

# City of Gahanna

## General Fund – Fund Balance Policy

### I. DEFINITION AND PURPOSE

The purpose of this policy is to provide guidelines to the City Council and Administration for establishing, maintaining, and utilizing the Emergency Reserve and establishing a minimum Unreserved Fund Balance for the City of Gahanna.

#### A. Emergency Reserve

An Emergency Reserve is a mechanism that governments can implement to help ensure adequate levels of fund balance are available to help mitigate current and future risks. An Emergency Reserve is generally considered a prudent and conservative fiscal policy to deal with unforeseen situations.

#### B. Unreserved Fund Balance

Unreserved Fund Balance is the residual balance of the General Fund that is not otherwise restricted, reserved/committed, or assigned for a specific purpose or use. Unreserved Fund Balance is available along with estimated revenue for General Fund appropriations. This balance is complemented with an appropriate Emergency Reserve.

#### C. This policy addresses the following:

- Level of funding for the Emergency Reserve
- Conditions for use
- Authority over Reserves
- Replenishment of the Reserves
- Mechanics of the Emergency Reserve
- Minimum Unreserved Fund Balance
- Reporting and review provisions
- Periodic Review of Targets

### II. EMERGENCY RESERVE

The City's risk exposure, current mitigation strategies and policy considerations related to the Emergency Reserve have been carefully analyzed to establish the level of funding for the Emergency Reserve.

The General Fund Reserve policy shall consist of two components (1) a Disaster Recovery component and (2) a Countercyclical component.

The Disaster Recovery component is available to manage one-time emergencies or unanticipated expenditure conditions caused by conditions outside of the City's control.

The Countercyclical component is intended to temporarily offset unanticipated reduced revenues during economic downturns.

According to the GFOA, segmenting reserves in this way can create more transparency to citizens and establishes credibility by defining the specific use and purpose of the reserve.

### III. Level of Funding

The City of Gahanna will use a percentage of General Fund operating expenditures estimated for each year to establish the level of funding for the reserves. General Fund operating expenditures are typically used as the basis for a reserve as there is less fluctuation and risk in forecasting future operating expenditures.

The City of Gahanna shall maintain an Emergency Reserve equal to 25% of General Fund operating expenditures with 15% for Disaster Recovery and 10% for Countercyclical impacts. The Director of Finance shall calculate and communicate the Reserve target and components to City Council each year as a part of the annual appropriations process.

Funding of the Emergency Reserve targets will come from excess revenues over expenditures or one-time revenues in the General Fund.

### IV. Conditions for Use

The Emergency Reserve is intended to provide the City with sufficient resources and a comfortable margin of safety to support one-time costs for emergencies and/or operations during a significant economic downturn such as:

- Natural disaster or other emergency
- Pandemic or other public health emergencies
- Economic recession/depression

Emergency Reserves shall not be used to leverage dollars for program expansion or as a match requirement for grants. An exception may be made for capital projects and public works under circumstances of a declared emergency.

The Countercyclical component is intended for use to offset slower revenue growth during a recession or depression caused by global, national, or local economic conditions. For purposes of using this policy, slower revenue growth shall be defined as a reduction in revenue of three percent or more for two consecutive quarters or the financial forecast estimates a reduction in revenue of three percent or more for the next fiscal year.

Neither component of the Emergency Reserve shall be used until General Fund Unreserved Fund Balance falls below two months of General Fund operating expenditures or is anticipated to fall below two months of General Fund operating expenditures. The Director of Finance shall communicate anticipated ending General Fund Unreserved Fund Balance for the following year during the budget process.

## V. Authority over the Emergency Reserve

- A. The Disaster Recovery component may be used when a state of emergency has been proclaimed in accordance with the City Charter.
- B. The Countercyclical may be used when there is an economic recession or depression, and the Director of Finance has reported a reduction in revenue of three percent or more for two consecutive quarters or has forecasted a reduction of three percent or more.
- C. A majority vote of the City Council will be required to use any portion of the Emergency Reserve.

## VI. Replenishment of the Emergency Reserve

City Council shall approve a plan for replenishment at the same time the use of the Emergency Reserve is approved. If feasible, the Emergency Reserve shall be restored the year immediately following use. The maximum number of years to restore the Emergency Reserve is three years.

## VII. Unreserved Fund Balance

The Government Finance Officers Association (GFOA) recommends maintaining a minimum unreserved fund balance in the General Fund of not less than two months of General Fund operating expenditures or revenues to mitigate short term unexpected expenditure increases and/or reductions in revenue. Short-term is defined as one-year or less. General Fund operating expenditures will be used by the City to calculate the two-month minimum balance.

General Fund Unreserved Fund Balance in excess of the minimum may be used along with estimated revenue for basic operational appropriations of the City or other lawful purposes of the City.

The Director of Finance shall report to Council anticipated ending unreserved fund balance for the following year during the budget process.

Council, upon passing the annual Appropriation Ordinance shall authorize the use of excess unreserved fund balance along with estimated revenue for the following year.

## VIII. Periodic Review of Targets

As a part of the annual appropriations process, the Director of Finance shall provide a report to City Council on the balance of the Emergency Reserve and its components along with anticipated unreserved fund balance. If an Emergency Reserve replenishment plan is in place, the Director of Finance shall also report on the status of any uses of that fund in the past year and the status of the replenishment plan.

The City's General Fund, Fund Balance Policy shall be adopted by Ordinance of the City Council. City Council shall review and reaffirm this policy every five years.