



FUND BALANCE POLICY

City of Pomona *Fiscal* Policies & Procedures

Number:

Effective Date: **June 20, 2011**

Approval: **Reso # 2011-63A**

Purpose and Scope

The Fund Balance policy is a component of the Fiscal Sustainability Policies that are intended to guide the City's financial planning to meet financial obligations while providing high quality services and shall serve as a cornerstone for other budgetary and financial decisions. One of the key components of a financially stable organization is the establishment and maintenance of appropriate reserves and the adoption of a prudent reserve policy. This policy establishes a clearly delineated policy to govern decision-making and fiscal actions by its officials for the General Fund and other major funds of the City. This policy also establishes the procedures for reporting within the annual financial statements, unrestricted fund balance (comprised of Committed, Assigned, and Unassigned categories) with the City's governmental funds (General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds), and authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Approving Authority – City Council

Objectives

- A. Comply with GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions.
- B. Establish sound formal fiscal reserve policies. These policies will be the foundation for ensuring that strong fiscal management and policies guide future City decisions.
- C. Build adequate reserves. This action will provide the City with resources to help stabilize the organization and will position it during economic downturns or large scale emergencies. In addition, it is critical to minimize the potential for reactive decision-making, which can lead to unpleasant consequences.
- D. Guide the City toward meeting its short-term and long-term obligations.

Definitions

Fund balance is the difference between the assets and liabilities reported in the City's governmental funds. There are generally limitations on the purpose for which all or a portion of the resources of a governmental fund may be used. The force behind these limitations can vary significantly, depending upon their source. Consequently, the fund balance reported in the annual financial statements is categorized into five components whereby each component identifies the extent to which the City is bound to honor constraints on the specific purpose of which amounts in the fund can be spent. The five components of fund balance are as follows:

- **Nonspendable:** The portion of a fund balance that cannot be spent because they are either: (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment. This category was traditionally reported as a “reserved” fund balance under the old statement.
- **Restricted:** The portion of a fund balance that has constraints placed on the use of resources that are either: (a) externally imposed by creditor (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. This category was traditionally reported as a “reserved” fund balance under the old standard.
- **Committed:** The portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council and remain binding unless removed in the same manner. This category was traditionally reported as a “designated” fund balance under the old statement.
- **Assigned:** The portion of a fund balance that includes amounts that are constrained by the governments intent to be used for specific purposes, but that are neither Restricted nor Committed. Such intent needs to be established either by the City Council or by an official designated for that purposes. This category was traditionally reported as a “designated” fund balance under the old standard.
- **Unassigned:** The portion of a fund balance that includes amounts that do not fall into one of the above categories. The General Fund is the only fund that should report this category of fund balance. Within all other governmental funds, the negative residual resources in excess of what can be properly classified as nonspendable, restricted, or committed would also be classified as Unassigned. This category was traditionally reported as an “undesigned” fund balance under the old standard.

Policy

DELEGATION OF ASSIGNMENT AUTHORITY

This policy delegates to the Finance Director the authority to assign unrestricted (assigned or unassigned) fund balance amounts where the City’s intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

GENERAL FUND RESERVE POLICY

1. At the end of each fiscal year, the City shall maintain a Committed Fund Balance equal to 17% of operating expenditures in the General Fund for operating contingencies and catastrophic events. For purpose of this policy statement, the General Fund Budget shall include appropriations for operating expenditures plus transfers from the General Fund to Other Funds. This 17% policy is considered the minimum level necessary to adequately provide for:

Economic uncertainties

Reductions or interruptions of revenue streams
Natural disasters (earthquake, flood, etc.)
Financial hardships or downturns in the local or national economy
Cash flow requirements

2. The City shall reach the 17% level no later than fiscal year 2020 according to the following schedule:
8.0% by June 30, 2012
9.0% by June 30, 2013
10.0% by June 30, 2014
11.0% by June 30, 2015
12.0% by June 30, 2016
13.0% by June 30, 2017
14.0% by June 30, 2018
15.5% by June 30, 2019
17.0% by June 30, 2020
3. In addition to the designations noted above, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years which are carried forward into the new year, debt service reserve requirements, and other services or designations required by contractual obligations, state law, or generally accepted accounting principles.
4. This designated fund balance shall not be considered available for compensation adjustments, or increases to staff or service levels.
5. The status of the General Fund Reserve shall be analyzed and estimated by the Finance Department using departmental year-end estimates and reported with the adoption of each year's budget. The actual General Fund restricted fund balance shall be reported no less than annually in the agenda report accepting the Comprehensive Annual Financial Report.
6. Any reserves in excess of the 20% designation shall be available for appropriation for one-time expenditures or capital needs as recommended by the City Manager and approved by the City Council.

