



City of Pompano Beach Fund Balance\Net Asset Policy

I. PURPOSE

To establish a fund balance\net asset policy tailored to the needs of the City to insure 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\net asset reserves to provide the capacity to: (1) provide sufficient cash flow for daily financial needs, (2) offset significant economic downturns and revenue shortfalls, (3) maintain stable tax/fee rates (4) provide funds for unforeseen expenditures related to emergencies, (5) provide for renewal and replacement of long-lived assets and (6) secure and maintain investment grade bond ratings.

II. FUND BALANCE CATEGORIES & DEFINITIONS – GENERAL FUND

Non-spendable Fund Balance

- Amounts that cannot be spent due to form; for example, inventories and prepaid amounts. Also, long-term loan and notes receivables, and property held for resale would be reported here unless the proceeds are restricted, committed or assigned.
- Amounts that must be maintained intact legally or contractually (corpus or principal of a permanent fund).

Restricted Fund Balance

- Amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation (i.e. Florida Statute, contractual arrangements etc.). This is the same definition used by GASB Statement no. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for restricted net assets.

Committed Fund Balance

- Amounts constrained for a specific purpose by a government using its highest level of decision-making authority. It would require action by the same group to remove or change the constraints placed on the resources (i.e. building education funds, beach area parking funds etc.).
- Action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period.

Assigned Fund Balance

- For all governmental funds other than the general fund, any remaining positive amounts not classified as non-spendable, restricted or committed.
- For the general fund, amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts. Amount reported as assigned should not result in a deficit in unassigned fund balance.
- An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues.
- Stabilization amounts that can be accessed to offset an "anticipated revenue shortfall" whereby the shortfall was quantifiable and was of a magnitude that would distinguish it from other revenue shortfalls that occur during the normal course of governmental operations.

Unassigned Fund Balance

- For the general fund, amounts not classified as non-spendable, restricted, committed or assigned. The general fund is the only fund that would report a positive amount in unassigned fund balance.
- For all governmental funds other than the general fund, amount expended in excess of resources that are non-spendable, restricted, committed or assigned (a residual deficit). In determining a residual deficit, no amount should be reported as assigned.
- Stabilization amounts that can be accessed "in an emergency" whereby the circumstances or conditions that constitute an emergency are not sufficiently detailed, and it is not unlikely that an "emergency" of some nature would routinely occur.
- Stabilization amounts that can be accessed to offset an "anticipated revenue shortfall" whereby the shortfall was not quantifiable and was not of a magnitude that would distinguish it from other revenue shortfalls that occur during the normal course of governmental operations.

III. NET ASSETS CATEGORIES & DEFINITIONS – ENTERPRISE FUNDS

- **Restricted Fund Balance** – Amounts that can be spent only for specific purposes stipulated by (a) external resource providers (such as creditors, grantors, or contributors), or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – The residual balance of net assets after the elimination of the amounts invested in capital assets net of related debt and the restricted net assets.

IV. POLICY

A. Minimum Level of Unassigned Fund Balance\Unrestricted Net Assets

General Fund - The General Fund's Unassigned fund balance, at fiscal year-end, shall equal at least 17% of the current fiscal year operating expenditure and transfers out budgeted for the

fund. For the purposes of the calculation, the current fiscal year budget shall be the budget as originally adopted by resolution on or before September 30th for the subsequent fiscal year.

The Government Finance Officers Association (GFOA) recommends that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund no less than two months (17%) of regular general fund operating revenues or regular general fund operating expenditures. The purpose of such amount shall be to mitigate current and future risks associated with revenue shortfalls or unanticipated operating expenditures, to ensure stable tax rates, to allow for liquidity (i.e. disparity between when financial resources actually become available to make payments and the average maturity of the City's liabilities) and for use in emergency situations (i.e. man-made or natural disasters). The GFOA further recognizes that a government's unique circumstances may mandate a set aside larger than the minimum recommendation. Such considerations may include, but not be limited to:

- Perceived exposure to significant one-time outlays (i.e. disasters—coastal community, immediate capital needs, state budget cuts etc.);
- Significant economic, political or legislative pressures on the City's revenue sources;
- Volatility of the City's operating expenditures;
- Potential drain upon general fund resources from other funds;
- Liquidity (maturity of liabilities ahead of realization of revenue sources); and
- Commitments and assignments (City may wish to maintain higher levels to compensate for any commitments or assignments for a particular purpose).

