



CITY OF NEW BEDFORD
JONATHAN F. MITCHELL, MAYOR

November 13, 2018

City Council President Linda M. Morad, and
Honorable Members of the City Council
133 William Street
New Bedford, MA 02740

Dear Council President Morad and Honorable Members of the City Council:

I am submitting for your approval a proposed amendment to the City's Fund
Balance Management Policy.

Sincerely,

Jonathan F. Mitchell
Mayor

JFM/smt



CITY OF NEW BEDFORD

JONATHAN F. MITCHELL, MAYOR

OFFICE OF THE CFO

ARI J. SKY
CHIEF FINANCIAL OFFICER

November 9, 2018

TO: Mayor Jonathan F. Mitchell

FROM: Ari J. Sky, Chief Financial Officer

SUBJECT: Proposed Amendment to Fund Balance Management Policy

The purpose of this memorandum is to request a policy amendment to operationalize the City's objective to maintain a robust reserve program.

The City's Fund Balance Management policy, which was first adopted in 2013, establishes a target funding level for the City's Stabilization Fund equivalent to between 2% and 6% of the General Fund operating budget. The account's \$7,402,169 current balance is equivalent to 2.3% of the FY 2019 General Fund budget. However, the policy does not identify an ongoing funding source for the account. Attached is a proposed amendment which would designate at least 25% of certified Free Cash for deposit into the General Fund Stabilization Fund.

The proposed amendment also brings the policy into compliance with the City's Other Post Employment Benefits Trust Fund (OPEB) policy, which states that the City will seek to designate at 10% of certified General Fund Free Cash for deposit into the OPEB Trust Fund. While the City has implemented this policy consistently since the OPEB policy's adoption in 2016, the Fund Balance Management policy was not previously amended to be consistent.

I respectfully request the inclusion of this amendment with Mayor's Papers for the November 20, 2018, City Council meeting. Thank you for your consideration.

Attachment

CITY OF NEW BEDFORD, MASSACHUSETTS

Policy Title: Fund Balance Management

Effective Date:

1. Purpose

The City of New Bedford recognizes the significance of maintaining an appropriate level of fund balance as one component of sound financial management and, therefore, establishes this policy for management of the City's fund balances. An adequate fund balance level is an essential element in both short and long-term financial planning and serves to mitigate the impact of future risks, sustain operations during economic downturns, and enhance the City's creditworthiness, credit rating, and flexibility. Through the maintenance of adequate levels of fund balance, the City can help stabilize funding for operations and realize cost savings in issuing debt.

2. Scope

This policy establishes the level of fund balance required for the City's General Fund and the various components of the City's fund balance management program. In addition, the policy sets forth the levels deemed appropriate for City operations and protocols for the use and maintenance of the established levels.

3. Fund Balance Definitions

Fund balance is defined as the difference between assets and liabilities as reported in governmental funds. The Government Accounting Standards Board (GASB) prescribes four categories of fund balance: non-spendable, restricted, committed, assigned and unassigned. This policy focuses on the use of unassigned fund balance, which is defined as the portion of unrestricted fund balance that has not been committed or assigned to other uses and is therefore available to spend in future periods.

4. Unassigned Fund Balance

The City's unassigned fund balance functions as a reserve which ensures the continuity of services. The City of New Bedford is committed to maintaining prudent levels of reserves to mitigate against unforeseen events and diminished revenues during economic downturns. In addition to the unassigned fund balance, the City maintains a Stabilization Fund (within the General Fund, included in the assigned/committed portion) which may be utilized to protect against a reduction of service levels and to manage temporary revenue shortfalls and unanticipated one-time expenditures. The desirable level of funding for the Stabilization Fund is between two (2%) and six (6%) of the General Fund operating budget.

5. Free Cash

Free Cash is defined as the City's remaining unrestricted funds available from operations in previous fiscal years, as certified by the Massachusetts Department of Revenue. In addition to a robust Stabilization Fund, the City endeavors to maintain an ample Free Cash balance to provide sufficient financial flexibility and stability on an ongoing basis. Consequently, the City is committed to utilizing a conservative approach in building its annual budget. The desirable available balance for free cash is no less than one (1%) of the General Fund operating budget in any given year. At minimum, the City will seek to designate amounts equivalent to at least 25% of certified General Fund Free Cash for deposit into the Stabilization Fund and 10% into the OPEB Trust Fund on an annual basis.