

CITY COUNCIL

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DENIED

Reso No. _____

File No. _____

Ord No. _____

Agenda Item No.: 13

Date: May 25, 2011

TO: Honorable Mayor and Members of the City Council

FROM: Gil Rojas, Director of Finance

SUBJECT: Fund Balance Policy and Commitment of Fund Balance in the General Fund

RECOMMENDATION:

It is requested that Council adopt Resolution No. 2011-56 that will approve the Fund Balance Policy in compliance with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and commit fund balance in the General Fund for Economic Uncertainty and Economic Development.

FISCAL ANALYSIS:

There is no fiscal impact.

BACKGROUND:

In March 2009 the Governmental Accounting Standards Board (GASB) issued its Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions with the intent of improving financial reporting by providing fund balance categories that will be more easily understood.

Part of the City's implementation of this statement for FY 2010-11 is the formal adoption of a fund balance policy. The policy explains the five components of fund balance and gives the City Council, as the City's highest level of decision-making authority, the authority to commit fund balance for specific purposes. The new policy sets restrictions for spending committed funds and requires that a method for replenishment of fund balance be established as funds are spent. Prior to GASB Statement No. 54, these amounts were reported by the Finance Director as Unreserved and Designated and did not require City Council delegation.

The resolution is the City Council's formal commitment of the excess of fund balance in the General Fund to be set aside specifically for Economic Uncertainties defined as one-time unanticipated expenditure requirements, local disasters, or other financial hardships or downturns in the local or national economy. The resolution will also set aside \$20,000,000 in the General Fund specifically for Economic Development defined as fund any capital project that spurs economic development. It

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should be noted that this amount and/or commitment may be changed with the adoption of a new resolution by the affirming vote of three council members.

The Fund Balance Policy is attached to Resolution No. 2001-56 as Exhibit "A". This policy is effective beginning in Fiscal Year 2010-11 until further amended.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gilbert Rojas", is written above the printed name.

Gilbert Rojas
Director of Finance

RESOLUTION NO. 2011-56

A RESOLUTION OF THE CITY COUNCIL OF
THE CITY OF ESCONDIDO, CALIFORNIA,
APPROVING THE CITY OF ESCONDIDO
FUND BALANCE POLICY, GENERAL FUND
ECONOMIC UNCERTAINTY AND
ECONOMIC DEVELOPMENT COMMITMENT
OF FUND BALANCE FOR THE GENERAL
FUND

WHEREAS, the Governmental Accounting Standards Board (GASB) has issued its Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions with the intent of improving financial reporting by providing fund balance categories that will be more easily understood; and

WHEREAS, the City Council of the City of Escondido has considered the Fund Balance Policy, as presented in Exhibit "A" attached to this resolution and incorporated by this reference, which outlines the policy and procedures enacted to accurately categorize and report fund balance in the General Fund; and

WHEREAS, the Fund Balance Policy provides that the City Council may commit General Fund balance for specific purposes by taking formal action and these committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same formal action to establish the commitment; and

WHEREAS, the Finance Director has recommended to the City Council that the General Fund Economic Uncertainty Commitment of General Fund balance be equal to the remaining fund balance in the General Fund at June 30, 2011 for Fiscal Year 2010-

11, and that the General Fund Economic Development Commitment of General Fund balance be established at \$20,000,000 for Fiscal Year 2010-11; and

WHEREAS, the City Council has determined that the General Fund Economic Uncertainty Commitment of General Fund balance be equal to the remaining fund balance in the General Fund at June 30, 2011 for Fiscal Year 2010-11, and that the General Fund Economic Development Commitment of General Fund balance be established at \$20,000,000 for Fiscal Year 2010-11

WHEREAS, the City Council also commits fund balance for the Special Revenue Funds as presented in Exhibit "A" attached to this resolution.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, California, as follows:

1. That the above recitations are true.
2. That the City Council hereby adopts the attached Fund Balance Policy presented in Exhibit "A".
3. That the City Council hereby establishes and approves the General Fund Economic Uncertainty Commitment of General Fund balance be equal to the remaining fund balance in the General Fund at June 30, 2011 for Fiscal Year 2010-11, and the General Fund Economic Development Commitment of General Fund balance at \$20,000,000 for Fiscal Year 2010-11.
4. The City Council has determined that the specific purposes for which the General Fund Economic Uncertainty Commitment be used to fund one-time

unanticipated expenditure requirements, local disasters, or other financial hardships or downturns in the local or national economy.

