

# Unrestricted Fund Balance Policy



# Policy Statement

In managing its Unrestricted General Fund Balance (“Financial Stabilization Fund”), it is Louisville’s policy to:

- Maintain a Financial Stabilization Fund balance between one and two months of monthly average current year general fund budgeted expenditures.
- Generate additional revenues or reduce expenditures to maintain or replenish the Financial Stabilization Fund balance to meet the policy amount.
- Utilize the Financial Stabilization Fund balance for one-time capital project or emergency operational expenditures consistent with this policy.

## Goals & Objectives

Maintaining a Financial Stabilization Fund by adhering to a fund balance policy is not only a prudent fiscal management tool, but also an important factor in the analysis of financial stability. Governments should maintain a prudent level of financial resources to protect against service reductions or tax increases because of temporary revenue shortfalls or unanticipated one-time expenditures. A financial reserve may be used to address unanticipated revenue shortfalls or unforeseen expenditures, providing a first defense against deficit spending and helping to maintain liquidity when budgeted overages become inevitable.

Maintaining a Financial Stabilization Fund is among the most effective practices a government can apply to maintain a favorable credit rating. Fund balance reserve policy/working capital reserves are among the most frequently implemented best financial management practices for governmental issuers. The accumulation of prudent reserves in more favorable economic times could be a resource to sustain Louisville in inevitable economic downturns or unforeseen/emergency expenditures. Such reserves assist Louisville in maintaining a stable credit outlook.

## Use of Financial Stabilization Funds

Financial Stabilization Fund balances should be used for one-time capital projects or emergency operational expenditures only if all of the following conditions exist:

1. A rare and extraordinary event (e.g. natural disaster, or large and unanticipated reduction or elimination of State revenue), or the one-time funding of a capital project or an operating initiative that will result in material, recurring reductions in future operating expenditures or material, recurring increases in operating revenues.
2. Louisville has made a complete and rational analysis, with justifying evidence that the Financial Stabilization Fund can be maintained in the future.

## Fund Balance Policy Review

The fund balance policy guidelines outlined herein are only intended to provide general direction regarding the future use and maintenance of the Financial Stabilization Fund.

This policy will be reviewed no less frequently than annually. At that time the Chief Financial Officer will consider any recommendations for any amendments, deletions, additions, improvements or clarification.