

OLD BUSINESS

RESOLUTION NO. 2025- 040

FUND BALANCE GUIDELINES

WHEREAS, the Financial Management Committee developed fund balance guidelines (attached) for Claiborne County and voted unanimously to recommend that the County Commission adopt the guidelines; and

WHEREAS, the fund balance guidelines are intended to assist the County Commission in making sound decisions related to managing fund balances for specific county funds and to provide recommended minimum fund balances as a guide for budget deliberations; and

WHEREAS, the fund balance guidelines do not establish or mandate required fund balance amounts; and

WHEREAS, the fund balance guidelines are consistent with the Tennessee Comptroller of the Treasury's recommendations for a fiscally well-managed government;

NOW, THEREFORE, the Claiborne County Commission adopts the attached fund balance guidelines for Claiborne County as a guide for decision making during budget deliberations.

NOW, THEREFORE, BE IT RESOLVED by the Claiborne County Commission, meeting in regular session on the 21st day of April 2025, that this resolution is approved.

BE IT FURTHER RESOLVED that this resolution will take effect upon its passage, the public welfare requiring it. Duly passed and approved this 21st day of April 2025.

JOE BROOKS, COUNTY MAYOR

/s/ David Mundy
SPONSOR

ATTEST:

KAREN HURST, COUNTY CLERK

FILED 4-9-25
KAREN HURST, COUNTY CLERK
BY: 5:30 pm D-G

Claiborne County Fund Balance Guidelines

Goal: Establish fund balance guidelines to assist management in making sound decisions related to managing fund balances for the County General Fund, Highway Fund, Landfill Fund, General Debt Service Fund, and Capital Projects Funds. The guidelines do not establish required fund balance amounts, rather they provide recommended minimum balances as a guide for the County Commission during budget deliberations.

Objectives:

1. Provide a definition of fund balance, the purpose of fund balance, and recommended minimum fund balance amounts in various county funds.
2. Provide guidelines and transparency for budgetary decisions.
3. Outline possible steps to reach the minimum recommended fund balance if this fund balance does not exist.

1. Fund Balance Definition, Purposes and Guidelines

- a. Fund Balance Definition: Fund Balance is defined as all equity balances of restricted, committed, assigned and unassigned balances within a fund.
 - i. Restricted: consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.
 - ii. Committed: consists of funds that are set aside for a specific purpose by the County Commission. Formal action must be taken to commit funds or to remove or change the limitations placed on the funds.
 - iii. Assigned: consists of funds that are set aside or earmarked by management or the County Commission with the intent to be used for a specific purpose.
 - iv. Unassigned: consists of excess funds that have not been classified in the previous categories. All funds in this category are spendable resources that can be used to meet unanticipated expenditures and revenue shortfalls.
- b. Purpose of Fund Balance:
 - i. Have sufficient funds to provide cash flow for operations during the fiscal year.
 - ii. Have emergency funds available if needed for revenue shortfalls or unanticipated expenditures.
 - iii. Have investment funds available to provide operating interest earnings revenue to support operational costs, thereby reducing the need for property tax revenue.
 - iv. Establish financial stability and strength, so that there is low financial risk for public investment. This supports lower interest rates for future debt issuance, which reduces the property tax needed for debt service expenses.
- c. Fund balance guidelines:
 - i. General Fund: Fund 101
 1. The General Fund is heavily supported by the property tax. Since property tax is not due until eight months into the fiscal year, a higher fund balance relative to budgeted appropriations is important to support cash flow needs. The fund balance should be sufficient to meet cash flow needs and to support emergency and unanticipated costs. The minimum recommended fiscal year

beginning fund balance for unassigned fund balance is 17% to 20% of the current year budget appropriation.

ii. Sanitation Fund: Fund 116

1. The Sanitation Fund is heavily supported by the property tax. Since property tax is not due until eight months into the fiscal year, a higher fund balance relative to budgeted appropriations is important to support cash flow needs. The Fund also has both equipment replacement needs and requirements for landfill closure and post-closure costs. A higher fund balance is an important contingency for these liabilities. The minimum recommended fiscal year beginning fund balance for total fund balance is 25% to 30% of the current year budget appropriation.

iii. Highway Fund: Fund 131

1. The Highway Fund is heavily supported by monthly revenue from the State of Tennessee gasoline and motor fuel tax, making a lower fund balance relative to budgeted appropriations sufficient to meet cash flow needs. The minimum recommended fiscal year beginning fund balance for total fund balance is 15% to 20% of the current year budget appropriation.

iv. Debt Service Fund: Fund 151

1. The General Debt Service Fund includes both County and School debt service. The School pays for the School debt service through a transfer to the County Debt Service Fund. Fund balance guidelines for the Debt Service Fund only cover the County funded portion of debt service and excludes the School funded debt service.
2. The General Debt Service Fund is the primary fund used to pay County debt. The County's priority is to have sufficient funds available for debt obligations. The recommended minimum fund balance is 50% of budgeted County debt service, with 100% of budgeted debt service the optimal goal.
3. A healthy fund balance reflects management's commitment to meet fiscal liabilities, provides the investment community assurance to purchase the County's debt, and supports low financial risk and a low interest rate.

v. Capital Outlay Funds

1. There are two capital outlay funds used by Claiborne County
 - a. The 171 General Capital Projects Fund for various capital improvements of the General Fund.
 - b. The 176 Highway Capital Projects Fund for highway projects
2. The recommended minimum fund balance in each of the funds is an amount sufficient for cash flow purposes. This amount will vary each year depending on approved and planned projects, anticipated expenditures, and funding methods used to support capital projects. An assessment of fund balance needs in each fund should occur during the annual budget process.
3. The funds can also be used to accumulate fund balances for planned and anticipated future capital investments.

