

Appropriate Level of Unreserved Fund Balance in the General Fund (2002)

Background. Accountants employ the term *fund balance* to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government's budgetary basis.¹ In both cases, *fund balance* is intended to serve as a measure of the financial resources available in a governmental fund.

Accountants distinguish *reserved fund balance* from *unreserved fund balance*. Typically, only the latter is available for spending. Accountants also sometimes report a *designated* portion of unreserved fund balance to indicate that the governing body or management have tentative plans concerning the use of all or a portion of unreserved fund balance.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning.

In most cases, discussions of fund balance will properly focus on a government's *general fund*. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unreserved fund balance in the general fund.

Credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unreserved fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

Recommendation. GFOA recommends that governments establish a formal policy on the level of unreserved fund balance that should be maintained in the general fund.² GFOA also encourages the adoption of similar policies for other types of governmental funds. Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and specific plans for increasing or decreasing the level of unreserved fund balance, if it is inconsistent with that policy.³

The adequacy of unreserved fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, *at a minimum*, that general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five to 15 percent of regular general fund operating revenues, or of no less than one to two months of regular general fund operating expenditures.⁴ A government's particular situation may require levels of unreserved fund balance in the general fund significantly in excess of these recommended minimum levels.⁵ Furthermore, such measures should be applied within the context of

¹ For the sake of clarity, this recommended practice uses the terms *GAAP fund balance* and *budgetary fund balance* to distinguish these two different uses of the same term.

² Sometimes reserved fund balance includes resources available to finance items that typically would require the use of unreserved fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unreserved fund balance for purposes of analysis.

³ See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).

⁴ The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances. In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unreserved fund balance to either revenues or expenditures, that decision should be followed consistently from period to period.

⁵ In practice, levels of fund balance, (expressed as a percentage of revenues/expenditures or as a multiple of monthly expenditures), typically are less for larger governments than for smaller governments because of the magnitude of the amounts involved and because the diversification of their revenues and expenditures often results in lower degrees of volatility.

long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unreserved fund balance in the general fund at any one time.

In establishing a policy governing the level of unreserved fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unreserved fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).
- The availability of resources in other funds as well as the potential drain upon general fund resources from other funds (i.e., the availability of resources in other funds may reduce the amount of unreserved fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unreserved fund balance be maintained in the general fund).
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Designations (i.e., governments may wish to maintain higher levels of unreserved fund balance to compensate for any portion of unreserved fund balance already designated for a specific purpose).

Naturally, any policy addressing desirable levels of unreserved fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints. In this case in particular, it is essential that differences between GAAP fund balance and budgetary fund balance be fully appreciated by all interested parties.

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Approved by the Executive Board, February 15, 2002.

Minimum Fund Balance Policies for Colorado Municipal Governments

Central City	5%
Arvada	8%
Longmont	8%
Boulder	10%
Commerce City	10%
Lakewood	10%
Westminster	10%
Woodland Park	10%
Broomfield	10% to 16.67%
Golden	10% to 20%
Fort Collins	15%
Louisville	15%
Parker	16.67%
Fountain	20%
Thornton	20%
Evans	25%
Brighton	25%
Greenwood Village	25%
Lafayette	25%
Northglenn	25%
Ouray	25%
Estes Park	30%
Gunnison	33%
Crestone	50%
Superior	75% to 100%
Westcliffe	200%

Fiscal Transparency

Two government entities in Colorado have recently implemented fiscal transparency efforts where detailed financial information is publicly accessible through their web pages. Staff reviewed the capabilities of these efforts and the resources that could be needed to do the same in Longmont.

Fort Collins - The City of Fort Collins offers "Open Book", which is an online spending transparency database that allows residents to view all City spending records. Open Book can be accessed at the following web address <http://www.fcgov.com/openbook/>. It includes data for the City of Fort Collins, the Poudre River Library District, Poudre Fire Authority and the Downtown Development Authority. Open Book includes all expenditures, except for information restricted by the Health Insurance Portability and Accountability Act (HIPAA) or other confidential information. It includes expenses paid directly to vendors as well as those made with a City credit card. Also provided is a listing of the prior annual wages by position title.

Their information can be browsed by:

- ◆ Vendor (search by alphabetical list or expense amounts)
- ◆ Expense type (choose from nearly 200 categories such as computer software, motor vehicles or wireless service). It provides definitions of these expense types so the user can better understand what they are looking at.
- ◆ Department or service area
- ◆ Fund (choose from 35 fund types, such as the City's General Fund, Natural Areas Fund, Transportation Fund, or Library District Fund).

The current data runs from January 1, 2009 through the present. The database is automatically updated 15 days after the end of each month with the previous month's data. For example, July data is posted on August 15. Open Book will accumulate data for two years; thereafter the database will contain a rolling two year history of data.

