

**CITY OF ATLANTIC BEACH
CITY COMMISSION MEETING
STAFF REPORT**

AGENDA ITEM: Resolution 20-27 Adopting a Fund Balance Policy

SUBMITTED BY: Melissa Burns, Director of Finance

TODAY'S DATE: July 14, 2020

MEETING DATE: July 27, 2020

BACKGROUND: A draft fund balance policy was presented to the Commission at its regular meeting on June 8th, and brought back again at its regular meeting held on July 13th with suggested revisions made.

Further instruction at the July 13th meeting suggested adding an additional possibility of what should happen to any excess unassigned fund balance should it exceed the maximum percentage of operating expenditures. That change has been made, and Resolution 20-27 was prepared to formally adopt the Fund Balance Policy.

BUDGET: None

RECOMMENDATION: Commission review fund balance policy and adopt Resolution 20-27

ATTACHMENT(S): Resolution 20-27
Draft Fund Balance Policy

REVIEWED BY CITY MANAGER: _____



RESOLUTION NO. 20-27

**A RESOLUTION OF THE CITY OF ATLANTIC BEACH, FLORIDA
ADOPTING A FUND BALANCE POLICY AND PROVIDING AN
EFFECTIVE DATE**

WHEREAS, the City of Atlantic Beach would like to formally adopt a fund balance policy to ensure an appropriate level of reserves is maintained;

WHEREAS, the City of Atlantic Beach will use this policy to establish authorized uses to utilize any unassigned fund balance that exceeds the maximum level;

NOW THEREFORE be it resolved by the City Commission of the City of Atlantic Beach as follows:

SECTION 1: The fund balance policy attached hereto is hereby adopted.

SECTION 2: This Resolution shall take effect immediately upon its final passage and adoption.

PASSED by the City Commission of the City of Atlantic Beach, Florida this 27th day of July 2020.

Approved as to form and correctness

Brenna M. Durden
City Attorney

Ellen Glasser
Mayor/Presiding Officer

ATTEST:

Donna L. Bartle
City Clerk

FUND BALANCE POLICY

I. Purpose:

For increased financial stability, the City of Atlantic Beach, Florida desires to manage its financial resources by establishing fund balance ranges for selected funds. This will ensure the City maintains a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unexpected one time expenditures/expenses. To protect the City from the uncertainty of economic and fiscal downturns, the City should strive to maintain its fund balances/net assets at the higher end of the identified ranges.

II. Fund Balance/Net Asset Range:

Fund balance/net asset ranges are established for General, Utility, and Stormwater funds. The amounts set for each fund are based on the predictability of revenues, volatility of expenditures/expenses, and liquidity requirements of each fund and may need to be reviewed periodically.

In calculating the ratio of unassigned fund balance/unrestricted net assets to budgeted expenditures/expenses, the latest audited financial statements shall be compared with the budget in effect when the financial statements are released. In essence, this will mean the current year budgeted expenditures/expenses will be compared with the prior year's unassigned fund balance/unrestricted net assets.

The remainder of the governmental and enterprise funds do not have fund balance ranges. Fund balances in these funds are dictated by restricted, committed, assigned revenue sources and schedule of capital projects.

III. General Fund:

The fund balance range for the General Fund shall be not less than 25% (3 months) and not more than 50% (6 months) of the total budgeted expenditures of the General Fund budget.

IV. Utility (Water and Sewer) Fund:

The unrestricted net asset balance range for the Utility Fund shall be not less than 25% (3 months) and not more than 50% (6 months) of the total budgeted operating expenses including water and sewer debt repayment, bond coverage, and transfer/charges to the other funds, but excluding depreciation.

V. Stormwater Fund:

The unrestricted net asset balance range for the Stormwater Fund shall be not less than 25% (3 months) and not more than 50% (6 months) of the total budgeted operating expenses including sanitation debt repayment, bond coverage, and transfer/charges to other funds, but excluding depreciation.

