

**The Metropolitan Government of Nashville and Davidson County**

**FUND BALANCE RESERVE POLICIES**

**Adopted [            ], 2025**

**Effective as of 7/1/2025 upon Adoption of the FY 2026 Operating Budget Ordinance**

## **Introduction**

The Metropolitan Government of Nashville and Davidson County (the "Metropolitan Government" or "Metro") recognizes that these Fund Balance Reserve Policies are a recommended 'Best Practice' by the Government Finance Officers Association.

Fund Balance Reserve Policies tailored to the needs of the Metropolitan Government: (1) demonstrate a commitment to long-term financial planning; (2) improve the quality of budgetary decisions; and (3) promote long-term fiscal health.

These policies govern the maintenance of adequate levels of Unrestricted Fund Balance in each governmental fund, which is essential to mitigate current and future risks (e.g., revenue shortfalls/declines or unexpected expenditures), to ensure continuity of government services, and to ensure stable tax rates.

Adherence to Fund Balance Reserve Policies signals to the citizens of the community, the rating agencies, and the capital markets that the Metropolitan Government is well-managed, is able to meet its obligations in a timely manner and has the resources necessary to accommodate unforeseen circumstances.

## **Goals & Objectives of the Fund Balance Reserve Policies**

The goals of these policies are as follows:

To provide the Metropolitan Government with guidelines to ensure that there is adequate Unrestricted Fund Balance in each of Metro's governmental funds to meet annual operating cash flow needs, to provide funds for unforeseen circumstances, and to promote long-term fiscal health. In addition, these policies help to ensure that the Metropolitan Government satisfy certain clear objective standards in establishing and maintaining adequate levels of Reserves.

The objectives of these policies are as follows:

- a. To document responsibility for the oversight and management of Metro's Fund Balance Reserves;
- b. To define the types of fund balance that will comprise Metro's Fund Balance Reserves;
- c. To define the criteria for establishing and maintaining Metro's Fund Balance Reserves;
- d. To define the criteria for use of the Metro's Funds Balance Reserves; and
- e. To protect and enhance the Metropolitan Government's credit ratings.

## **Fund Balance**

Fund Balance is the term used to describe the net position of governmental funds calculated in accordance with Generally Accepted Accounting Principles ("GAAP") and represents the measure of the financial resources available in Metro's governmental funds. GAAP financial statements may have up to five separate fund balance categories depending on the type and source of constraints placed on how resources can be spent. The Fund Balance categories in order of most constraining to least constraining are as follows:

- Nonspendable Fund Balance;
- Restricted Fund Balance;
- Committed Fund Balance;
- Assigned Fund Balance; and
- Unassigned Fund Balance

The total of the amounts comprising the Committed, Assigned, and Unassigned Fund Balance is typically referred to as Unrestricted Fund Balance.

The adequacy of Unrestricted Fund Balance should take into account Metro's unique circumstances, which include governmental fund structure comprised of separate budgeting and accounting for Metro's governmental funds. The Fund Balance Reserve Policies discussed in this document shall apply to the following governmental funds of the Metropolitan Government:

- General Fund of the General Services District (the "GSD Fund")
- General Fund of the Urban Services District (the "USD Fund")
- General Purpose School Fund
- GSD General Purposes Debt Service Fund
- GSD School Purposes Debt Service Fund
- USD General Purposes Debt Service Fund

The Unrestricted Fund Balance that pertains to the GSD Fund, the USD Fund, and General Purpose School Fund shall be referred to as the Operating Reserve. Such Operating Reserve shall be comprised of Unassigned Fund Balance and Committed Fund Balance that is committed due to the specific type of fund in which it is held. Fund Balance that is committed or assigned to be spent on specific budgeted purposes shall not count toward meeting the policy target levels.

The Unrestricted Fund Balance that pertains to the GSD General Purposes Debt Service Fund, GSD School Purposes Debt Service Fund, and the USD General Purposes Debt Service Fund shall be referred to as the Debt Service Fund Balance. Such reserves shall be comprised of Unassigned Fund Balance and Committed Fund Balance that is committed due to the specific type of fund in which it is held (as defined under "Operating Reserve" and "Debt Service Fund Balance" sections below). Fund balance that is committed or assigned to be spent on specific budgeted purposes shall not count toward meeting the policy target levels.

The Operating Reserve and Debt Service Fund Balance shall be collectively referred to as "Fund Balance Reserves" or "Reserves".

