

RESOLUTION #R-61-2011

A RESOLUTION ADOPTING A POLICY ESTABLISHING MINIMUM FUND BALANCES FOR VARIOUS CITY OF LOVELAND GOVERNMENTAL AND ENTERPRISE FUNDS

WHEREAS, in the early 2000's the Citizen Finance Advisory Commission recommended that the City retain 6% of the General Fund revenue for an economic downturn; and

WHEREAS, although no policy was formally adopted, the City has included a 6% reserve in every General Fund financial master plan since that time; and

WHEREAS, it has not been necessary to appropriate the 6% reserve, notwithstanding severe economic conditions; and

WHEREAS, the City Council desires to adopt a method of establishing appropriate minimum fund balances based on a percentage of expenditures consistent with best practices in the governmental financial management industry for the City's various governmental and enterprise funds to protect against unanticipated events that may adversely affect the financial condition of the City and jeopardize the continuation of necessary public services.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LOVELAND, COLORADO:

Section 1. That the Fund Balance Policy attached hereto as Exhibit A and incorporated herein by this reference, is hereby approved and adopted, to be implemented with the 2012 Budget and continuing thereafter for each subsequent budget year.

Section 2. That this Resolution shall be effective as of the date of its adoption.

ADOPTED this 4th day of October, 2011.



Cecil A. Gutierrez
Cecil A. Gutierrez, Mayor

ATTEST:

Laura D. Andrews
City Clerk

APPROVED AS TO FORM:

J. Yost Schmidt
Deputy City Attorney

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1.0 PURPOSE

To establish a fund balance/working capital policy tailored to the needs of the City to ensure against unanticipated events that would adversely affect the financial condition of the City and jeopardize the continuation of necessary public services. This policy will ensure the City maintains adequate fund balance/working capital and reserves in the City's various operating funds to provide the capacity to: (1) provide sufficient cash flow for daily financial needs, (2) secure and maintain bond ratings, (3) offset significant economic downturns or revenue shortfalls, (4) provide funds for unforeseen expenditures related to emergencies, and (5) allow for the ability to respond to extraordinary opportunities with a community-wide impact.

There are several factors for consideration when establishing an appropriate fund balance including: significant volatility in operating revenues or expenditures, potential drain on resources from other funds facing financial difficulties, exposure to natural disasters, reliance on a taxpayer/ratepayer or a group of taxpayers/rate payers in the same industry, rapidly growing budgets, or disparities in timing between revenue collections and expenditures.

2.0 DEFINITIONS

Fund Balance is the difference between assets and liabilities reported in a governmental fund. There are several components of Fund Balance as reflected in the table below.

Components of Fund Balance	Examples of City of Loveland Reserves in each component
<p>Non-spendable fund balance (by form or legal limitation)</p> <ul style="list-style-type: none"> • Portion of net resources that cannot be spent because of their form (i.e., items that won't convert to cash = prepaid expenses or inventories) • Portion of net resources that cannot be spent because they must be maintained intact pursuant to legal or contractual requirements (i.e., principal of an endowment fund or capital of a revolving fund) 	<ul style="list-style-type: none"> • Fuel and parts inventories • Long term portion of the inter-fund loan for 402 land purchase • Payments made to the City for the Cemetery perpetual care
<p>Restricted fund balance (external enforceable limitations on use)</p> <ul style="list-style-type: none"> • Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments • Limitations imposed by law through constitutional provisions or enabling legislation 	<ul style="list-style-type: none"> • Capital Expansion Fees • Conservation Trust • Community Development Block Grant • Larimer County Open Space taxes • Tabor 3% Emergency Reserve • Lodging tax (Conventions & Tourism)

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<p>Unrestricted Fund Balance has three components: Committed, Assigned and Unassigned (they are classified as unrestricted because the city can change them using ordinance or policy).</p>	
<p>Committed fund balance (self-imposed limitations by ordinance)</p> <ul style="list-style-type: none"> • Limitation imposed at the highest level of decision making that requires formal action at the same level to remove 	<ul style="list-style-type: none"> • Council Reserve • Art in Public Places • Affordable Housing • Proctor and Gamble Stock value
<p>Assigned fund balance (limitation resulting from intended use)</p> <ul style="list-style-type: none"> • Intended use established by the highest level of decision-making • Intended use established by a body designated for that purpose • Intended use established by official designed for that purpose 	<ul style="list-style-type: none"> • Equipment replacement • Council Contingency • Unfunded liability Contingency (the accrued benefits when employees leave employment that cannot be absorbed with vacancy savings) • Donations designated for a specific purpose
<p>Unassigned fund balance (residual net resources)</p> <ul style="list-style-type: none"> • Total fund balance in the general fund in excess of non-spendable, restricted, committed, and assigned fund balance (i.e., surplus) • Excess of non-spendable, restricted, and committed fund balance over the total fund balance (i.e., deficit) 	

Working Capital is current assets minus current liabilities. Working capital is used for all Proprietary Funds as the standard similar to unassigned fund balance because it represents the amount available for appropriation.

