

# **City of Laredo - Fund Balance Management Policy Resolution (Updated)**

## **Preamble**

RESOLUTION NO. 2025-R-XXX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAREDO, TEXAS, ESTABLISHING A FORMAL FUND BALANCE MANAGEMENT POLICY TO ENSURE FINANCIAL STABILITY, SUPPORT BOND RATING GOALS, AND PROMOTE LONG-TERM FISCAL HEALTH

WHEREAS, the City of Laredo recognizes that strong Fund Balance policies are critical to maintaining operational stability, sustaining public services during economic disruptions, and achieving long-term financial goals;

WHEREAS, the City seeks to strengthen public trust and fiscal accountability by establishing formal fund balance and Fund Balance targets for the General Fund, enterprise operations, and other major funds;

WHEREAS, adherence to Fund Balance policies is a key factor in preserving the City's bond ratings and financial credibility;

WHEREAS, all provisions of this policy shall be implemented in a manner consistent with Article IV, Section 6 of the City of Laredo Charter; and

WHEREAS, in the event of any conflict between the provisions of this Fund Balance Management Policy and the requirements or threshold levels established under any existing or future bond covenants of the City, the bond covenants shall prevail and supersede the provisions of this resolution to the extent of such conflict. The City shall continue to comply with all legally binding debt obligations, and this Policy shall not be interpreted or applied in a manner that would cause the City to violate the terms of any bond covenants.

## **Section 1 - Purpose**

This Fund Balance Management Policy establishes minimum and target fund balance requirements for key operating funds of the City of Laredo to:

- Ensure cash flow stability across fiscal cycles;
- Provide financial flexibility during economic or operational disruptions;
- Strengthen the City's ability to maintain service delivery without excessive reliance on short-term solutions;
- Support the City's creditworthiness and alignment with rating agency expectations;
- Maintain compliance with this Fund Balance policy to support the City's goal of preserving or improving its bond rating and financial credibility.

## **Section 2 - General Fund Unassigned Fund Balance**

1. The City shall maintain a minimum unassigned fund balance of 15% of General Fund operating expenditures (approximately 60 days of operations).
2. The target range shall be 20% to 25%, with a preference for remaining at the upper end of the range during periods of economic expansion or revenue stability.
3. Any unassigned fund balance above 25% may be appropriated by Council for non-recurring capital projects, or other one-time uses, provided that such use does not compromise liquidity or debt affordability.

## **Section 3 - Enterprise Fund Balances**

1. Each enterprise fund shall maintain a minimum working capital balance of 15% of Enterprise Fund operating expenditures (approximately 60 days of operations), for year end, with the exception of Mass Transit and Municipal Housing.
2. The target range shall be 20% to 25%, with a preference for remaining at the upper end of the range during periods of economic expansion or revenue stability.
3. Each enterprise fund shall maintain a minimum annual debt service coverage ratio of 1.25x for all revenue-backed obligations.
4. Enterprise funds shall prepare and update long-range rate models that demonstrate the fund's ability to maintain Fund Balance and coverage compliance. The Finance Department shall request rate models from City's financial advisors.

## **Section 4 - Use of Fund Balances**

Council must authorize any use of Fund Balances below policy thresholds. Authorized uses may include:

- Emergency response to natural disasters, public health, and/or public safety threats;
- Unanticipated one-time capital expenditures that cannot be deferred;
- Mitigation of revenue losses during economic downturns;
- Temporary support for operational stability pending long-term financial realignment.

All such uses must be non-recurring in nature and documented in a Council-approved resolution.

## **Section 5 - Replenishment Plan**

1. If any fund's balance falls below its stated minimum threshold, the City Manager, in coordination with the Finance and Budget Directors, shall prepare a written Fund Balance Replenishment Plan within 90 days of the triggering event.
2. A triggering event is defined as any audited or projected year-end balance falling below the minimum due to operational deficits, emergency withdrawals, or unexpected obligations.

3. The Fund Balance Replenishment Plan must outline steps to restore compliance within three fiscal years, or provide justification to extend that timeline.

**Section 6 - Monitoring and Reporting**

1. The Finance Department shall monitor Fund Balance levels and report to City Council quarterly as part of the financial reporting package.
2. Fund Balance status shall also be summarized in the City’s Annual Budget, Annual Comprehensive Financial Report (ACFR), and Long-Range Financial Forecast.

**Section 7 - Capital and Designated Fund Balances**

1. Council may, by separate action, establish Capital Fund Reserves or Designated Maintenance Reserves within the General Fund or enterprise funds.
2. These Fund Balances may be funded from year-end surpluses above target levels and may be used to support:
- Facility reinvestment and major repair projects;
  - Fleet or technology replacement cycles;
  - Grant match requirements;
  - One-time capital acceleration projects.

**Section 8 - Policy Review and Effective Date**

1. This Fund Balance Management Policy shall be reviewed at least every three years or in conjunction with major updates to the City’s Financial Management Policies.
2. This resolution shall take effect immediately upon passage and shall apply to all City budgets and financial decisions beginning in Fiscal Year 2026.

PASSED AND APPROVED THIS \_\_\_\_ DAY OF \_\_\_\_\_, 2025.

ATTEST: \_\_\_\_\_, City Secretary

APPROVED: \_\_\_\_\_, Mayor, City of Laredo