

July 2, 2014

City of Centerville Tennessee
Mayor Gary Jacobs
102 East Swan Street
Centerville, Tennessee 37033

VIA ELECTRONIC MAIL

Dear Mayor Jacobs:

You have asked as to the appropriate level of unrestricted fund balance to maintain in the general fund.

The Government Finance Officers Association (GFOA), in its best practice series, notes that 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. The GFOA further notes that the adequacy of unrestricted fund balance in the general fund should be based upon a government's own specific circumstances and in accordance with a formal policy to be adopted by the governing body. As set forth in the Governmental Accounting Standards Board (GASB) Statement No. 54, unrestricted fund balance includes reserve funds categorized as *committed*, *assigned*, and *unassigned*; each of these categories is unconstrained on spending or the constraint is imposed by the government itself.

So with that as a backdrop, the GFOA recommends, at a minimum, that general purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Furthermore, a government's particular situation often may require a level of unrestricted fund balance significantly in excess of this recommended minimum level.

In establishing a fund balance policy, the following factors should be considered:

- The predictability of revenues and the volatility of expenditures.
- The perceived exposure to significant one-time outlays.
- The potential drain of general fund resources from other funds.
- Liquidity.
- Commitments and assignments of funds already in reserve.

It is my recommendation that Centerville establish a target general fund balance of no less than 4 months of general fund operating expenditures and transfers, with a minimum balance of 3 months. To illustrate this recommendation, a government with general fund expenditures of \$4 million and general fund transfers-out of \$200,000, would maintain a target level of unrestricted reserve of no less than \$1.4 million, and never have less than \$1 million in unrestricted reserve in the general fund.

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The recommended level of unrestricted general fund balance is deemed appropriate for Centerville to accommodate unanticipated expenditures, expenditures of non-recurring nature, revenue declines, and to provide revenue for special opportunities.

The aforementioned GFOA Best Practice: Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund, is enclosed for your convenience.

Very truly yours,



Jeffrey J. Broughton
Municipal Management Consultant