

Agenda Report

June 27, 2011

TO: Honorable Mayor and City Council

FROM: Director of Finance

SUBJECT: APPROVAL OF FUND BALANCE POLICY FOR THE GENERAL FUND

RECOMMENDATION:

It is recommended that the City Council:

1. Approve "Fund Balance Policy for the General Fund" and,
2. Delegate to the Finance Director the authority to assign fund balances for specific purposes for inclusion in the annual financial reports and,
3. Adopt a resolution approving the City of Pasadena General Fund Emergency Contingency commitment of fund balance of the General Fund.

BACKGROUND:

The Government Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, that fundamentally alters the classifications and terminology governments must use to present their financial statements. The requirements of this statement are intended to improve financial reporting by providing more clearly defined fund balance categories and classifications. The new requirements will also ensure that the nature and extent of constraints placed on government fund balances are more transparent.

The policy explains the five components of fund balance and formally delegates to the Finance Director, the assignment of fund balance for specific purposes for inclusion in the annual financial reports. Prior to GASB Statement No. 54, these amounts were reported by the Finance Director as unreserved and designated and did not require City Council delegation.

GASB Statement No. 54 requires City Council to formally adopt a revised fund balance policy for the General Fund prior to June 30, 2011. This report recommends taking the required action to formally adopt a revised fund balance policy for the General Fund without changing the City's established General Fund reserve level. The resolution is the City Council's formal commitment of an amount of fund balance to be set aside

specifically for emergency contingencies defined as a state or federal state of emergency or declaration of a local emergency as defined in Title 2, Chapter 2.370 of the City of Pasadena Municipal Code. The amount is set at 10 percent of the General Fund annual appropriations as stated in the annual budget. For the year ended June 30, 2011 the amount will be \$21,719,242. These amounts represent the reserve (and now "committed" fund balance) levels established under both the City's current and this proposed Policy for the General Fund.

It should be noted that this amount and /or commitment may be changed with the adoption of a new resolution by City Council.

After the fiscal year 2012 budget adoption, staff will return to the City Council on July 25, 2011, with a more comprehensive policy that includes recommended conditions and balances for the General Fund as well as other funds.

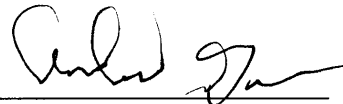
COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced by the update of the Fund Balance Policy for the General Fund.

FISCAL IMPACT:

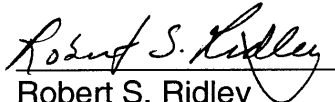
There is no fiscal impact as a result of this action, and this action will not have indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action. While there is no direct fiscal impact of implementing GASB Statement No. 54 and the amounts reported as total fund balance are not altered, the reporting of the individual components that make up total fund balance are changed.

Respectfully submitted,



ANDREW GREEN
Director of Finance

Prepared by:


Robert S. Ridley
Controller

Approved by:


MICHAEL J. BECK
City Manager

Attachments: (1)

Attachment A – Fund Balance Policy for the General Fund

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA APPROVING THE CITY OF PASADENA ADMINISTRATIVE POLICY, FUND BALANCE POLICY FOR THE GENERAL FUND, AND GENERAL FUND EMERGENCY CONTINGENCY COMMITMENT OF FUND BALANCE FOR THE GENERAL FUND

WHEREAS, the Governmental Accounting Standards Board (GASB), has issued its Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, with the intent of improving financial reporting by providing fund balance categories that will be more easily understood; and

WHEREAS, the City Council of the City of Pasadena has considered Administrative Policy, "Fund Balance Policy for the General Fund" (Attachment A), which outlines the policy and procedures enacted to accurately categorize and report fund balance in the General Fund; and

WHEREAS, the Administrative Policy entitled, "Fund Balance Policy for the General Fund," provides that the City Council may commit General Fund balance for specific purposes by taking formal action and these committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same formal action taken to establish the commitment; and

WHEREAS, the Finance Director has recommended to the City Council that the General Fund Emergency Contingency Commitment of the General Fund balance be established at 10 percent of the General Fund annual appropriations; and

WHEREAS, the City Council has determined that the General Fund Emergency Contingency Commitment of the General Fund Balance should be established and approved at 10 percent of the General Fund annual appropriations for Fiscal Year 2010-2011, as recommended by the Finance Director.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Pasadena, California that:

1. The City Council hereby establishes and approves the Administrative Policy, Fund Balance Policy for the General Fund (Attachment A).
2. The City Council hereby delegates to the Finance Director the authority to assign fund balances for specific purposes for inclusion in the annual financial reports.

