

## RESOLUTION NO. 3716-2014

### RESOLUTION OF THE FORT BRAGG CITY COUNCIL APPROVING A FUND BALANCE AND RESERVE POLICY

**WHEREAS**, the Governmental Accounting Standards Board (GASB) issued GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions which is effective for fiscal years beginning after June 30, 2011; and;

**WHEREAS**, the Fund Balance and Reserve Policy, attached as Exhibit A, requires Council adoption to reflect assigned General Fund balance in the City's Consolidated Annual Financial Report; and

**WHEREAS**, the City Council is committed to ensuring the continued financial well-being of the City by planning for unanticipated emergency and contingency needs and for the timely replacement, repair and maintenance of the City's facilities, vehicles and machinery and equipment; and

**WHEREAS**, establishing a policy that establishes commitments of fund balance and reserves in adequate amounts is a prudent fiscal procedure; and

**WHEREAS**, based on all the evidence presented, the City Council finds as follows:

1. The Fund Balance and Reserve Policy, attached as Exhibit A, sets forth appropriate reserves and establishes funding criteria for the reserves; and
2. The Fund Balance and Reserve Policy was established in accordance with GASB 54.

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of Fort Bragg does hereby adopt a Fund Balance and Reserve Policy as presented in Exhibit A and incorporated herein.

The above and foregoing Resolution was introduced by Councilmember Courtney, seconded by Councilmember Deitz, and passed and adopted at a regular meeting of the City Council of the City of Fort Bragg held on the 23<sup>rd</sup> day of June, 2014, by the following vote:

**AYES:** Councilmembers Courtney, Deitz, Hammerstrom, Kraut, and Mayor Turner.  
**NOES:** None.  
**ABSENT:** None.  
**ABSTAIN:** None.



DAVE TURNER,  
Mayor

ATTEST:

  
Cynthia M. VanWormer, MMC  
City Clerk

# City of Fort Bragg

## Fund Balance and Reserve Policy

Resolution #  
3716-2014

Effective Date  
July 1, 2014

### Purpose

A fund balance policy helps ensure that the City can:

- Quickly respond to unexpected situations such as natural disasters.
- Weather economic recessions and other cyclical revenue downturns while avoiding large variations in taxes and fees or variations in the type and quality of municipal services provided.
- Avoid the need for short-term borrowing to cover delays in revenue receipt.
- Pursue strategic and opportunistic projects or activities.

This policy establishes the amounts the City of Fort Bragg will strive to maintain in its fund balance, how the fund balance will be funded, and the conditions under which fund balance may be spent.

### Background

The City of Fort Bragg has always maintained reserves in its General and Enterprise Funds, which has contributed to good standing with credit rating agencies; provided financial flexibility in economic downturns; contributed a source of investment income for General Fund and Enterprise Fund operations; and assured financial coverage in the event of future emergencies.

### General Fund Policy

This Fund Balance Policy establishes the procedures for reporting fund balance classifications in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The Policy also authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance per Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The policy will be reviewed annually by the Council for revisions as appropriate.

### Procedures

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts can be spent.

- Nonspendable fund balance (inherently nonspendable)
- Restricted fund balance (externally enforceable limitation on use)
- Committed fund balance (self-imposed limitations on use)
- Assigned fund balance (limitation resulting from intended use)
- Unassigned fund balance (residual net resources)

The first two components listed above are not addressed in this Policy due to the nature of their restrictions. An example of nonspendable fund balance is inventory, prepaid items or long term amount longs or notes receivable. Restricted fund balance is either imposed by law or externally constrained by grantors, contributors, or laws or regulations of other governments. This Policy is focused on financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

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### **Committed Fund Balance**

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently. The City will establish two types of Committed Fund Balance.

### **General Fund Emergency Contingency**

The City of Fort Bragg's General Fund balance committed for emergency contingencies is established at the equivalent to 10-15 percent of the City's annual operating budget for the General Fund. Depending on the type and severity of the emergency, this range should be provide for an initial municipal response to events such as natural disasters, catastrophic accidents, or other declared emergency incidents sufficient to provide a bridge until access to County, State or Federal support can be achieved. As defined in the resolution establishing this commitment, the specific uses are listed as the declaration of a state or federal state of emergency or a local emergency as defined in the Fort Bragg Municipal Code Section 2.24.020. The City Council may, by the affirming vote, change the amount of this commitment and/or the specific uses of these monies. The amount of this reserve will be established annually as part of the budgeting process.

### **Economic Stabilization**

The City of Fort Bragg's General Fund balance committed for the purpose of stabilizing the delivery of City services during periods of severe operational budget deficits and to mitigate the effects of major economic uncertainties resulting from unforeseen change in revenues and/or expenditures is established at an amount equivalent to 5-10 percent of the City's annual operating budget for the General Fund. This range serves as a sufficient cushion, safeguarding the City's fiscal health against fluctuations in revenues and costs due to economic volatility. City Council approval shall be required before expending any portion of this committed fund balance. Access to these funds will be reserved for economic emergency situations. Examples of such emergencies include, but are not limited to:

- An unplanned, major event such as a catastrophic disaster requiring expenditures which exceed the General Fund Emergency Contingency Reserve
  - Budgeted revenue taken over by another entity
- Drop in projected/actual revenue of more than five percent of the General Fund's adopted revenue budget

The amount of this reserve will be established annually as part of the budgeting process.

