



Waynesboro City Council Agenda Briefing

Meeting Date:	September 9, 2019	Staff/Council Member(s): D. James Shaw II, Deputy City Manager/ Cameron S. McCormick, Director of Finance
Agenda Item #	7	
Resolution#		
Department:	City Manager's Office and Finance Department	
Subject:	Fund Balance Policy for the General Fund	

Update: After meeting with the School Board Administrators, City Staff has modified section nine of the previously presented Fund Balance Policy to note that the school board will be responsible for adopting their own Fund Balance Policy, and have removed specific percentages and contingencies. The requirement that the funds be used on capital, debt, or one-time expenditures remains. Staff feels this will allow the School Board to set contingencies and limits that work for them, but still give City Council the reassurance that the School Board will adopt a formal policy that is fiscally responsible.

Purpose: Maintaining an appropriate level of fund balance is a key component of sound financial management and, accordingly, many communities establish policies for fund balance. An adequate fund balance level is essential to both short-term and long-term financial planning, and serves to mitigate the impact of future risks, sustain operations during economic downturns, and enhance creditworthiness. Through the maintenance of adequate levels of fund balance, the City can help stabilize funding for operations, stabilize taxes and fees, and realize cost savings in issuing debt. The City has achieved a sufficient fund balance to set aside funds to meet the target recommended below.

Scope: This policy establishes a level of committed fund balance required for the City's General Fund and fund balance management. It sets forth the levels deemed appropriate for City operations, and the protocol for the use and maintenance of the established levels. This policy is established on the modified accrual basis of accounting for governmental funds.

Definitions

Fund balance -- The excess of assets over liabilities in a governmental fund.

Non-spendable fund balance -- Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund or a cemetery perpetual care fund).

Restricted fund balance -- Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.

Committed fund balance -- Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

Assigned fund balance -- Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance -- Amounts that are available for any purpose; these amounts are reported only in the General Fund.

Unrestricted fund balance -- The sum of committed, assigned, and unassigned fund balance. Unrestricted fund balance is available to be used at the discretion of Council.

Proposal: Staff proposes that Council adopt a revised fund balance policy for the General Fund. The previous minimum unrestricted fund balance will be moved to a committed fund balance line in order to create more transparent financial statements. This policy formally adopts a revenue stabilization assignment, a commitment for the Augusta County Service Authority Landfill, and a commitment for Minor Maintenance. Finally, this policy allows the School Board to keep any unassigned fund balance that remains in their accounts at the end of each fiscal year, and requires them to set up a committed contingency for working capital purposes.

Fund Balance Policy for the General Fund

1. Good financial practice prescribes that General Fund equity (unassigned fund balance) should not be used to finance current operations. Fund balance has been built over time to provide the City with working capital to enable it to finance unforeseen emergencies expenditures, capital expenditures and non-recurring expenditures generally, without borrowing.
2. The City will maintain a committed fund balance for cash liquidity purposes that will provide sufficient cash flow to minimize the need for short term tax anticipation borrowing.
3. Unassigned fund balance in the General Fund on June 30th of any fiscal year should be no less than 16% of the upcoming fiscal year's total adopted expenditure budget for the General Fund.
4. The City shall demonstrate compliance with this policy in its annually adopted budget.
5. When restricted and unrestricted fund balance is available to fund a particular expenditure, the City will first expend any restricted fund balance that is available and then in the following order if only unrestricted fund balance is available: (1) committed fund balance, (2) assigned fund balance and (3) unassigned fund balance.

City Manager's Recommendation: A meaningful fund balance policy is a key element in the financial management of the City. Staff is recommending Council to adopt a resolution adopting the attached policy.

Suggested Motion(s): A motion should be made to adopt the revised Fund Balance Policy for the General Fund.

Attachment: Policy, Resolution

FINANCIAL MANAGEMENT POLICY

City of Waynesboro, Virginia

Fund Balance / Reserve Policy

Adopted: September __, 2019

Effective: June 30, 2019

Purpose

Maintaining an appropriate level of fund balance is a key component of sound financial management and, accordingly, many communities establish policies for fund balance. An adequate fund balance level is essential to both short-term and long-term financial planning, and serves to mitigate the impact of future risks, sustain operations during economic downturns, and enhance creditworthiness. Through the maintenance of adequate levels of fund balance, the City can help stabilize funding for operations, stabilize taxes and fees, and realize cost savings in issuing debt. The City has achieved a sufficient fund balance to set aside funds to meet the target recommended below.

Scope

This policy establishes a level of committed fund balance required for the City's General Fund and fund balance management. It sets forth the levels deemed appropriate for City operations, and the protocol for the use and maintenance of the established levels. This policy is established on the modified accrual basis of accounting for governmental funds.