## **Operating Reserve**

The Operating Reserve shall have a Minimum Target of 17% in each fund (which amount is approximately two months of the Metropolitan Government's Budgeted Operating Expenditures). For the purposes of calculating the Minimum Target for the Operating Reserve, Budgeted Operating Expenditures includes the expenditures and transfers out of the GSD Fund, USD Fund, and General Purpose School Fund included in the adopted budget.

### **Use of the Operating Reserve**

The Metropolitan Government may incorporate the use of the Operating Reserve through its annual budget ordinance adopted by the Metropolitan Council or through supplemental appropriations legislation adopted by the Metropolitan Council in a given fiscal year pursuant to meeting the criteria below:

#### **For Unforeseen Circumstances in a Fiscal Year**

Use of the Operating Reserve, other than the Operating Budget Stabilization Reserve, may only be used to address Unusual, Unanticipated, and Unforeseen Expenditures or Unanticipated/Unexpected Revenue Declines after all other reserves or budgeted contingency funds have been exhausted.

Any proposed uses of the Operating Reserve which will decrease the Operating Reserve below the Minimum Target levels shall include a justification presented to the Metropolitan Council and shall require approval from a majority of Council Members. Calculations for proposed use will be based on the prior year Annual Comprehensive Financial Report (ACFR).

## **Budget Sustainability Reserve**

The Budget Sustainability Reserve fund Minimum Target shall be 3% of Budgeted Operating Expenditures and Budgeted Debt Service of each respective fund. Or, if so determined as necessary by the Finance Director based on expenditure and revenue projections, an amount up to 6% of Budgeted Operating Expenditures and Budgeted Debt Service of each respective fund. It is the intention that the Director of Finance will establish the Budget Sustainability Reserve requirements with each budget ordinance.

### **Use of the Budget Sustainability Reserve**

The Metropolitan Government may incorporate the use of the Budget Sustainability Reserve through its annual budget ordinance adopted by the Metropolitan Council or through supplemental appropriations legislation adopted by the Metropolitan Council in a given fiscal year pursuant to meeting the criteria below.

#### **1. For Budget Stabilization**

In the event of an economic downturn, the Budget Sustainability Reserve is designated for use as Bridge Funding necessary to offset revenue declines during a recession. For purposes of this policy, anticipated declines in Local Revenue Sources shall guide the Metropolitan Council's assessment in using the Budget Sustainability Reserve when, during the budget process, it is projected that Local Revenue Sources in the next fiscal year's budget will decline.

In addition, one or more of the following conditions must occur based on data as reported by Federal Reserve Economic Data of the St. Louis Fed ([www.fred.stlouisfed.org](http://www.fred.stlouisfed.org)) or successor national economic database in conjunction with a decline in Local Revenue Sources:

- a. The National Gross Domestic Product has declined in the two most recent quarters with available data.
- b. Local housing prices as estimated by the year-over-year change in the All-Transactions House Price Index for Nashville-Davidson-Murfreesboro-Franklin, TN MSA have decreased by more than 10% in the prior 24 months;
- c. Year-over-year change in the unemployment rate for Nashville-Davidson-Murfreesboro-Franklin, TN MSA is more than 2.0% at any time in the prior 12 months; or
- d. Year-over-year Employment in the Nashville-Davidson-Murfreesboro-Franklin, TN MSA has declined by at least 2.0% at any time in the prior 12 months.

## **2. Maintain Minimum Target Percentages in the Operating Reserve and Debt Service Fund**

The Budget Sustainability Reserve is calculated in an amount that is estimated to be sufficient to cover necessary transfers (i.e. additions) to the Operating Reserve and Debt Service Funds Balance in order for those funds to be maintained at their target reserve levels.

As may be necessary, amounts from the Budget Sustainability Reserve shall be allocated and appropriated in the annual budget ordinance to supplement the Operating Reserve and Debt Service Fund Balance to bring their respective fund balance levels to their minimum target percentages. The Metropolitan Government acknowledges that if Budgeted Operating Expenditures and/or Budgeted Debt Service increase year over year, the Operating Reserve and Debt Service Fund Minimum Target levels will accordingly increase, which will require additional funds added to the reserves.

### **Debt Service Fund Balance**

The Debt Service Fund Balance shall have a Minimum Target of 50% of the Budgeted Debt Service in each governmental fund.