3.0 POLICY

The City will establish and maintain reservations of Fund Balance/Working Capital in each of the various governmental and proprietary funds in the City. For the purpose of initially establishing the balance and maintaining it hereafter, the City shall retain the minimum requirement for each fund. Additional funds will be retained in the Unassigned Fund Balance or Working Capital to the extent available to reach target levels.

4.0 FUND BALANCE GOALS

A. General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund. In the General Fund, there shall be minimum, unassigned fund balance maintained equivalent to the greater of fifteen (15) percent of the current fiscal year expenditures or two months of fiscal year expenditures budgeted for the fund. For the purposes of this calculation, the expenditures shall be the budget as originally adopted by ordinance in the fiscal year. The TABOR (Tax Payer Bill Of Rights, State Constitutional Amendment) required 3% emergency reserve shall apply to the target. This reserve shall be in addition to all other

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required reserves.

B. Special Revenue Funds – Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. No specific reserve requirement is established for the special revenue funds. However, at a minimum, the fiscal year end assigned fund balance and estimated revenues for the ensuing fiscal year must be sufficient to meet all fund commitments. (Technically Capital Expansion Fees Funds and System Impact Fee Funds, even though we tactically consider them capital funds, are classified as Special Revenue Funds.)

C. Debt Service Funds – Debt service funds are typically subjected to the creation of very specific reserve amounts as part of the ordinance or resolution which authorizes the issuance of bonds. This policy does not create any specific reservation of Fund Balance within any Debt Service Fund. The reserve requirement for any outstanding bond issue will be consistent with the ordinance or resolution authorizing the issuance of the bonds.

D. Capital Project Funds – The Capital Project Funds are created to account for resources designated to construct or acquire assets and major improvements. These projects may extend beyond a single fiscal year. No specific reserve requirement is established for the capital projects funds. However, at a minimum, the fiscal year end assigned fund balance and estimated revenues for the ensuing fiscal year must be sufficient to meet all outstanding fund encumbrances.

E. Enterprise Funds - For each enterprise fund there shall be a reservation of working capital equal to the lesser of 15% of operating expenditures or 60 days of working capital. For the purposes of this calculation, the current fiscal year budget shall be the budget as originally adopted by ordinance for the year. This reserve shall be in addition to all other required reservations of working capital including, but not limited to, amounts reserved for debt service and amounts reserved for renewal or replacement of long term assets.

F. Internal Service Funds – In each Internal Service Fund there shall be created a reservation of working capital in an amount necessary to ensure the unassigned working capital as of the end of each fiscal year is greater than or equal to zero. This reserve shall be in addition to all other reservations for working capital, including but not limited to the amounts reserved for claims incurred but not paid as determined by an actuary. In any fiscal year when it is projected that the actual amount of unreserved working capital will be less than or equal to zero at year end, it will be necessary to either increase the rates charged or reduce expenses or both.

G. Fleet Fund – In the Fleet Replacement Fund, funding is provided in an amount to fund the replacement of fleet assets at a level consistent with a depreciation based methodology based on an assessment conducted by the Fleet Review Committee. Funding shall be designed to maintain 12% of the current fleet replacement value and the condition of assets at a desirable service level without shifting the costs disproportionately to future taxpayers.

5.0 MINIMUM RESERVE REQUIREMENTS

In the event that funds are not available to initially establish minimum required balances, the unassigned fund balance target shall be achieved by adding an assigned amount to the budget to cover the deficiency over a period not to exceed five (5) fiscal years.

6.0 UTILIZATION OF MINIMUM RESERVES

Appropriation from the minimum unassigned fund balance shall require the approval of the City Council by ordinance and shall be only for one-time expenditures, (including but not limited to: capital purchases, economic development contributions or investments, non-recurring grant match, environmental mitigation, emergency provisions for a natural disaster response) and not for on-going expenditures unless a viable revenue plan designed to sustain the expenditure is simultaneously adopted.

7.0 REPLENISHMENT OF MINIMUM RESERVE DEFICITS

If it is anticipated at the completion of any fiscal year that the projected or estimated amount of unassigned fund balance will be less than the minimum requirement, then the City Manager shall prepare and submit in conjunction with the proposed budget a plan for the expenditure or expense reductions and/or revenue increases necessary to restore the minimum requirements in the subsequent budget year or other appropriate period as required in Section 5: Minimum Reserve Requirements. If any portion of the TABOR Emergency Reserve is used, it would have to be replenished according to the provisions of the State Constitutional Amendment within one year.

8.0 UTILIZATION OF SURPLUS RESERVES

In the event that the unassigned fund balance exceeds the minimum requirements, the excess may be utilized for any lawful purpose approved by City Council. The first priority will be given to utilizing the excess within the fund in which it was generated. In order to minimize the long term effect of such use, the excess shall be appropriated to fund one time expenditures or expenses which do not result in recurring operating costs or other one-time costs including the establishment of or increase in legitimate reservations or assignments of fund balance or working capital (including but not limited to: capital purchases, economic development contributions or investments, non-recurring grant match, environmental mitigation, emergency provisions for a natural disaster response) and not for on-going expenditures unless a viable revenue or expenditure reduction plan designed to sustain the expenditure is simultaneously adopted.

