IN THE CITY COUNCIL OF THE CITY OF LIVERMORE, CALIFORNIA

A RESOLUTION ADOPTING THE CITY OF LIVERMORE FUND BALANCE POLICY

The Administrative Services Director prepared, and submitted to the City Council for its review, the Fund Balance Policy which meets the standards set forth by the Governmental Accounting Standards Board (GASB) Statement 54: *"Fund Balance Reporting and Governmental Fund Type Definitions".*

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Livermore that the Fund Balance Policy, attached hereto as Exhibit A, is approved. A copy of the Policy is also on file in the office of the Administrative Services Director.

On the motion of Vice Mayor Horner, seconded by Councilmember Woerner, the foregoing resolution was passed and adopted on the 11th day of June, 2012, by the following vote:

AYES: Councilmembers Gary, Turner, Woerner, Vice Mayor Horner, Mayor Marchand
NOES: None
ABSENT: None
ABSTAIN: None

ATTEST & DATE:

FOR CITY CLERK
SUSAN NEER

DATE: June 12, 2012

APPROVED AS TO FORM:

CITY ATTORNEY
JOHN J. POMIDOR

LIVERMORE
CALIFORNIA

FUND BALANCE POLICY

Adopted June 11, 2012
Resolution No 2012-xx

Prepared By:

Administrative Services Department

EXHIBIT A

CITY OF LIVERMORE, CALIFORNIA

FUND BALANCE POLICY

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City of Livermore

FUND BALANCE POLICY

OBJECTIVE

The City of Livermore's primary financial objective is to maintain the fiscal stability of the organization. Unrestricted fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unrestricted fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. Having adequate financial resources will enable the City to achieve this objective and its mission of serving the citizens of Livermore.

PURPOSE

The purpose of this policy is to establish a target and minimum levels of unrestricted fund balance (net assets for proprietary funds) to be maintained in various funds and to identify certain requirements for classifying fund balance in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*.

This policy and the procedures prescribed by it supersede all previous policies and regulations regarding the City's fund balance and reserves.

DEFINITIONS

1. **Governmental Funds**
   The following definitions will be used in reporting activity in governmental funds across the City. The City may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

   The **general fund** is used to account for all financial resources not accounted for and reported in another fund.

   Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt services or capital projects.

   Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

   Capital project funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

   Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's purposes.

2. **Fund balance classification in governmental funds**

Fund Balance is defined as the excess of total assets as compared to total liabilities in a governmental fund. GASB 54 outlines the requirement to report the fund balance for governmental funds in specific classifications which create a hierarchy primarily based on the extent to which the City is bound to the constraints on the specific purposes for which funds can be spent. The Fund Balance consists of the following five categories:

A. **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. The "not spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long term amount of advances, loans, and notes receivable. However, if the proceeds from the eventual sale or liquidation of the items would be considered restricted, committed or assigned (as defined further on) then these amounts would be included in the restricted, committed or assigned instead of the nonspendable classification. A debt service reserve fund held by trustee is an example of fund balance in Nonspendable form that is classified as restricted instead of Nonspendable since the reserve is eventually liquidated to make the final debt service principal payment.

B. **Restricted fund balance** – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants, gas tax, Measure B sales tax and Developers impact fees.

C. **Committed fund balance** – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

D. **Assigned fund balance** – comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. This category was reported as "designated unreserved fund balance" prior to GASB 54 implementation.

E. **Unassigned fund balance** – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. The general fund is the only fund that may report a positive unassigned balance. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

3. **Stabilization Arrangements**

Per GASB 54, governments have the option to formally set aside unrestricted fund balance amounts to use for budget or revenue stabilization, working capital needs, and contingencies or emergencies. The authority to set aside such amounts can be established by statute, ordinance, resolution, or charter. These amounts are subject to controls that dictate the circumstances under which they can be spent. The formal action that imposes the parameters for spending should identify and describe the

specific circumstances under which a need for stabilization arises. Those circumstances should be such that they would not be expected to occur routinely. Stabilization amounts should be reported in the general fund as restricted or committed if they meet the criteria of restricted or committed fund balance. A stabilization arrangement would satisfy the criteria to be reported as a separate special revenue fund only if the resources derive from a specific restricted or committed revenue source. The notes to the financial statements disclose the authority for establishing the arrangement, the requirement for additions to the amount, the conditions under which amounts may be spent, and the balance.