### **Use of Debt Service Fund Balance**

The Metropolitan Government may incorporate the use of the Debt Service Fund Balance through its annual budget ordinance as adopted by the Metropolitan Council or through supplemental legislation as adopted by the Metropolitan Council in a given fiscal year pursuant to meeting the criteria below.

The Debt Service Fund Balance may only be used to address Unusual, Unanticipated, and Unforeseen Expenditures or Unanticipated/Unexpected Revenue Declines only after all other reserves or budgeted contingency funds have been exhausted.

Any proposed uses of the Debt Service Fund Balance which will decrease the Debt Service Fund Balance below the Minimum Target shall include a justification presented to Council and shall require approval from a majority of Council Members.

### **Replenishment of Fund Balance Reserves**

Upon the use of any Fund Balance Reserves that causes such Reserves to fall below the Minimum Target levels, the Metropolitan Council must approve and adopt a plan at such time that will restore amounts to the Minimum Target within 36 months. If restoration of the Reserves cannot be accomplished within such period without severe hardship to the Metropolitan Government, then the Metropolitan Council will establish a different period not to exceed 60 months.

### **Annual Review**

During the annual budget process, the Metropolitan Government will review the estimated Fund Balance Reserves levels of the current fiscal year in relation to the proposed budget under consideration for adoption. Any addition to the Fund Balance Reserves, if necessary, to maintain compliance with policy target levels and/or replenish any amounts used shall be incorporated into the proposed budget under consideration for adoption. In addition, Metro shall also review the Fund Balance Reserves policy target levels and increase such levels as may be necessary to further the goals of this policy.

### **Application of Surpluses for the Replenishment of Fund Balance Reserves**

If the Budget Sustainability Reserve amount is insufficient to maintain the Minimum Targets for either the Operating Reserve and Debt Service Fund Balance, then up to 100% of each year's Calculated Surplus and/or Surplus Fund Balance in the General Fund shall be allocated for replenishment of Fund Balances during the annual budget adoption process.

The use of each year's Calculated Surplus and/or Surplus Fund Balance shall be allocated based on the following prioritization:

1. First, a minimum of 50% to the Operating Reserve, or any amount more than 50% (up to 100%) as deemed necessary by the Metropolitan Council, to sufficiently fund the Operating Reserve in compliance with policy Minimum Target levels. If the Debt Service Fund Balance is at its Minimum Target level, then up to full 100% may be applied to the Operating Reserve as needed. If the Debt Service Fund Balance is not at its Minimum Target level and there is not a surplus in the Debt Service Funds, then the Metropolitan Council may appropriate surplus funds from the Operating Reserve to the Debt Service Funds to satisfy the target level.
2. Second, if the Operating Reserve is at its Minimum Target level, then a minimum of 50% to the Debt Service Fund Balance, or any amount more than 50% (up to 100%) as deemed necessary by the Metropolitan Council to sufficiently fund the Debt Service Fund Balance in compliance with policy target levels. If the Operating Reserve is at its Minimum Target level, then up to the full 100% may be applied to the Debt Service Fund Balance as needed.
3. Third, if the Operating Reserve and the Debt Service Fund Balance are at their Minimum Target levels, then a minimum of 50% to the Budget Sustainability Reserve, or any amount more than 50% (up to 100%) as deemed necessary by the Metropolitan Council to sufficiently fund the Budget Sustainability Reserve balance in compliance with policy Minimum Target levels as established by the Finance Director.
4. Fourth, upon the allocation of Calculated Surplus and/or Surplus Fund Balance per items one and two above, any remaining balance to be allocated for any of the following **One-Time** purposes:
  - a. Capital expenditures;
  - b. Debt reduction; and/or

- c. The establishment of other reserves to enhance the Metropolitan Government's financial position/wherewithal.

#### **Reallocation of Appropriated Funds from Surplus Fund Balance**

There are certain circumstances in which appropriations to fund various projects from Surplus Fund Balance may be held for an extended period. All appropriations from Surplus Fund Balance that are not utilized within a 12-month period from the Finance Director's release date shall be reviewed by the Finance Director on an annual basis to determine their continued need.

For any allocation that meets these criteria, the managing department head shall request approval for an extension for use of the funds. If the department does not provide adequate justification for an extension, the Director of Finance is authorized to return these appropriations back to the Fund from which they were originally allocated, unless otherwise prohibited by applicable law.

## Glossary of Terms

**Annual Review** – the review of estimated Fund Balance Reserves for the most recently completed fiscal year versus the proposed budget under consideration for adoption for the subsequent fiscal year undertaken during Metro’s budget development process.