5. The City Council has determined that the specific purposes for which the General Fund Economic Development Commitment be used to fund any capital project that spurs economic development.

6. The City Council hereby confirms that in any fiscal year in which recurring sources exceed recurring uses in the General Fund, the amount of the General Fund Economic Uncertainty Commitment of General Fund balance will be increased by that amount.

7. The City Council commits fund balance for the Special Revenue Funds as presented in Exhibit "A" attached to this resolution.

City of Escondido Fund Balance Policy

Purpose

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance 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 as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

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 limitations 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. Restricted fund balance is either imposed by law or 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.

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 specified use through the same type of formal action taken to establish the commitment, a resolution. City Council action to commit fund balance needs to occur within the fiscal reporting period; however, the amount can be determined subsequently. The following will be classified as committed fund balance.

General Fund

Economic Uncertainty

The City will commit the remaining fund balance in the General Fund at year end for Economic Uncertainty in order to maintain adequate levels of fund balance to mitigate current and future risks and to adequately provide for cash flow requirements and contingencies for unseen operating or capital needs the City. The Economic Uncertainty balance is available to fund one-time unanticipated expenditure requirements, local disasters, or other financial hardships or downturns in the local or national economy.

When Economic Uncertainty Funds are used the method for replenishing deficiencies including the source of funding and time period for replenishment to occur will be defined in the resolution.

The City Council may, by the affirming vote of three members, change the amount of this commitment and/or specific use of these funds.

Economic Development

The City's General Fund balance committed for economic development is established at \$20 million. The Economic Development balance is available to fund any capital project that spurs economic development.

The City Council may, by the affirming vote of three members, change the amount of this commitment and/or specific use of these funds.

Special Revenue Funds

Center for the Arts

The City will commit that portion of fund balance derived from charges for services generated from Arts Center Activities for the operations of the California Center for the Arts.

Park Development

The City will commit that portion of fund balance received from park development fees collected from developers for the purchase and development of parks.

Parks & Recreation

The City will commit that portion of fund balance received from operating activities of City facilities (charges for services) for the operation of City parks and recreation facilities.

Daley Ranch Restoration

The City will commit that portion of fund balance received from the sale of mitigation credits to be used to provide fund restoration projects at Daley Ranch.

Reidy Creek Golf Course Fund

The City will commit that portion of fund balance received from operating activities of the golf course (charges for services) for the operation of the Reidy Creek Golf Course.

Recycling

The City will commit that portion of fund balance received from the sale of recycled materials to be used to further the effort of recycling within the City.

Public Art

The City will commit that portion of fund balance received from public art fees, which are assessed when development occurs, to be used to provide public art throughout the City.

Vehicle Parking District

The City will commit that portion of fund balance provided by parking permit revenues for the maintenance and operation of City-owned public parking lots.

Ryan Trust

The City will commit monies received from the Frances B. Ryan Trust, which was established to create the Pioneer Room, a historical perspective of Escondido, to provide financing for its ongoing operation.

Hegy Trust

The City will commit Funds received for the Hegyi Family Trust to be used to recognize library volunteers.

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 Finance Director for the purpose of reporting these amounts in the annual financial statements. A few examples of assigned fund balance follow.

Continuing Appropriations

Fund balance levels must be sufficient to meet funding requirements for projects approved in prior years and which must be carried forward into the new fiscal year.

Debt Service

Established to provide for future debt service obligations

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.

Fund Balance Classification

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

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