

FUND BALANCE POLICY

City of Long Beach



Long Beach, NY

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I. Purpose

The purpose of this policy is to establish a key element of the financial stability of the City of Long Beach (the "City") by defining and setting guidelines to maintain a prudent level of fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the City maintains adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures; protect of the City's creditworthiness and provide for adequate cash flow needs. Fund balance essentially provides taxpayers with a cushion against unforeseen and extraordinary events.

Both, the Office of the New York State Comptroller and the Government Finance Officers Association recommend that local governments establish a policy to maintain *reasonable* levels of unexpended surplus funds in their General Funds and other principal funds to hedge against unanticipated expenditures and/or revenue shortfalls.

II. Definitions

Fund Equity – A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance – An accounting distinction is made between the portions of fund equity that is spendable and nonspendable. The City records fund balances in accordance with GASB 54 which divides fund balance in to the five following classifications:

- 1) **Nonspendable fund balance** – includes amounts that are not in a spendable form or are required to be maintained intact, including, but not limited to, prepaid items, inventories, and long-term portions of loans receivable, financial assets held for resale and principal of endowments.
- 2) **Restricted fund balance** – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation.
- 3) **Committed fund balance** – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- 4) **Assigned fund balance** – comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates its authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) **Unassigned fund balance** – is the residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose (i.e. rainy-day fund).

III. Unassigned Fund Balance

When available, the City's policy recommends a level of unassigned fund balances of 5% of the normal prior year expenditures made from its General, Water and Sewer funds. Under the terms of its tax certificates, the City is permitted to maintain a reasonable working capital reserve equal to five (5%) percent of the immediately preceding fiscal year's expenses paid out of current revenues. Unassigned fund balance, provided it does not exceed this threshold, qualifies as a reasonable working capital reserve.

However, to the extent the City utilizes its unassigned fund balance, its policy shall be to use these funds either for (i) non-recurring expenses that promote important policy objectives set forth by the City Council; or (ii) extraordinary operating and capital purposes that could not be anticipated, and which otherwise cannot be financed with current revenues in the annual operating budget. Such purposes include, but are not limited to, financing emergency capital repairs, offsetting an unexpected economic downturn, covering an unanticipated or excess shortfall in revenues or a spike in expenses, and/or providing necessary resources for emergencies.

IV. Reserve Funds

As financial circumstances warrant, the City will look to establish and fund a number of formal reserve funds pursuant to the New York State General Municipal Law and other applicable rules and regulations. The City will establish reserve funds including, but not limited to, Retirement Contribution, Employee Benefit Accrued Liability, Insurance, Payment of Bond Indebtedness, Snow/Ice Removal and Road Repair, Contingency and Tax Stabilization and Capital.

V. Replenishment

In fiscal years where the City's unassigned fund balance falls below the recommended level of five percent (5%), the City will develop a plan to replenish its unassigned fund balance by direct appropriation commencing with the next operating budget. The City will appropriate an amount available of up to 25 percent (25%) of the difference between its current level of unassigned fund balance and the minimum amount recommended under the policy, such that the minimum level of unassigned fund balance would be attained over a reasonable period. To the extent that a direct appropriation in the amount of 25 percent (25%) is not possible in any particular fiscal year, the City Manager, in conjunction with the City Comptroller, shall develop a strategy and make a recommendation to the City Council to restore the fund balance to the minimum level in the next budget year or other reasonable period of time.

VI. Annual Review & Amendments

On an annual basis, or as deemed necessary, the City Council shall review the Fund Balance Policy and shall approve policy revisions, if any, by formal resolution.