COMPREHENSIVE FUND BALANCE POLICIES

1. **Committing Fund Balance**
   The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at a City Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

2. **Assigning Fund Balance**
   The City Council has authorized the City Manager as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

3. **Reporting Encumbrances**
   Encumbering amounts in governmental funds for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

4. **Hierarchy of Fund Balance Use**
   When multiple categories of fund balance are available for expenditure, the City will spend the most restricted funds first before moving down to the next category with available funds in the following order:
   a. Restricted
   b. Committed
   c. Assigned
   d. Unassigned

5. **Establishing An Operating Reserve Stabilization Fund Balance**
   Maintaining a Financial Stabilization Fund Balance is a necessity for sound financial management and fiscal accountability. The City Council has the authority to establish an Operating Reserve Stabilization Fund Balance that will be a Committed Fund Balance.

   An Operating Reserve Stabilization Fund Balance in General Fund is established for the purpose of providing funds for an urgent event that affects the safety of residents, employees, or property (e.g. earthquake, wildfires, terrorist attack etc.). The minimum level for the Financial Stabilization Account is 15% of General Fund operating expenditures plus debt service transfers. The recognition of an urgent event must be established by the City Council by adoption of a resolution explaining the

nature of the fiscal crisis and requires approval by a majority vote of the City Council. The initial funding for the Financial Stabilization will come from fund balance amounts that were classified as "*Designated for Operating Reserve*" and "*Designated for Economic Uncertainty Reserve*" before GASB 54.

6. Use of Stabilization Fund Balance

General Fund Operating Reserve Stabilization Fund Balance shall be used only to fund unanticipated needs and/or emergencies as described below:

Catastrophic Events and Major Disasters- The Financial Stabilization fund balances is to fund the extraordinary operating costs, legal costs and cash flow problems associated with delays in State and Federal reimbursements for any catastrophic event and major disaster (natural or man-made) declared by the City Council or their designee, or by the State of California, or by the federal government that are nonrecurring expenditures.

A budget revision must be approved by the City Council. A maximum of fifty percent of the prior fiscal year ending balance in the Operating Reserve Stabilization Fund may be drawn. At no time may the balance be less than 7.5 percent of adopted annual appropriations or half of the prior fiscal year ending balance, whichever is greater.

7. Changes and Replenishment of Stabilization Fund Balance

The City Council may, by a majority vote of the members, change the amount of this commitment and/or the specific uses of these monies. In the event that the balance drops below the established minimum level, the City Council will develop a plan to replenish the Operating Reserve Stabilization Fund balance to the established minimum level within three years. The progress of replenishment should be reported in the annual budget. The City will use non-recurring revenues, budget surplus, proceeds from sale of the City owned surplus property, and any other funds identified in the budget to increase the Stabilization fund balance.

8. Minimum Level of Fund Balance/Net Assets

A. General Fund- It is the goal of the City to achieve and maintain a minimum unrestricted (committed, assigned and unassigned) fund balance in its General Fund equal to 26.5% of the current year's budgeted operating expenditures and outgoing transfers for debt service. The City considers a balance of less than 20% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 35% as excessive.

(i) Committed Fund Balance for Financial Stabilization Arrangement

The City's General Fund balance committed for Operating Reserve Stabilization is established at a minimum of fifteen (15) percent of the General Fund's current operating expenditures plus debt service transfers, to be used in a catastrophic event or in a major emergency or in periods severe fiscal crisis as described in Comprehensive Fund Balance Policy #6 above.

The City will utilize the amounts previously listed as Operating Reserve and Reserve for Economic Uncertainty in the General Fund to fund the Financial Stabilization Arrangement.

(ii) Assigned Fund Balance

The City's assigned for Economic Uncertainty Reserve is established at a minimum of ten (10) percent of the General Fund's current operating expenditures plus debt service transfers, to be used during times of severe economic distress such as protracted recessionary periods, State raids on local resources, or other impactful unforeseen events which greatly diminish the financial ability of the City to deliver core services. The Assigned Fund Balance will be used during periods of economic distress as measured by one of the following triggers:

- Consumer Price Index exceeds the index for the previous year by more than five percent for two consecutive years
- Local unemployment rate exceeds nine percent for three consecutive quarters
- The rate of inflation exceeds the growth in property tax revenue by five percent for two consecutive fiscal years
- Significant State take-away of revenue totaling more than five percent of total revenue in a given fiscal year
- Sales Tax revenue falls by ten percent over of the previous quarter for at least three consecutive quarters
- Revenue forecasts for the next fiscal year estimates revenue losses of more than seven percent

Once the City Council or their designee (City Manager) has determined that it is necessary to draw down fund balance, a resolution approving the additional appropriation shall be made at the next City Council meeting accompanied by a formal report explaining the nature of the fiscal crisis.

The City will utilize the amounts previously listed as Operating Reserve and Reserve for Economic Uncertainty in the General Fund to the extent available in order to fund this reserve. It is the City's goal to have any unfunded portion of this reserve funded within six years of the adoption of this policy.