- d. The recommended minimum fund balances are informal goals for management and the County Commission that will be reviewed and assessed during the annual budget process.

2. Transparent Budget Decisions

- a. Projected fund balances in the funds compared to the recommended minimum fund balance amounts will be reviewed as part of the annual budget process. The Finance Director will provide a Budget Summary Schedule for the County Budget Committee during its development of the proposed annual budget. The Budget Summary Schedule will identify estimated Beginning Fund Balance, Estimated Revenues and Appropriations, and the Estimated Ending Fund Balance for each County Fund for the proposed budget. The estimated beginning fund balance will be estimated during the annual budget process and will be reviewed for each fund until the budget is adopted. After the fiscal year is closed, the Budget Summary Schedule will be recalculated reflecting the ending fund balance for the prior year, which is the beginning fund balance for the new budget. After the annual audit is completed, the Budget Summary Schedule will be updated with the audited fund balance amount for the prior year.
- b. The County Budget Committee recommends an annual budget to the County Commission. The annual budget reflects the operational needs of the County and should include the Budget Summary Schedule showing the percentage of Estimated Ending Fund Balance for each fund in the proposed budget and comparing this to the recommended minimum fund balances in the fund balance guidelines. Any variance from the recommended minimum fund balance should be noted and explained, along with any suggested proposal to meet the recommended minimum fund balance amount.
- c. If estimated fund balances are higher than the recommended minimum, the County Budget Committee and the County Commission may consider using some fund balance for tax rate reduction purposes or for one-time projects/purposes or to reserve funds for future projects/purposes. This consideration should take into account current and anticipated liabilities facing the fund, known and potential future funding needs, and the desirability of adequate reserves for contingency purposes.

3. Steps to consider if Fund Balance is below the recommended minimum

- a. The Budget Committee may propose and the County Commission may adopt a budget that provides fund balances that are higher or lower than the recommended minimum fund balances:
 - i. If the fund balance is lower than the recommended minimum, the County Commission should consider increasing revenue or decreasing appropriations to adjust the estimated year-end fund balance into the minimum range. This could include development of a plan to replenish fund balance to the recommended minimum amount within a specific timeframe.

4. Summary of Fund Balance: Recommended Minimum Balances

- a. 101 General Fund: between 17% and 20% of annual budgeted appropriation
- b. 116 Sanitation Fund: between 25% and 30% of annual budgeted appropriation
- c. 131 Highway Fund: between 15% and 20% of annual budgeted appropriation
- d. 151 General Debt Service: at least 50% of annual budgeted County appropriations
- e. Capital Outlay Funds (Fund 171 and Fund 176): cash flow and proposed future scheduled projects; reviewed and discussed annually.

Fund Balance Guidelines: Historical data

The tables below show actual fund balance data for each fund and how these compare to the recommended minimum fund balances in the draft *Claiborne County Fund Balance Guidelines*.

Fund 101

Year	Beg Unassigned Fund Balance	Budget Appns	Guideline	Actual	Actual Less Guideline	Guideline	Actual Less Guideline
2021	1,202,277	12,341,943	17%	9.7%	-7.3%	20%	-10.3%
2022	647,571	12,760,862	17%	5.1%	-11.9%	20%	-14.9%
2023	852,517	13,709,491	17%	6.2%	-10.8%	20%	-13.8%
2024	1,518,131	16,315,866	17%	9.3%	-7.7%	20%	-10.7%
2025	4,041,082	17,148,515	17%	23.6%	6.6%	20%	3.6%

Fund 116

Year	Beg Fund Balance	Budget Appns	Guideline	Actual	Actual less Guideline	Guideline	Actual less Guideline
2021	598,746	2,035,589	25%	29.4%	4.4%	30%	-0.6%
2022	662,170	2,188,559	25%	30.3%	5.3%	30%	0.3%
2023	581,084	1,957,834	25%	29.7%	4.7%	30%	-0.3%
2024	810,195	2,416,645	25%	33.5%	8.5%	30%	3.5%
2025	1,598,978	2,919,152	25%	54.8%	29.8%	30%	24.8%

Fund 131

Year	Beg Fund Balance	Budget Appns	Guideline	Actual	Actual less Guideline	Guideline	Actual less Guideline
2021	871,599	4,009,165	15%	21.7%	6.7%	20%	1.7%
2022	927,764	2,985,735	15%	31.1%	16.1%	20%	11.1%
2023	1,647,025	4,066,817	15%	40.5%	25.5%	20%	20.5%
2024	1,501,537	3,056,019	15%	49.1%	34.1%	20%	29.1%
2025	1,869,162	3,835,151	15%	48.7%	33.7%	20%	28.7%

Fund 151

Year	Beg Fund Balance	Budget Appns	Guideline	Actual	Actual Less Guideline	Guideline	Actual less Guideline
2021	1,174,110	807,704	50%	145.4%	95.4%	100%	45.4%
2022	1,360,752	1,013,160	50%	134.3%	84.3%	100%	34.3%
2023	1,447,938	1,092,703	50%	132.5%	82.5%	100%	32.5%
2024	1,325,492	970,334	50%	136.6%	86.6%	100%	36.6%
2025	1,365,820	1,139,595	50%	119.9%	69.9%	100%	19.9%