

## Why do we need fund balance?

Maintaining a fund balance in a city's general fund is crucial for several reasons:

1. **Financial Stability:** A fund balance acts as a financial cushion, ensuring that the city has resources to cover unexpected expenses, economic downturns, or emergencies without resorting to immediate fee/tax increases or spending cuts.
2. **Creditworthiness:** Lenders and credit rating agencies assess a city's financial health. A healthy fund balance demonstrates fiscal responsibility, which can lead to better credit ratings and lower borrowing costs for taxpayers.
3. **Cash Flow Management:** A fund balance helps smooth out fluctuations in cash flow. It provides cities with the flexibility to manage short-term revenue shortfalls while still meeting ongoing obligations. This is especially important here in Oregon, where property taxes aren't received until November; cities must have adequate fund balance to cover four months of expenses before beginning to receive their largest revenue source.
4. **Unforeseen Events:** Natural disasters, public health emergencies, or other unforeseen events require immediate resources. A healthy fund balance allows cities to respond promptly without disrupting essential services. Oregon budget law allows cities to access unappropriated ending fund balance in the event of an emergency.
5. **Budgetary Stability:** Maintaining a fund balance helps avoid drastic budget cuts during tough economic times. This prevents sudden reductions in services that could negatively impact residents, visitors, and businesses.
6. **Reserve Requirements:** The State does not have a reserve requirement for municipalities, however the City Council has an [adopted fund balance policy](#) for the General Fund of 15% of budgeted revenues.
7. **Government Finance Best Practice:** The Government Finance Officers Association (GFOA) is the leading professional organization in government finance. The GFOA has best practices to encourage financial prudence, transparency and resiliency. The GFOA's General Fund Best Practice states, "[i]t 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." (Government Finance Officers Association, 2015) The policy goes on to outline when and how governments should use this fund balance.

<https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>

Overall, a healthy fund balance provides a safety net, promotes prudent financial management, and contributes to the long-term well-being of a city and its residents.