CORRECTED

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA APPROVING THE CITY OF PASADENA ADMINISTRATIVE POLICY, FUND BALANCE POLICY FOR THE GENERAL FUND, AND GENERAL FUND EMERGENCY CONTINGENCY COMMITMENT OF FUND BALANCE FOR THE GENERAL FUND

WHEREAS, the Governmental Accounting Standards Board (GASB), has issued its Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, with the intent of improving financial reporting by providing fund balance categories that will be more easily understood; and

WHEREAS, the City Council of the City of Pasadena has considered Administrative Policy, "Fund Balance Policy for the General Fund" (Attachment A), which outlines the policy and procedures enacted to accurately categorize and report fund balance in the General Fund; and

WHEREAS, the Administrative Policy entitled, "Fund Balance Policy for the General Fund," provides that the City Council may commit General Fund balance for specific purposes by taking formal action and these committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same formal action taken to establish the commitment; and

WHEREAS, the Finance Director has recommended to the City Council that the General Fund Emergency Contingency Commitment of the General Fund balance be established at 10 percent of the General Fund annual appropriations; and

WHEREAS, the City Council has determined that the General Fund Emergency Contingency Commitment of the General Fund Balance should be established and approved at 10 percent of the General Fund annual appropriations for Fiscal Year 2010-2011, as recommended by the Finance Director.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Pasadena, California that:

1. The City Council hereby establishes and approves the Administrative Policy, Fund Balance Policy for the General Fund (Attachment A).
2. The City Council hereby delegates to the Finance Director the authority to assign fund balances for specific purposes for inclusion in the annual financial reports.
3. The City Council hereby establishes and approves the General Fund Emergency Contingency Commitment of General Fund of 10 percent of the General

3. The City Council hereby establishes and approves the General Fund Emergency Contingency Commitment of General Fund of 10 percent of the General Fund annual appropriations for Fiscal Year 2010-2011, which amounts to \$21,719,242.

4. The City Council has determined that the specific purposes for which the General Fund Emergency Contingency Commitment may be used for are emergency contingencies in the event of the declaration of a state or federal state of emergency or a local emergency as defined in Title 2, Chapter 2.370 of the City of Pasadena Municipal Code and these uses may only be changed by approval of a subsequent resolution.

Adopted at the regular meeting of the City Council on the 27th day of June, 2011 by the following vote:

AYES:

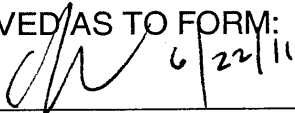
NOES:

ABSENT:

ABSTAIN:

Mark Jomsky, CMC
City Clerk

APPROVED AS TO FORM:



Nicholas G. Rodriguez
Chief Assistant City Attorney

Subject: Fund Balance Policy for the General Fund	Administering Department: Department of Finance	
Prepared By: Department of Finance	Approved By: City Council	Effective Date: June 27, 2011

POLICY

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

PROCEDURES

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purpose for which amounts can be spent.

- Nonspendable fund balance (inherently nonspendable)
- Restricted fund balance (externally enforceable limitations on use)
- Committed fund balance (self-imposed limitations on use)
- Assigned fund balance (limitation resulting from intended use)
- Unassigned fund balance (residual net resources)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. An example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This policy is focused on financial reporting of unrestricted fund balance or the last three components listed above. These three components are further defined below.

Committed Fund Balance

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as by ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently.

- General Fund Emergency Contingency

The City's General Fund balance committed for emergency contingencies is established at ten percent (10%) of the General Fund annual appropriations per the adopted City Budget. As defined in the resolution establishing this commitment, the specific uses are listed as the declaration of a state or federal state of emergency or a local emergency as defined in Title 2, Chapter 2.370 of the City of Pasadena Municipal Code. The City Council may change the amount of this commitment and/or the specific uses of these monies through the adoption of a new resolution.

Assigned Fund Balance

Amounts that are constrained by the City's intent to be used for specific purposes, but that are neither restricted nor committed, should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Finance Director for the purpose of reporting these amounts in the annual financial statements. A few examples of assigned fund balance follow:

- Continuing Appropriations

Fund balance levels must be sufficient to meet funding requirements for projects approved in prior years and which must be carried forward into the new fiscal year.

- Debt Service

Fund balance established to provide for future debt service obligations.

- Budget Balancing Measures

Funds set aside for the purpose of stabilizing the delivery of City services during periods of operational budget deficits and to mitigate the effects of major economic uncertainties resulting from unforeseen changes in revenues and/or expenditures.

Unassigned Fund Balance

These are the residual positive net resources of the general fund in excess of what can properly be classified in one of the other four categories.

Fund Balance Classification

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both the restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

This policy is in place to provide a measure of protection for the City against unforeseen circumstances and to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.