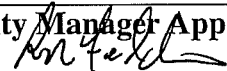


ADMINISTRATIVE CODE		
Effective Date: July 1, 2004	Policy Number: 52	Latest Revision Date:
Subject: Fund Balance Policy		City Manager Approval: 

52.0 FUND BALANCE POLICY

52.1 PURPOSE

To establish a fund balance/retained earnings policy tailored to the needs of the City to insure against unanticipated events that would adversely affect the financial condition of the City and jeopardize the continuation of necessary public services. This policy will ensure the City maintains adequate fund balance/retained earnings and reserves in the City's various operating funds to provide the capacity to: (1) provide sufficient cash flow for daily financial needs, (2) secure and maintain investment grade bond ratings, (3) offset significant economic downturns or revenue shortfalls, and (4) provide funds for unforeseen expenditures related to emergencies.

52.2 DEFINITIONS

Fund Balance – the cumulative difference of all revenues and expenditures. Where the term Fund Balance is utilized, the term Retained Earnings may be substituted for proprietary funds.

Reserved Fund Balance – portion of the Fund Balance that is legally restricted to a specific use or otherwise not available for appropriation or expenditure.

Unreserved Fund Balance – a measure of how much Fund Balance is left over at the end of the current fiscal year which can be used for the subsequent fiscal year's budget.

Appropriated Designated Fund Balance – portion of the Unreserved Fund Balance which reflects tentative management plans for future use of the resources.

Appropriated Undesignated Fund Balance – portion of the Unreserved Fund Balance which is appropriated to expenditure in the current fiscal year budget.

Unreserved Unappropriated Fund Balance – portion of the Unreserved Fund Balance which is not obligated or specifically designated and can be used to meet contingencies and working capital requirements.


52.3 POLICY

The City will establish and maintain reservations of Fund Balance/Retained Earnings in each of the various governmental and proprietary fund type funds of the City. For purpose of initially establishing the balance and maintaining hereafter, the City shall retain the minimum requirement for each fund. Additional funds will be retained in the Unreserved Fund Balance to the extent available to reach target levels.

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52.4 FUND BALANCE GOALS

- A. **General Fund** - In the General Fund, there shall be maintained an Unreserved Unappropriated Fund Balance equivalent to a minimum of **ten (10%)** percent of the current fiscal year expenditures less capital outlay and transfers out budgeted for the fund. For purposes of this calculation, the expenditures shall be the budget as originally adopted by ordinance in September for the subsequent fiscal year. This reserve shall be in addition to all other required reserves or designation of fund balance.
- B. **Special Revenue Funds** – Special revenue funds are created to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. No specific reservation of Fund Balance is created by virtue of enactment of this policy. The amount of any reservation of Fund Balance shall be governed by the legal authority underlying the creation of the individual funds.
- C. **Debt Service Fund** – Debt service funds are typically subjected to the creation of very specific reserve amounts as part of the ordinance or resolution which authorizes the issuance of the bonds. This policy does not create any specific reservation of Fund Balance within any Debt Service Fund. Reserve requirement for any outstanding bond issue will be consistent with the ordinance or resolution authorizing the issuance of the bonds.
- D. **Capital Projects Fund** – The Capital Projects Fund is created to account for resources designated to construct or acquire general fixed assets and major improvements. These projects may extend beyond a single fiscal year. No specific reserve requirement is established for the Capital Projects Fund. However, at a minimum, the fiscal year end Reserved Fund Balance, and estimated revenues for the ensuing fiscal year must be sufficient to meet all outstanding fund encumbrances.
- E. **Enterprise Funds** – For each enterprise fund, there shall be created a reservation of Retained Earnings equal to **90** days of operating costs for that fund. For the purposes of this calculation, the current fiscal year budget shall be the budget as originally adopted by ordinance in September for the subsequent fiscal year. This reserve shall be in addition to all other required reservations of Retained Earnings including, but not limited to, amounts reserved for debt service and/or amounts reserved for renewal and replacement of long lived assets.

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F. **Internal Service Funds** – In each Internal Service Fund, there shall be created a reservation of Retained Earnings in an amount necessary to ensure the unreserved retained earning in the fund as of the end of each fiscal year is greater than or equal to zero. This reserve shall be in addition to all other reservations for Retained Earnings, including but not limited to the amounts reserved for claims incurred but not paid as determined by an actuary. These funds are generally intended to operate on a “break-even” basis. In any fiscal year when it is projected that the actual amount of unreserved retained earnings will be less than or equal to zero at year end, it will be necessary to either increase the rates charged or reduce expenses or both.

i. **Fleet Services Fund** – In the Fleet Replacement fund, funding is provided in an amount to fund the replacement of fleet assets as well as maintenance of infrastructure at a level consistent with a depreciation based methodology or as recommended by an independent condition assessment. Funding shall be designated to maintain the condition of assets at a desirable service level without shifting the costs disproportionately to future taxpayers.

ii. **Employee Benefit Fund:**

a. Uncompensated Absences


b. IBNR/ALAF for Health Insurance and Worker’s Compensation (GASBLO)

52.5 MINIMUM RESERVE REQUIREMENTS

In the event funds are not available to initially establish minimum required balances, the Unreserved Unappropriated Fund Balance target shall be achieved by adding a designated amount to the budget to cover the deficiency over a period not to exceed five (5) fiscal years.

52.6 UTILIZATION OF MINIMUM RESERVES

Appropriation from the minimum Unreserved Unappropriated Fund Balance shall require the approval of the City Council and shall be only for one-time expenditures, such as capital purchases, and not for ongoing expenditures unless a viable revenue plan designated to sustain the expenditures is simultaneously adopted.

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52.7 REPLENISHMENT OF MINIMUM RESERVE DEFICITS

If it is anticipated at the completion of any fiscal year that the projected or estimated amount of Unreserved Unappropriated Fund Balance, will be less than the minimum requirement, then the City Manager shall prepare and submit in conjunction with the proposed budget a plan for the expenditure or expense reductions and/or revenue increases necessary to restore the minimum requirements in the subsequent budget year or other appropriate period as required in Section 52.5.

52.8 UTILIZATION OF SURPLUS RESERVES

In the event that the Unreserved Unappropriated Fund Balance exceeds the minimum requirements, the excess may be utilized for any lawful purpose approved by City Council. It is recommended that the first priority be given to utilizing the excess within the fund in which it was generated. In order to minimize the long term effect of such use, the excess, shall be appropriated to fund one time expenditures or expenses which do not result in recurring operating costs, or other one time costs including the establishment of or increase in legitimate reservations or designations of fund balance or reservations of retained earnings in other funds.

52.9 ANNUAL REVIEW

Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process.