as the "unassigned fund balance" of the General Fund of the City of Rochester, and is referred to throughout section 7-62 of the City ordinance as the "unassigned fund balance." The unassigned fund balance for any fiscal year shall be maintained at a minimum level of between 8% and 17% of total General Fund expenditures for the City for that fiscal year.

Use of General Fund unassigned fund balance – Non-Recurring.

In any subsequent fiscal year, the City Council may, upon adoption of a written resolution, by a two-thirds majority vote, after notice and public hearing, utilize the excess of the actual unassigned fund balance of the General Fund (as determined by the annual audit of the City) over the prescribed unassigned fund balance level established in Subsection **B** of section 7-62 of the City ordinance from the prior fiscal year for capital projects, transfers to capital projects, transfers to capital reserve, or for any other appropriation of a non-recurring nature.

Use of General Fund unassigned fund balance - Recurring.

At any time in a budget year, the City Council may, upon adoption of a written resolution, by a two-thirds majority vote, after notice and public hearing, make appropriations from the General Fund unassigned fund balance of the City of Rochester to meet an essential need for public expenditure. If such appropriation reduces the unassigned fund balance to a level below the minimum prescribed by Subsection **B** of section 7-62 of the City ordinance, the resolution authorizing such appropriation shall include a plan to restore the unassigned fund balance to the minimum level established in Subsection **B** of section 7-62 of the City ordinance within a period not to exceed 2 years.

Implementation and review

Upon adoption of this policy the Rochester City Council authorizes the City Manager to establish any standards and procedures which may be necessary for its implementation. The City Manager shall review this policy and provide a report of any recommendations for changes to the Rochester City Council at the following times:

- At least bi-annually
- If there is a change by GASB concerning fund balance reporting
- If there is a reasonable probability that the General Fund unassigned fund balance is expected to exceed 17 percent in the current or next budget cycle