Safety Net Reserve

1. At June 30th each year The City of Waynesboro (the "City") will establish a Safety Net Reserve (the "Reserve") for the General Fund equal to sixteen percent (16%) of the upcoming fiscal year's total adopted expenditure budget for the General Fund. The reserve will be shown as committed fund balance.
2. In no event will the Reserve in the General Fund be less than the amount calculated at the time of adoption of this policy, equal to \$8,268,308 (FY2020 General Fund Budget = \$51,676,926 times 16%).
3. Financial circumstances allowing the Reserve to be appropriated for expenditures by City Council include:
 - a. Unanticipated natural disasters resulting from storm damage, unseen infrastructure damage for water and sewer system deterioration, bridge repair, etc., exceeding \$100,000 in damage.
 - b. Imposition of mandates by Federal and State governments such as, water, sewer and landfill regulations, construction of court and jail facilities, etc., exceeding \$100,000 in costs.
 - c. Court decisions resulting in unbudgeted expenditures, in excess of \$100,000.
 - d. Acts of terrorism against the City destroying the City's infrastructure or causing a financial hardship to provide services to citizens, in excess of \$100,000.
4. The Reserve will not be available for appropriation due to a general economic slowdown or recession. The City shall adjust its revenues and expenditures according to the economic conditions.

Safety Net Reserve (Continued)

5. Funds used from the Reserve shall be appropriated through the annual budget ordinance or by a budget amendment ordinance approved and adopted by City Council.
6. In the event the Reserve, or a portion of the Reserve, is used the City will restore the Reserve to the sixteen percent level within eighteen months. If restoration cannot be accomplished within such time period without severe hardship to the City, the Director of Finance will prepare a financial plan to restore the Reserve to the sixteen percent level.

General Contingency

7. The City shall establish a General Contingency amount for the General Fund equal to \$500,000, categorized as assigned General Fund Balance. This assignment will be used for declines in budgeted revenues or unanticipated emergency expenditures, such as:
 - a. Unexpected declines in revenues such as the bankruptcy of a major taxpayer or the relocation of a major taxpayer outside of the City boundaries during a fiscal year;
 - b. Unforeseen limitations on a governments taxing and spending powers imposed by the State or Federal government;
 - c. Adjustments to revenue and expenditure estimates due to sudden changes in the economic climate affecting the City's financial condition either from local or global economic conditions;
 - d. Unanticipated major repairs or replacement of an asset used in the daily operations of service delivery to citizens;
 - e. Unanticipated expenditures for excessive worker's compensation, insurance premiums, and overtime expenses;
 - f. The City shall not use the assigned General Contingency to finance recurring operating expenditures.
8. Funds remaining in unassigned fund balance in the General Fund at the end of each fiscal year will be given first priority to capital expenditures. These funds shall not be used for recurring expenditures and shall be appropriated through the annual budget ordinance or by a budget amendment ordinance approved and adopted by City Council.
9. Any funds remaining in unassigned fund balance in the School Operating Fund shall remain in the School Operating Fund. These funds shall be appropriated through the annual budget ordinance or by a budget amendment ordinance approved and adopted by City Council and will only be used for capital needs, debt service, or other non-recurring expenditures. The School Board will adopt a fund balance policy corollary to the City's Fund Balance Policy governing the expenditure of these funds.

Fund Balance Classifications

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form such as inventories, property acquired for resale, prepaid amounts, or are amounts that are legally or contractually required to be maintained intact.

Restricted Fund Balance

Restricted fund balance includes amounts that have constraints placed on their use by external sources such as creditors for debt covenants, grantors, contributors, or laws or other regulations of other governments. Restricted fund balance can also be imposed by law through constitutional provisions or enabling legislation. The source of the constraint is outside the government and cannot be changed by City Council.

Committed Fund Balance

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of City Council. Formal action includes the adoption of the annual City Budget Ordinance or adoption of budget amendment ordinances during the course of the operating year. The following balances have been formally committed by Council and should remain at the balances noted at the end of each fiscal year: Augusta County Service Authority Landfill \$350,000, Minor Maintenance Reserve \$300,000, and the safety net noted in number two above.

Assigned Fund Balance

Assigned fund balance includes amounts constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed. The Director of Finance is delegated the authority to assign fund balance for specific purposes.

Unassigned Fund Balance

Unassigned fund balance consists of amounts not assigned to other funds, or restricted, committed or assigned within the same fund. Unassigned fund balance includes all spendable amounts not contained in the other classifications and are technically available for any purpose.

Policy on the order of spending resources

When expenditures are incurred for purposes which both restricted and unrestricted fund balance is available, the City considers restricted amounts to have been spent first. In addition, when an expenditure is incurred for purposes for which committed, assigned, or unassigned fund balance is available, the City considers fund balances to be exhausted in that order.

Adopted: _____, 2019

[Seal]

ATTEST: _____
Clerk, City Council
City of Waynesboro, Virginia

Mayor, City Council
City of Waynesboro, Virginia