Enterprise Funds - The City maintains a Water and Wastewater Fund and a Stormwater Fund. The City shall maintain a balance of unrestricted (not committed to projects) net assets equal to at least ~~50%~~35% of the revenue requirements for the current fiscal year budget of these funds (covers operations and maintenance, debt service, capital, transfers etc.). For the purposes of the calculation, the current year shall be the budget as originally adopted by resolution on or before September 30th for the subsequent fiscal year. Such minimum target is recommended by the City's Utility Rate Consultant. When calculating this amount, the City may contemplate any amounts restricted per debt covenants for renewal and replacement or rate stabilization.

B. Utilization of Surplus Reserves

In the event that the unassigned fund balance\unrestricted net assets exceed the minimum amounts set forth above, the excess may be utilized for any lawful purpose. Nevertheless, it is recommended that priority be given to utilizing the excess within the fund in which it was generated. It may also be used for one-time costs including the establishment of or increase in other legitimate fund balance\net asset categories. Possible uses include:

1. One-time capital needs. Since a surplus does not represent a recurring source of revenue it generally 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.
2. 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.
3. Elimination of shortfalls in related funds, as legally allowable. For instance, any General Fund surplus may be transferred to cover shortfalls within the Emergency Medical Services Fund, or any other fund initiated by the City to provide City services.

4. Tax, fee, or rate stabilization. Surplus funds may be designated for stabilization in order to defer or avoid raising taxes, fees, or rates related to the fund in subsequent years.
5. Reduction or avoidance of debt. If there is short-term debt within the 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.
6. Utilized to make interfund loans to other City funds, as legally allowable. Such interfund loans terms and conditions, will be recommended by the Finance Director and subject to the approval of the City Commission.

C. Replenishment of Minimum Reserve Deficits

If, at the end of any fiscal year, the actual amount of unassigned fund balance\unrestricted net assets falls below the minimum required funding level set forth herein, the City Manager shall prepare and submit a plan (in the case of the enterprise funds submittal of a recommendation from the Utility Rate Consultant will suffice) for replenishment (i.e. expenditure reductions, service/program reductions and/or revenue increases, transfer of excess resources in other funds, as legally allowable etc.) to the City Commission. As a part of the annual budget review, the City Commission shall review and, if necessary, amend the plan submitted by the City Manager for restoring the minimum targets to the required levels. Any deficit in the required minimum amount must be restored no later than the end of the third fiscal year following the occurrence, barring any extenuating circumstances (i.e. recovery from an extreme event, which may influence the timeframe for replenishment).

General Fund

All efforts should be made to replenish at least 75% of the shortfall from the minimum target within one fiscal year, 90% within two fiscal years and 100% within 3 fiscal years from the fiscal year within which the shortfall has occurred.

Water and Wastewater Fund and Stormwater Fund

~~All efforts should be made to replenish at least 75% of the shortfall from the minimum target within one fiscal year, 90% within two fiscal years and 100% within 3 fiscal years from the fiscal year within which the shortfall has occurred.~~

All efforts should be made to replenish at least 25% of the shortfall from the minimum target within one fiscal year, 50% within two fiscal years, 75% within three fiscal years and 100% within four fiscal years from the fiscal year within which the shortfall has occurred.

V. ANNUAL REVIEW

Compliance with the provisions of this policy shall be reviewed by the City's Finance Director or designee, in conjunction with the City Manager, Budget Officer and Utilities Director (as applicable), as part of the annual budget adoption process. Such annual review will ensure proactive steps to ensure compliance with the minimum targets herein. Any amendments to the policy herein must be approved by the City Commission.