



CITY OF HALLANDALE BEACH ADMINISTRATIVE POLICY

APPROVED:

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FUND BALANCE POLICY

Policy Owner: Maggie Gouin, Director of Budget & Program Monitoring

Responsible Department-Position/Role: Budget & Program Monitoring, Director

Policies Cross Referenced: Enter Policy Title(s) and Number(s)

POLICY PURPOSE/INTENT

The City of Hallandale Beach (the City) hereby establishes and will maintain a policy for preserving adequate unassigned fund balance to provide the capacity to secure and maintain investment grade bond ratings and sufficient cash flow for daily financial needs, to offset significant economic downturns or revenue shortfalls, and to provide funds for unforeseen expenditures related to emergencies in accordance with policies established by the City Commission. A structurally balanced budget requires that fund balance generally not be used to pay for recurring expenses.

Fund Balance is comprised of non-spendable, restricted, committed, assigned, and unassigned amounts as explained below. This policy sets standards for use and replenishment of unassigned fund balance when it is drawn down below the recommended target level. An emergency reserve will be assigned from the unassigned fund balance. This policy primarily applies to the City's General Fund.

Date of Issue

December 18, 2019

Effective Date

December 18, 2019

Last Revision/Review Date

N/A

Revision/Review Date

N/A

Policy-Version Number

3007.001

DEFINITIONS

Fund Balance – This is the cumulative difference of all revenues and expenditures. The Government Finance Officers Association (GFOA) defined it as, “the difference between assets and liabilities reported in the government fund”.

Fund balance measures the net financial resources available to finance expenditures of future periods. There are five categories of funds within fund balance: non-spendable, restricted, committed, assigned and unassigned.

Non-Spendable Fund Balance – Includes amounts that are (a) not in spendable form such as inventory or prepaid items or (b) legally or contractually required to be maintained intact (e.g. principal of an endowment fund).

Restricted Fund Balance – Includes amounts that can be spent only for specific purposes (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Commission, the City’s highest level of decision-making authority. These committed amounts cannot be used for any other purpose unless the City Commission removes or changes the specified use by taking the same formal action (e.g., ordinance or resolution) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements are reported in this category.

The underlying action to impose the limitation needs to occur prior to the end of the reporting period (September 30), but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

The use (appropriation) of committed fund balances will be considered in conjunction with the annual budget adoption process or by budget amendment approved by the resolution of the City Commission during the fiscal year. Encumbrances may be reported as committed.

Assigned Fund Balance - Includes amounts that the City intends to use for specific purposes determined by the City Commission or an official (e.g., City Manager) to which the City Commission has delegated the authority to assign amounts to be used for specific purposes that are neither considered restricted or committed. The nature of the actions to remove or modify an assignment is not as prescriptive as it is regarding the committed fund balance classification. The City cannot assign funds for a specific purpose if the assignment will result in a deficit in unassigned fund balance.

Assignment of fund balance may be (a) made for a specific purpose that is narrower than the general purposes of the government itself, and/or (b) used to reflect the appropriation of a portion of existing unassigned fund balance to eliminate a projected deficit in the subsequent year’s budget in an amount no greater than the projected excess of expected expenditures over expected revenues. Encumbrances resulting from issuing purchase orders as a result of normal purchasing activities approved by appropriate officials may be reported as assigned.

Unassigned Fund Balance - Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other

funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund and are generally available for any purpose deemed by the City.

In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

Unrestricted Fund Balance – The total of committed fund balance, assigned fund balance and unassigned fund balance, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the City itself.

ROLES & RESPONSIBILITIES

It is the responsibility of the City Commission, City Manager, Director of Budget and Program Monitoring and Finance Director to ensure that the City makes decisions and acts consistent with this Fund Balance Policy.

PROCEDURES

Fund Balance Policy - General Fund - This policy shall apply to the General Fund as established by the City Commission.

1. **General Fund**– This policy will assign an emergency reserves from the unassigned fund balance in the General Fund at 16%. The minimum unassigned fund balance shall be determined based on the most recently audited CAFR (Comprehensive Annual Financial Report). In the event, after the annual audit, that the unassigned fund balance falls below zero in the General Fund, the difference will be deducted from the emergency reserves.
2. **Spending Order of Fund Balance** – When both restricted and unrestricted funds are available, the City will use the restricted funds first unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. When committed, assigned and unassigned funds are available for expenditure, the City should first use committed fund balance, followed by assigned fund balance and then unassigned fund balance. Disbursement of funds within the fund balance reserves shall be authorized pursuant to any ordinances, resolutions or procedures adopted by the City Commission and may be approved by inclusion in the approved annual budget (and amendments thereto). Open encumbrances at the end of the fiscal year may only be classified as committed or assigned, depending on at what level of authorization originally established them.
3. **Use of Fund Balance and Determination of Structural Balance** – Fund balance reserves should generally not be used to cover recurring expenses. Excess fund balance reserves can be used to cover one-time expenditures or carried forward for use in future years.
4. **Goal to Increase and Replenishment of General Fund Balance** – In the event that an unexpected structural imbalance results in a need to draw down fund balance reserves, a multi-year plan will be developed by the City Manager to address the imbalance concurrent with the use of fund balance reserves.

Due to the uncertainty in the collection of revenues, the continual increase in expenditures, and unanticipated emergencies, when a structural imbalance exists, the City needs to define a plan to bring the General Fund emergency reserves up to 16%. Additional

revenue sources need to be identified such as new grants or fees, existing fees need to be analyzed and increased to be more competitive with other coastal cities, as well as identifying cost efficiencies while still maintaining levels of service for essential core city services. Excess fund balance is to be set aside until the emergency reserves are at least 16% of operating expenditures of the General Fund.

If emergency reserves are drawn down below the established targets, the City Manager will develop and submit to the City Commission a plan for restoring the level of emergency reserves, as follows:

- a. 50%-99% of the established target, the City Manager will develop and submit to the City Commission a budgetary plan to replenish these reserves in three (3) to five (5) years
- b. Less than 50% of the established target, the City Manager will develop and submit to the City Commission a budgetary plan to replenish these reserves in one (1) to three (3) years.

- 5. Annual Review of Fund Balance Reserve Accounts** – Compliance with the provisions of this policy shall be reviewed after the completion of the annual financial audit and before the beginning of the subsequent fiscal year (July 1 through September 30), and the amount of unassigned fund balance shall be calculated by the Budget Director based on the established methodology.
- 6. Budgeting - Appropriation of Unassigned Fund Balance** – The actual amount of unassigned fund balance is known after the completion of the annual audit which takes place between six (6) to nine (9) months after the end of the fiscal year. However, an estimate of unassigned fund balance must be made after the completion of the annual financial audit and before the beginning of the subsequent fiscal year (July 1 through September 30).