

Fund Balance Policy

- I. **Purpose:** This policy provides for the establishment and maintenance of fund balances. The intent of this policy is to:
 - a. Help maintain the financial strength, stability, and bond rating of the City;
 - b. Position the City to be better able to financially respond to emergencies, unexpected needs and to provide a method of accumulating funds for one-time needs; and
 - c. Meet the requirements of Generally Accepted Accounting Principles¹.
- II. **Scope:** This policy applies to all governmental funds of the City².
- III. **Types of Fund Balance:** Generally Accepted Accounting Principles provide for five distinct components of fund balance.
 1. **Non-spendable:** Fund balance that is inherently non-spendable either because the resources that it represents are not in a spendable form (e.g., inventory) or they are required to be maintained intact (e.g., the principal of an endowment fund).
 2. **Restricted:** Fund balance that has externally enforceable (legal) limitations on its use and can only be spent for the specific purpose stipulated by an external resource provider (e.g., grant providers), a constitutional provision, or through enabling legislation (i.e., legislation that creates a new revenue source and also restricts its use).
 3. **Committed:** Fund balance that the City has placed limitations on its use by way of a motion of the City Council.
 4. **Assigned:** Fund balance that is comprised of amounts intended to be used by the government for specific purposes. The intent can be informally expressed by the governing body or can be stated by the City Manager. In governmental funds other than the General Fund, any fund balance not restricted or committed is inherently “assigned” to the stated purpose of the fund. Assignment can occur as part of the budget process.
 5. **Unassigned:** This is the residual fund balance that is spendable and not restricted, committed or assigned. Other than policies concerning levels of unrestricted fund balance, there are no restrictions on use.

¹GASB 54, effective for reporting periods beginning after June 15, 2010.

²Governmental funds include the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, and Permanent Funds.

IV. Assigned Fund Balances

1. **Emergency Reserve** – This reserve is used only in extremely rare circumstances resulting from major emergencies that are not recurring by nature and, in general, are not predictable. Such an event will have resulted in significant physical damage or disruption within the City and its Tidelands areas. Examples of a major emergency include an earthquake, tsunami, an extended period of severe storms and flooding; a terrorist event within proximity to the City, and a protracted major health or military crisis, each of which would require extensive additional City operational or capital costs. It is not intended for use to smooth economic cycles or changes in revenue or expenditure patterns. The emergency reserve has a target minimum level of no less than 8 percent of General Fund expenditures. The target normal level is 10 percent. Use of this reserve for intended purpose is consistent with this policy. Any draws on this reserve should be the highest priority for reserve replenishment.
2. **Operating Reserve** – This reserve is used to provide funds for unexpected one-time opportunities or temporary operating needs. These reserves are also intended to provide transition funding, e.g., to transition from one funding mechanism or source to another or phase-in or phase-out. This reserve is not intended to be used to fund planned infrastructure or capital. It can be used in an emergency situation to supplement the emergency reserve. This reserve has a target minimum level of 2 percent and a normal maximum of 7 percent of General Fund expenditures. The maximum may be changed by the City Council through the budget process to meet anticipated future needs and issues. Temporary drawdown of the reserve, for any drawdown below the minimum, should be the second highest priority for reserve replenishment.
3. **Reserve for Subsequent Years Appropriations** – This reserve is used to identify fund balance amounts that are appropriated or identified through the budget process as a funding source for a future year.
4. **Infrastructure Reserve** – This reserve is used to accumulate and provide funds to finance capital projects, such as building construction, road and alleyway replacement, and capital improvements related to ensuring the safety and security of the public, or to retire capital-related debt in advance of scheduled debt service payments. It can be used in an emergency situation to supplement the emergency reserve.
5. **Systems Replacement and Technology Reserve** – This reserve is used to accumulate and provide funds to finance the acquisition and implementation of information technology systems that enhance service delivery to the public, create operating efficiencies within City operations, or otherwise improve City operations. It is not intended to fund services, maintenance, general infrastructure, or serve the purpose of an operating reserve. It can be used in an emergency situation to supplement the emergency reserve.

- V. **Other Reserves and Designation for Purpose** – Additional committed or assigned reserves may be created by the City Council, either explicitly (committed) or through the budget or other process (assigned). Assignments may be designated for a purpose by the City Council or, if delegated, the Council's designee.
- VI. **Total Unrestricted Fund Balance** – It is a policy goal to work towards achieving and then maintaining an overall unrestricted fund balance of no less than two months of General Fund expenditures (16.7 percent). This percentage includes committed, assigned and unassigned balances.
- VII. **Use of Governmental Fund Balances** – Use of fund balances, for purposes as defined in this policy, are not a violation of this policy. Restoration of the Emergency Reserve shall be the highest priority for any reserve replenishment. Restoration of the Operating Reserve shall be the second highest priority. When an expense is incurred, the normal order of resource use, subject to the reserves specified purposes, when applicable, will first be the use of restricted fund balance resources, followed by committed fund balance resources, assigned fund balance resources, and, finally, unassigned fund balance resources.