RISK MANAGEMENT RESERVE POLICY

Liability Fund

The City shall maintain dedicated reserves equal to but not less than 25% of the value of the outstanding claims as reported in the most recent Comprehensive Annual Financial Report (CAFR). This level recognizes that not all claims will become due and payable at one point in time, yet there may be more than one large claim that could require an immediate payment.

A reserve amount of 25% shall be achieved no later than fiscal year 2020 based on the following schedule:

1.5% by June 30, 2012
4.25% by June 30, 2013

7.00% by June 30, 2014
9.75% by June 30, 2015
12.50% by June 30, 2016
15.25% by June 30, 2017
18.00% by June 30, 2018
21.00% by June 30, 2019
25.00% by June 30, 2020

Workers' Compensation Fund Reserve Policy

The City shall maintain dedicated reserves equal to but not less than 25% of the value of the outstanding claims as reported in the most recent Comprehensive Annual Financial Report (CAFR). Workers' Compensation Fund is a citywide fund that addresses workers' compensation claims for all departments and all funds. In addition, there are citywide rates charged in order to properly fund current year and future liabilities. A reserve amount of 25% shall be achieved no later than fiscal year 2020 based on the following schedule:

2.00% by June 30, 2012
4.25% by June 30, 2013
7.00% by June 30, 2014
9.75% by June 30, 2015
12.50% by June 30, 2016
15.25% by June 30, 2017
18.00% by June 30, 2018
21.00% by June 30, 2019
25.00% by June 30, 2020

Unemployment Fund Reserve Policy

The City shall pay all Unemployment claims on a pay-as-you go basis and therefore, a fund balance reserve is not required for this fund.

WATER ENTERPRISE FUND OPERATING RESERVE POLICY

This reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. The reserve is based on working capital (current assets minus current liabilities) and minimum number of days the operation could continue in the event of a major disruption to the Water Fund revenues. Minimum reserve is the amount equal to 90 days of operating costs, excluding depreciation.

WASTEWATER (SEWER) ENTERPRISE FUND OPERATING RESERVE POLICY

This reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. The reserve is based on working capital (current assets minus current liabilities) and minimum number of days the operation could continue in the event of a major disruption to the Wastewater Fund revenues. Minimum reserve is the amount equal to 90 days of operating costs, excluding depreciation.

REFUSE ENTERPRISE FUND OPERATING RESERVE POLICY

This reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. The reserve is based on working capital (current assets minus current liabilities) and minimum number of days the operation could continue in the event of a major disruption to the Refuse Fund revenues. Minimum reserve is the amount equal to 70 days of operating costs, excluding depreciation.

Capital Reserve

The reserve is intended for capital needs. Use of these funds for capital equipment requires City Council action.

General Provisions

Deviations from the Policy

No deviations from the Fiscal Reserve Policy will be allowed except as recommended by the Mayor or the City Council, and approved by the City Council. This would include increasing or decreasing the basis of emergency reserves, expenditures from reserves for anything other than the intended use of said reserve, and expenditures from any fund balances above the stated basis of the emergency reserves. Any such request must be reviewed by the Finance Director for analysis of the fiscal impact. The Finance Director will then bring the request to the City Manager with a recommendation followed by a presentation to the City Council for action.

Replenishment of Reserves

As reserves are set in place for use of unforeseen or catastrophic events, it is possible for the reserve to fall below the set policy amount. Should a particular reserve fall below the anticipated reserve level as stated in this Policy, the City Manager will bring forward a plan as part of the subsequent fiscal year budget, to replenish said reserve in a reasonable timeframe.

This policy is in place to provide a measure of protection of the City against unforeseen circumstances and to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provision of this policy.