

**Fund Balance Policy**  
**City of Ramsey, Minnesota**  
Effective December 31, 2024

## **Policy Statement**

The City of Ramsey recognizes the importance of maintaining appropriate fund balances as one component of sound financial management; and therefore, establishes this policy for the City's General Fund. The policy acknowledges that adequate fund balances represent a vital component of the City's overall financial management strategy, and serves to:

- Mitigate the impact of future risks and unanticipated events
- Sustain operations during economic downturns
- Enhance creditworthiness
- Stabilize funding for operations
- Provide adequate resources for cash flow requirements
- Moderate fluctuations in tax levies and user fees
- Reduce the cost of debt
- Provide an indication of the City's financial strength and flexibility

A primary goal of the City funds is to provide basic dependable services that support the lives of citizens and businesses. These services include, but are not limited to, police and fire protection, street maintenance, ice and snow removal, traffic control, sidewalks and trails, building inspection, code enforcement, pedestrian and bicycle paths, and park facilities.

Providing essential City services in a consistent manner requires some measure of financial stability and flexibility in order to manage the transition through economic challenges, varying stages and rates of growth, and changes in volatile revenues (such as state aids and permit revenues). Adequate fund balances represent one component of careful management of city budgets, tax levies, user fees, debt levels, long-term and short-term financial planning, and assessment of risk.

## **Purpose**

There are numerous reasons for maintaining fund balances, and the reasons generally focus on cash flow needs and financial stability (flexibility and resiliency). Below is a brief discussion of the benefits and purpose of fund balances:

- **Working Capital (cash flow)** – The timing of major revenue sources, in comparison to operating and capital costs, is an important consideration when establishing minimum working capital. Property tax receipts are received in July and December, and operating costs associated with essential services occur throughout the year. The result is that funds receiving property taxes must operate for the first half of the year without a major revenue source.

- **Enhance creditworthiness** – Bond rating agencies routinely examine fund balance policies, and how closely the policies are followed in practice. Fund balances can help reduce borrowing needs by financing some projects internally (equipment replacements, repair projects, building repairs and maintenance etc.), avoid short-term borrowing for operating costs, protect the City’s credit rating, and in turn reduce borrowing expenses (through lower interest rates).
- **Moderate fluctuations in levies and user fees** – Sharp changes in tax levies and user fees are undesirable for citizens and business owners. Large capital costs have the potential to cause dramatic fluctuations in levies and user fees.
- **Protect essential services** – Fund balances help to sustain operations, avoid service disruptions, and insulate the City from temporary revenue shortfalls by considering the volatility and predictability of revenues (for example, permit revenues and state aid) and economic conditions/pressures (inflation).
- **Insulate the City from unanticipated one-time expenditures** – Fund balances above required minimums provide the financial flexibility to respond to unanticipated events or emergencies (storm damage, emergency utility repairs, extended periods of drought, sustained periods of heavy rain, disaster recovery, etc.).

## **Policy Guidelines**

The City establishes the following fund balance guidelines, in consideration of the City’s operations, tax base, reliability of non-tax revenue sources, operating capital needs, bond rating factors, state and local economic outlook, potential emergency needs, and other potential demands on City fund balances.

General Guidelines – The City shall:

- **Maintain** fund balances as required by law, ordinance, bond covenants, and the guidelines established in this policy.
- **Measure** fund balances as of December 31 of each year (the end of the fiscal year).
- **Report** fund balance variances to the City Council in conjunction with issuance of the Annual Comprehensive Financial Report (ACFR).
- **Consider** variances, between actual fund balance when establishing tax levies and user fees for the ensuing budget.

General Fund Guidelines – The following requirements are established for the General Fund, as of the end of each fiscal year.

- **General Fund** - The following minimum and maximum General Fund balance levels are established, in recognition of the working capital requirements, the potential for unanticipated events, and periodic special circumstances that may arise:
  1. Working capital – The minimum General Fund balance shall be equal to fifty percent (50%) of the ensuing years General Fund tax levy, and levy-based state aid (local

government aid (LGA), etc.). The working capital allocation shall be reduced by the balance of prepaid items at year-end.

2. Unanticipated events – A fund balance allocation for unanticipated future events shall be established in the amount of 5-10% of budgeted General Fund expenditures in the ensuing budget year (not including transfers to other funds).
3. Special temporary allocations as established by Council action for specific purposes.
4. Excess fund balance and authorization of annual transfer – The amount of General Fund balance greater than the sum of working capital, unanticipated events, and special temporary allocations is considered excess fund balance, and shall be transferred to a fund, or funds, as determined by the City Council. Because excess fund balance is considered a one-time source (non-recurring), excess balances may be used to:
  - Build and/or improve fund balance levels.
  - Support one-time expenditures that do not increase operating costs (giving priority to one-time expenditures that reduce future operating costs).
  - Provide tax levy or user fee stabilization
  - Cover start-up expenditures associated with a new program or service
  - Aid in the transition through an anticipated budget change (loss of revenue or change in service levels)
  - Reduce debt levels, or reduce future debt levies
5. Fund balances below minimum – If General Fund balances fall below the minimum required (as dictated by working capital requirements), the City will restore fund balances through a combination of expenditure reductions and revenue enhancements (levies, user fees etc.), giving higher priority to structural changes that will serve to stabilize operations over the long-term, as opposed to one-time strategies that shift challenges into later accounting periods. The City will levy the following year to recover working capital balances, or as soon as is practicable.
6. Unanticipated event allocation below 5% – If the portion of General Fund balance allocated to unanticipated events falls below 5% of the ensuing years General Fund tax levy, and levy-based state aid, the City will develop strategy to return to a minimum of 5% within 3 years.