(iii) Unassigned Fund Balance

The City will achieve and maintain a minimum unassigned fund balance in its General Fund of 1.5 percent of the current year's operating expenditures and outgoing debt service transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain budgeted level of services. It is the City's goal to fund this portion of fund balance within six years of the adoption of this policy.

B. Special Revenue Funds- Special revenue funds are created to account for the proceeds from specific revenue sources that are legally restricted for specific purposes (i.e. grants, gas tax). No specific minimum fund balance requirement is created by this policy. Rather, each fund must adhere to any underlying guidelines attached to that revenue source.

C. Debt Service Funds- Debt service funds are very specific with the amount of fund balance required to be held. The minimum fund balance requirement for any outstanding bond issue will be consistent with the bond covenants.

D. Capital Projects Funds- Capital project funds are created to account for resources set aside to construct or acquire fixed assets or improvements. These projects may extend beyond one fiscal year. No specific amount for minimum fund balance is required.

E. Enterprise Funds- Enterprise funds should strive for positive net operating income to provide for necessary operating and capital expenses while maintaining sufficient debt service coverage ratios. A specific percentage or dollar amount will vary due to the considerations for working capital, debt coverage, asset replacement, rate smoothing, and revenue volatility.

(i) Airport, Water Services, and Golf Course Funds –These funds will achieve and maintain a minimum unrestricted net assets balance of 12.5% (or 45 days worth of working capital) of its operating expenses plus debt service transfers, since these funds have a steady and uniform cash inflow throughout the fiscal year generated by daily or monthly fees collected from the customers.

(ii) Sewer Services, Storm Water User, and LAVWMA Funds- These funds collect their fees on the Alameda County tax rolls. The County generally apportions its first large installment of the fiscal year to entities only after December 10 therefore these enterprise funds will achieve and maintain 50% of their operating budget plus debt services transfers as a minimum unrestricted net asset balance to ensure that sufficient resources are available to meet its operating expenses and current obligations between property tax settlements.

F. Internal Service Funds- Internal Service funds, by nature, are designed to operate on a break-even basis for operations, while, if applicable, accruing additional funds to finance future capital costs or potential liabilities.

(i) Public Liability and Workers Compensation Insurance Funds- Funding in these funds is provided in an amount to fund the costs of worker's compensation, insurance claims and premiums, and safety. These funds calculate and recognize a liability for IBNR (incurred but not reported) claims as determined by an actuarial calculation. The insurance type funds are strongly subject to the element of uncertainty from claims, therefore a 50% of operating expenditures is recommended to be maintained as a minimum unrestricted net assets balance.

(ii) Fleet Services, Information Technology, and Facilities Rehabilitation funds- These funds are financed predominantly through user charges internally to the city's departments. Funding in these funds is provided in an amount to fund the replacement of assets (i.e. vehicles, computers, software) at a level consistent with a depreciation-based methodology. These funds are not subject to uncertainties of cash flows as the fees charged to other departments are predictable. Therefore these funds will maintain a minimum unrestricted net asset balance of 12.5% of their current year's operating expenses.

9. Replenishing Minimum Fund Balance (Net Assets) Deficiencies

When minimum fund balance (net assets) falls below the required threshold, the City Council must approve and adopt a plan to restore this balance to the target level within three years using the budget strategies described below:

- The City will use budget surplus
- The City will reduce recurring expenditures to eliminate any structural deficit or,
- The City will increase revenues or pursue other fund sources, or,

- A combination of the three options above

The progress of replenishment shall be reported in the annual budget.

10. Deficit Fund Balance (Net Assets)

If the fund balance or net asset balance is not positive at any year end, the City shall develop a funding plan and a timeframe to bring it into a positive state.

The unassigned fund balance deficit in General Fund will be restored through the following mechanisms, in order of priority:

- Reduction of (1) assigned fund balance levels; (2) committed fund balance levels;
- Transfer of unassigned fund balances from other related funds, if allowed.

11. Surplus fund balance

Unassigned fund balance in General Fund will be considered a surplus if over 35% of the budgeted expenditures and outgoing transfers. If unassigned fund balance of the General Fund ever exceed 35%, the City will consider such fund balance surpluses to be used for (a) capital projects and equipment, (b) pay down long term obligations, (c) one-time expenditures that are non-recurring in nature and which will not require additional future expense outlay for maintenance, additional staffing or other recurring expenditures, and/or (d) to reduce the taxes and fees, and shall be determined in conjunction with the annual budget process. Appropriation from General Fund's unassigned fund balance shall require the approval of the City Council.

12. Implementation and Review

Upon adoption of this policy the City Council authorizes the Administrative Services Department to establish standards and procedures which may be necessary for its implementation. The City Council shall review and approve this policy via resolution at a minimum of every four years to ensure it continues to meet the needs of the City given the economic factors and the current financial status at that time interval.