

RESOLUTION 26-41

A RESOLUTION OF THE CITY OF SPRING HILL ADOPTING A FUND BALANCE POLICY AND REPEALING PRIOR ADOPTED FUND BALANCE POLICIES

WHEREAS, the City of Spring Hill is charged with the responsibility for the sound financial management of the City's funds; and

WHEREAS, Governmental Accounting Standards Board (GASB) Statement No. 54 establishes fund balance classifications for governmental funds; and

WHEREAS, the Tennessee Comptroller of the Treasury, Division of Local Government Finance, recommends adoption of formal fund balance and reserve policies; and

WHEREAS, the Board of Mayor and Aldermen finds that adoption of a Fund Balance Policy promotes fiscal discipline, transparency, long-term planning, and preservation of the City's financial credibility;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF SPRING HILL:

1. The Fund Balance Policy, attached hereto and incorporated by reference, is hereby adopted as official financial policy of the City of Spring Hill, Tennessee.
2. Any Fund Balance Policy previously adopted by the City is hereby repealed and replaced in its entirety by the Fund Balance Policy adopted through this Resolution.
3. This Resolution shall take effect immediately upon its adoption.

ADOPTED this 2nd day of February, 2026.



Matt Fitterer, Mayor

ATTEST:



April Goad, City Recorder

LEGAL FORM APPROVED:



Patrick Carter, City Attorney

STAFF MEMORANDUM

TO: Board of Mayor and Aldermen
FROM: Rebecca Holden, Finance Director
DATE: 01/14/2026
SUBJECT: Fund Balance Policy Update – Summary of Changes and Recommendation

RECOMMENDATION:

Staff recommends adoption of the updated Fund Balance Policy. The proposed changes advance previously discussed financial policy objectives, enhance transparency and fiscal discipline, and support the Board's long-term stewardship of the City's financial resources.

BACKGROUND:

The proposed Fund Balance Policy update is part of a broader financial policy modernization plan that has been discussed with the Budget and Finance Advisory Committee as the City continues to strengthen its long-term fiscal framework.

The revised policy incorporates guidance from the Government Finance Officers Association (GFOA), the Tennessee Comptroller of the Treasury, and evolving expectations from auditors and credit rating agencies.

SUMMARY OF KEY POLICY CHANGES

1. Clarified Fiscal Philosophy and Governance
 - a. Establishes explicit alignment with GFOA best practices.
 - b. Affirms the City's obligation to regularly measure and evaluate financial condition, liquidity, and fiscal health.
 - c. Formalizes a commitment to living within the City's means each budget year through structurally balanced budgets.
 - d. Clarifies that fund balance is a tool for stability and resilience, not a substitute for disciplined financial planning.
2. Updated General Fund Reserve Targets
 - a. Replaces the prior target of 15%–30% of operating revenues with a clearer and more robust target of: Four (4) to six (6) months of General Fund operating expenditures (approximately 33%–50%).
 - b. Requires a formal restoration plan if reserves fall below minimum levels.



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199 Town Center Parkway
Spring Hill, Tennessee 37174
rholden@springhilltn.org

3. Reestablish Rainy Day Commitment (Resolution 22-152)
 - a. Creates a defined Stabilization Reserve with a: Minimum of 10% and target of up to 15% of General Fund expenditures.
 - b. Limits use to emergencies, significant revenue shortfalls, or critical one-time needs.
 - c. Requires Board approval and a replenishment plan within three fiscal years following use.
4. Formal Order of Use for Fund Balance
 - a. Establishes a clear and consistent order of use: Restricted → Committed → Assigned → Unassigned
 - b. Aligns with GASB 54 intent and improves transparency and audit clarity.
5. Bond Rating and Financial Credibility Considerations
 - a. Adds explicit recognition of the importance of credit ratings and financial credibility.
 - b. Requires consideration of rating impacts when adopting budgets, approving amendments, or authorizing reserve use.

FINANCIAL IMPACT:

Adoption of the updated policy does not require new expenditures. The policy provides guidance for future budget decisions and responsible use of existing reserves while strengthening the City's long-term financial position.



