

## **Fund Balance Management Policy**

### **City of Laredo**

Submitted: July 29, 2025

Next Review: July 2028

#### **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.

#### **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.

#### **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 the City's financial advisors.

### **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.

### **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.

### **Monitoring and Reporting**

The Finance Department shall monitor Fund Balance levels and report to the City Council quarterly as part of the financial reporting package. Fund Balance should also be

summarized in the City's Annual Budget, Annual Comprehensive Financial Report (ACFR), and Long-Range Financial Forecast.

### **Capital and Designated Fund Balances**

1. City 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 the following:
  - ☐ Facility reinvestment and major repair projects
  - ☐ Fleet or technology replacement cycles
  - ☐ Grant match requirements
  - ☐ One-time capital acceleration projects

### **Policy Review**

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.