**Assigned Fund Balance** – the classification of Fund Balance that includes amounts that are intended to be used by Metro for specific purposes, but do not meet the criteria to be classified as restricted or committed.

**Bridge Funding** – a one-time revenue supplement for a fiscal year that is used to offset a short-term or temporary decline in one or more Local Revenue Sources and which cannot be relied upon as a recurring revenue stream from year-to-year or in subsequent budget years.

**Budgeted Debt Service** – debt service budget for the Debt Service Funds.

**Budgeted Operating Expenditures** – operating expenditure budgeted for the General Fund and GSD General Purpose School Funds.

**Budget Sustainability Reserve** – the Committed Fund Balance that pertains to each of the governmental funds for the purpose of bringing fund balance to their respective minimum targets.

**Budget Sustainability Reserve Target** – the minimum for the Budget Sustainability Reserve shall be equal to 3% of the respective Budgeted Operating Expenditures and Budgeted Debt Service for the respective funds. At the finance director discretion this may increase to up to 6%.

**Calculated Surplus** – excess of Revenues over expenditures as determined by Metro based on the most recently completed fiscal year, documented in the Annual Comprehensive Financial Report.

**Committed Fund Balance** – the classification for fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal legislative action of the Metropolitan Council

**Debt Service Fund(s)** – the GSD General Purposes Debt Service Fund, GSD School Purposes Debt Service Fund, and USD General Purposes Debt Service Fund.

**Debt Service Fund Balance** – the Unrestricted Fund Balance that pertains to the GSD General Purposes Debt Service Fund, GSD School Purposes Debt Service Fund, and the USD General Purposes Debt Service Fund and is comprised of Unassigned Fund Balance and Committed Fund Balance in each governmental fund that is committed due to the specific type of fund in which it is held.

**Debt Service Fund Balance Minimum Target** – 50% of the Budgeted Debt Service in each governmental debt service fund.

**Fund Balance** – Amounts calculated in accordance with Generally Accepted Accounting Principles (“GAAP”) and represents the measure of the financial resources available in Metro’s governmental funds.

**Fund Balance Reserves (or “Reserves”)** – the Operating Reserve, Budget Sustainability Reserve, Debt Service Fund Balance amounts held in each governmental fund to be maintained as set forth by policy.

**General Fund** – the General Services District (the “GSD Fund”) and Urban Services District funds (the “USD Fund”)

**Local Revenue Sources** – Property taxes (real and personal), public utility taxes, and the local option sales



tax that are collected in the General Fund and Debt Service Funds.

**Minimum Target** – for each governmental fund, the ratio of Operating Reserve versus Budgeted Operating Expenditures with respect to the Operating Reserve or the ratio of Debt Service Fund Balance versus Budgeted Debt Service with respect to the Debt Service Fund Balance.

**Nonspendable Fund Balance** – consists of assets that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments.

**Operating Reserve** – the Unrestricted Fund Balance that pertains to the General Fund and General Purpose School Fund and is comprised of Unassigned Fund Balance and Committed Fund Balance in each governmental fund that is committed due to the specific type of fund in which it is held. Committed and Assigned Fund Balance for specific budgeted or spending purposes shall not count toward meeting the policy target levels.

**Operating Reserve Target** – consists of 17% in each governmental fund amounting to approximately two months of the Metropolitan Government's Budgeted Operating Expenditures.

**Public Utility Taxes** – Public utility property tax revenue, which may also include Payment in Lieu of Tax ("PILOT") payments.

**Restricted Fund Balance** – the classification for fund balance that includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

**Surplus Fund Balance** – the excess of Fund Balance over the required Minimum Targets of the Operating Reserve and Budget Sustainability Reserve as established by this policy.

**Unanticipated/Unexpected Revenue Declines** – one-time unbudgeted declines in revenue due to events beyond the Metropolitan Government's control, such as the COVID-19 Pandemic, or other broad economic-related impacts that are unforeseen and unexpected each year.

**Unassigned Fund Balance** – the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. Such amounts are generally available to be spent on any governmental purpose.

**Unrestricted Fund Balance** – Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance where the only constraint on spending, if any, is imposed by the Metro Government itself.

**Unusual, Unanticipated, and Unforeseen Expenditures** – non-recurring losses resulting from events beyond the Metropolitan Government's control for which funding is necessary to keep essential infrastructure/facilities in continued service or maintain continued delivery of essential services.