VI. Surplus:

If it is determined there is a surplus (an amount in excess of the upper limit of the fund balance range for any fund), the funds are to be appropriated during the budget process for any of the following purposes:

- A. Any General Fund surplus shall be used to cover anticipated shortfalls within a Department for the provision of City services.
- B. Reduction or avoidance of debt. If there is short-term debt within the General Fund or Capital Projects Fund the surplus may be applied to reduce or eliminate the debt if financial analysis proves this to be advantageous for the City. If a borrowing is scheduled, the surplus may be used to reduce the principal amount the City needs to obtain if financial analysis proves this to be advantageous for the City.
- C. Applied to a capital replacement program. Surplus funds may be used to supplement or enhance a capital replacement program such as vehicle, personal computer, or heavy equipment replacement, or any other capital replacement program initiated by the City.
- D. One-time capital needs. Since a surplus does not represent a recurring source of revenue it should not be used to fund a recurring expense; however, if a one-time capital expenditure has been identified, but not already funded through an appropriation, the surplus may be appropriated for this use.
- E. Tax, fee, or rate stabilization. Surplus funds may be designated for stabilization in order to avoid raising taxes, fees, or rates related to the fund in subsequent years.
- F. Land Acquisition. Surplus funds may be designated to establish and fund an assigned portion of fund balance specifically for land acquisition.

VII. Shortfall:

If it is determined there is a shortfall (an amount below the lower limit of the fund balance/net asset range for any fund), the fund balance or net assets is to be rebuilt through the following mechanism:

An appropriation during the next annual budget process of at least 20% of the shortage below the lower limit of the fund balance/net assets range until the lower limit has been reached. If this

is financially infeasible, a written plan shall be forwarded by the City Manager to the City Commission for approval in order to restore the fund balance or net assets to an amount within the range within a reasonable time frame. This plan may require reduction of services, increases in taxes, fees, or rates, or some combination thereof.

VIII. Definitions:

Fund Balance: Fund balance means the difference between fund assets and fund liabilities. Fund balance is referred to as net assets in an enterprise fund.

Restricted Fund Balance: Restricted fund balance is the portion of fund balance that is legally restricted and is not available for appropriation or expenditure.

Committed Fund Balance: Committed fund balance represents amounts that can be used only for specific purposes because of a formal action by the City Commission.

Assigned Fund Balance: Assigned fund balance is the residual fund balance of all governmental funds except the General Fund. In the General fund it is amounts intended to be used for specific purposes, but do not meet the criteria for restricted or committed. Intent is stipulated by the City Commission or official to whom that authority has been given by the City Commission.

Unassigned Fund Balance: Unassigned fund balance represents available financial resources which have not been restricted, committed, or assigned to a specific purpose in the General Fund.

Net Assets: Net assets mean the difference between fund assets and fund liabilities in an enterprise fund.

Restricted Net Assets: Restricted net assets are equivalent to restricted fund balance. That is the amounts are legally restricted and are not available for appropriation or expense.

Net Assets Invested in Capital Assets, net of related debt: This represents capital and intangible assets less accumulated depreciation/amortization less outstanding debt that are attributable to acquisition, construction or improvements of those assets.

Unrestricted Net Assets: Unrestricted net assets in Enterprise funds are roughly equivalent to unassigned fund balance in governmental funds. It is calculated as total net assets less restricted net assets less invested in capital assets, net of related debt.

Fund Balance/Net Asset Range: Fund balance/net asset range is the range of amounts this policy has set within which the City means to maintain the unassigned fund balance or unrestricted net assets.

Surplus: Surplus is the amount by which unassigned fund balance or unrestricted net assets exceed the upper limit of the range.

Shortfall: Shortfall is the amount by which the lower limit of the range exceeds unassigned fund balance or unrestricted net assets.

Expenditures: Expenditures are all uses of financial resources, budgeted for any purpose, and include operating and capital expenses, debt service, and transfers to other funds.

Operating Expenses: Operating expenses are uses of financial resources for personnel, supplies, services and materials, and exclude capital expenditures, debt service, and transfers to other funds.

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