City of Spring Hill, Tennessee

FUND BALANCE POLICY

Adopted by: Board of Mayor and Aldermen

Effective Date: _____

PURPOSE & AUTHORITY

This policy establishes guidelines for the classification, maintenance, and use of fund balance for the City of Spring Hill, Tennessee. It supports long-term fiscal sustainability, adequate cash flow, and responsible reserve management, and operates in coordination with the City's adopted Budget Policy and annual budget ordinance. The policy complies with Governmental Accounting Standards Board (GASB) Statement No. 54, applicable provisions of Tennessee law, and guidance issued by the Tennessee Comptroller of the Treasury.

This policy is further informed by recognized best practices of the Government Finance Officers Association (GFOA), which emphasize the importance of maintaining adequate reserves, adopting clear policies governing their use, and aligning financial decisions with long-term fiscal sustainability. The City acknowledges its obligation to regularly measure and evaluate current financial condition, liquidity, and overall fiscal health through the budget process, periodic financial reporting, and ongoing monitoring of revenues, expenditures, and fund balance levels.

The City affirms a commitment to living within its means each budget year by adopting structurally balanced budgets, ensuring that recurring expenditures are supported by recurring revenues, and limiting the use of fund balance to one-time, nonrecurring, or emergency purposes except under extraordinary circumstances. Fund balance and reserves are intended to provide financial stability, flexibility, and resilience, and are not a substitute for disciplined financial planning or prudent fiscal decision-making.

SCOPE

This policy applies to all governmental funds of the City, with particular emphasis on the General Fund.

FUND BALANCE CLASSIFICATIONS (GASB 54)

Nonspendable Fund Balance – Amounts not in spendable form or legally required to remain intact.

Restricted Fund Balance – Amounts constrained by external parties, constitutional

provisions, or enabling legislation.

Committed Fund Balance – Amounts constrained by formal action of the Board of Mayor and Aldermen.

Assigned Fund Balance – Amounts intended for specific purposes as designated by the City Administrator. The Finance Director will be responsible for reporting all assigned fund balances to the Board of Mayor and Alderman.

Unassigned Fund Balance – Residual amounts available for general use in the General Fund.

FUND BALANCE TARGETS

General Fund

The City shall maintain an unassigned General Fund balance equal to no less than four (4) months and no more than six (6) months of regular operating expenditures (approximately 33%–50%). If fund balance falls below the minimum target, a restoration plan shall be presented to the Board of Mayor and Aldermen during the next budget cycle. The restoration plan should have a timeline no longer than three (3) fiscal years to restore unassigned fund balance to the appropriate targets. This evaluation shall happen after the annual audit is published each year.

USE OF FUND BALANCE

Fund balance shall be used in the following order unless otherwise required by law or contract: Restricted, Committed, Assigned, Unassigned.

When an expenditure is eligible to be funded from more than one classification of fund balance, the City applies resources in the order of Restricted, Committed, Assigned, and Unassigned to ensure compliance with legal and contractual requirements, honor formal policy decisions of the Board of Mayor and Aldermen, and preserve the City's most flexible financial resources. This approach is consistent with the intent of GASB Statement No. 54 and recognized best practices of the Government Finance Officers Association, and helps maintain financial stability, transparency, and strong internal controls by ensuring that resources with the greatest constraints are used before less-restricted funds.

Use of fund balance is limited to one-time, nonrecurring, or emergency purposes and requires approval of the Board of Mayor and Aldermen. Use for recurring operating expenditures is discouraged except under extraordinary circumstances with a defined exit strategy.

STABILIZATION RESERVE

The City shall maintain a Stabilization Reserve equal to a minimum of ten percent (10%) and a target of up to fifteen percent (15%) of General Fund operating expenditures, within a committed fund balance line item.

Use of the Stabilization Reserve requires approval of the Board of Mayor and Aldermen and is limited to declared emergencies, significant revenue shortfalls, or one-time expenditures necessary to protect public health, safety, or critical operations.

When reserves are used, the City Administrator and Finance Director shall present a replenishment plan to restore balances within three (3) fiscal years.

BOND RATING & FINANCIAL CREDIBILITY

The City recognizes the importance of maintaining strong creditworthiness and favorable bond ratings. Fund balance targets and reserve practices established by this policy are intended to demonstrate prudent financial management, adequate liquidity, and long-term planning. The impact on bond ratings shall be considered when adopting budgets or authorizing use of reserves.

POLICY REVIEW & REVISION

This policy shall be reviewed yearly by the Finance Director and City Administrator and may be amended by the Board of Mayor and Aldermen as financial conditions, legal requirements, or best practices change.