### **Assigned Fund Balance**

Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the City Manager for the purpose of reporting these amounts in the annual financial statements. A few examples of assigned fund balance follow.

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- Encumbrances - materials and services on purchase order and contracts which are unperformed.
  - Debt service – established to provide for future debt service obligations.
  - Reappropriations- appropriated by the Council for specific projects or programs that were not completed and not encumbered by year end.
  - GASB 31 Adjustment – unrealized investment gains that have been recorded in the financial statements in accordance with GASB 31.

#### **Unassigned Fund Balance**

These are residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories. The General Fund is the only fund that should report this category of fund balance.

#### **Amounts Held in Reserve**

The total goal range for the City's unassigned fund balance (includes Commitments and Assignments of fund balance) is 15-25% of General Fund expenditures.

From time-to-time, the Council may find it prudent to set aside funds for an existing need, priority or investment in the community. Amounts in excess of the established target levels may be shown as additional commitments or assignments of the General Fund balance. Such assignments will be reviewed with each fiscal year operating budget to determine if the funding is still necessary or can be released to the General Fund reserves.

#### **Funding of General Fund Balance Commitment and Assignment Targets**

Funding of General Fund balance commitments and assignments will come generally from one-time revenues, one-time expenditure savings, excess fund balance (e.g., unused or reversed assignment or commitments), and revenues in excess of projected expenditures.

#### **Conditions for Use and Replenishment of Reserves**

##### Use of Reserves

It is the intent of the City to limit use of General Fund balances to address unanticipated, one-time needs or opportunities. Fund balances shall not be applied to recurring annual operating expenditures. Reserves will be established and used to the extent annual expenditures exceed revenues as reported in the City's annual audited financial statements (an operating deficit). Reserves may also be used to allow for an investment in the City's long-term assets as approved by the City Council. Currently the City has established and funded the following Reserves:

Litigation Reserve: Funded at \$300,000. Established to provide funding for unanticipated legal expenditures resulting from claims or lawsuits brought against the City that are not covered by City's insurance pool. Authority to use the reserve will be vested in the City Manager. Semi-Annual reports will be provided to Council detailing the use of this reserve.

Capital and Equipment Replacement Reserve: Funded at \$400,000. Established to provide for unanticipated General Fund project cost overruns or equipment repair. Authority to use this reserve will be vested in the City Manager. Semi-Annual reports will be provided to Council detailing the use of this reserve.

##### Replenishment of Reserves

Reserves will be replenished to the extent annual revenues exceed expenditures as reported in the City's annual audited financial statements (an operating surplus). Reserves in excess of expenditures at the end of a fiscal year shall be used to first satisfy committed contingency requirement before

appropriating for other uses.

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#### Flow of Funds

Restricted fund balances will be expended before unrestricted fund balances when expenditures are incurred for purposes for which both are available. Unrestricted fund balances will be exhausted in the order of committed, assigned and unassigned when expenditures are incurred for which any of these fund balances are available.

### **Enterprise Fund and Internal Service Fund Reserve Fund Policy**

#### **Water and Wastewater Enterprise Capital Reserves.**

The City will maintain capital reserves in the Water and Wastewater Enterprise Funds to provide for future capital projects and unanticipated emergencies. Each year, all unrestricted fund balance in the Enterprise Funds in excess of 25% of the prior year's operating expenditures will be transferred to these reserves.

#### **Internal Service Fund Reserves.**

Each year, the unrestricted fund balance in each of the City's Internal Service Funds is transferred to a reserve within the Internal Service Fund which is intended to help pre-fund large purchases and repairs and avoid big annual swings in funding needs.

#### **Facility Maintenance & Repair Reserve.**

The City will maintain a reserve in the Facilities Maintenance & Repair Internal Service Fund to enable the timely repair and maintenance of the City's facilities. The amount of the reserve will be established based on a Facilities Maintenance & Repair Plan, which will be completed in FY 2014/15. Required annual contributions to the Facility Maintenance & Repair reserve will be budgeted as part of the City's annual budget process.

#### **Fleet & Equipment Services Reserve.**

The City will maintain a reserve in the Fleet & Equipment Services Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment. The amount of the reserve will be established based on a Fleet & Equipment Replacement Plan, which will be completed in FY 2014/15. Required annual contributions to the Fleet & Equipment reserve will be budgeted as part of the City's annual budget process.

#### **Information Technology (IT) Reserve.**

The City will maintain a reserve in the Information Technology Internal Service Fund to enable the timely replacement of computers and other information technology equipment. The IT Reserve is considered fully funded at \$120,000.

#### **Conditions for Use of Reserves**

##### Use of Reserves

Capital Reserves may be used only for their intended purpose as approved by the City Council.

**Debt Service Reserves.** Reserve levels for Debt Service Funds are established and maintained as prescribed by the bond covenants authorized at the time of debt issuance.