Fort Collins reports that it required about 100 hours of staff time to develop their monthly extracts of the ten or so main financial data fields of their JD Edwards ERP system into a data repository inside their web application domain. They used a LAMP software tool to develop the web queries and presentation on their website. The data is not provided in excel or other formats but instead only in PDF images. The data extraction was the bulk of the effort and the most difficult part of the work, as they needed to put the data in a form that was more useful to citizens, not labeling a department as PW/NR etc. Most of this work was done by a Financial Analyst with strong SQL skills.

Fort Collins staff also stated there has been limited pages viewed by citizens. They use Google Analytics to measure usage. They have discovered that most of the views were from internal sources. They also believe that some of the external views are from staff of other entities (like our own) wanting to "see how transparency sites are designed".

Jefferson County - Jefferson County offers what they call “Transparent Jeffco” which is also an online spending transparency database that allows residents to view their spending records. Their goal is “to provide a rich, interactive citizen engagement.” According to the following website

<http://www.co.jefferson.co.us/transparentgov/index.htm> , Transparent Jeffco provides easy access to the services the residents of Jefferson County require. Transparent Jeffco is currently a work in progress. They have completed the searchable tool for procurement cards and their website states that the rest of the expenditures and budgets would be available Winter of 2009. As of the publication of this paper those were still not available on their website, although this information is available in pdf report in the interim. In addition they provide a listing of contracts and legal notices by month. Their website also provides contact information for all elected officials and department and division directors.

Their procurement card information can be searched by:

- ◆ Transaction date
- ◆ Vendor name
- ◆ Vendor category
- ◆ Transaction description
- ◆ Cardholder office/department/division name
- ◆ Approver title
- ◆ Dollar amount

It has drill-down capabilities to further show the vendor city and state.

The current data runs from May 7, 2009 through the present. Data updates occur monthly. Their website does not specifically state how long the data will be available, however in looking at the searchable transaction date field it appears they are eventually planning to provide up to 5 years of data.

They also plan to include more portals into non financial data that would benefit their citizens and save clerical effort as well. To accomplish this, they have developed some online forms, blogs, and survey tools to ask the citizens using the site what data they would like to have. Rather than trying to guess what the public may want, building it at a great cost and then wondering why they are not accessing their screens, they are hoping to get the feedback from the citizens on what data they would really utilize. They did not try to do budget vs expense and really had not planned to spend much effort breaking information out by Division or Department, because they believe the citizens really are not interested in how well one department or division is performing in relation to their budget goals.

They also are doing an analysis on clerical time used to support open records requests to identify the top requests that cost the most to produce, and that will also be used in deciding what additional data to provide.

The cost of the first phase of this project was approximately 200 hundred work hours. Depending on the cost per hour of programming staff or consultants, that is about \$20,000 for internal staff or \$30,000 for consultants. They have a JD Edwards package

that provided much of the automated queries and used an Oracle Application Express forms generation software program to create most of the queries and web content. The APEX software gives them the ability to filter, sort, compute and aggregate data over all years right out of the box.

Longmont – In Longmont we are very close to being able to offer access to most of the records in the City Clerk's office over web access. All monthly financial reports prepared by the Finance & Support Services Department for the City Council as well as annual documents such as the annual budget; five year CIP; the Comprehensive Annual Financial Report; and the results of the 2009 budget prioritization process are all accessible over the City's web page. We currently do not have such access for the detailed financial information within the financial systems of the City as offered in Fort Collins and Jefferson County.

Given that both of these entities needed resources ranging from 100 to 200 work hours it is logical to at least use that as a starting point for our own potential cost estimate. We will need to gather further information from these other entities as well as assess our own systems and solutions to estimate a firm cost for Longmont to provide some sort of financial transparency. We would probably use IBM's Webquery to retrieve and present our DB2 data. We are meeting with an IBM consultant in January to learn more about that software's ability to easily mine our general ledger data and present it dynamically on the web. We would not have to have a separate piece of software to access our purchase card data, as that data is already integrated into our database. Longmont has its own Legacy system supported by internal staff while Fort Collins and Jefferson County have JD Edwards, an ERP system with the ability to extract data to create the web content. Until staff has a better understanding of the desires of Council, the needs of the citizens and the IBM Webquery capabilities, we do not know what we would need to build nor how difficult it would be to build it at this time.

While we do have staff that could work on this project it would require a re-prioritization of ETS projects that are already slowed due to staffing reductions and unplanned projects that become new priorities. For instance the collective bargaining agreement required changes to payroll programs. If this becomes a high priority with a desire to have it implemented in 2010 it may be necessary to consider the consultant route so that current project efforts are not further derailed.