



Resolution No.  
2020-222

**A resolution amending the "City of Victoria Fund Balance Policy, in Accordance with GASB Statement No. 54, and, Working Capital Reserve Policy."**

**Whereas** City Council formally adopted Resolution 2013-83R on May 21, 2013, which adopted a City Fund Balance Policy establishing the procedures used for committing fund balance, assigning fund balance, how stabilization funds, if any, will be determined, order of spending the fund balance categories, minimum fund balance levels and use of governmental fund types;

**Whereas** the Fund Balance Policy includes a statement on the "minimum unassigned fund balance" for General Fund, which was amended in FY2015 to reflect a minimum unassigned fund balance of 25.0% for the General Fund; and

**Whereas** this resolution amends the Fund Balance Policy to include minimum fund balance/working capital policies for each of the City's funds;

**Now therefore, be it resolved by the City Council of the City of Victoria:**

1 The "City of Victoria Fund Balance Policy, in Accordance with GASB Statement No. 54, and, Working Capital Reserve Policy," originally adopted by Council through Resolution 2013-83R on May 21, 2013, and amended thereafter from time to time, is hereby amended in the form attached as "Exhibit A."

2. This resolution shall become effective immediately upon adoption.

Passed, this the 3rd day of November, 2020

Ayes: 7

Nays: 0

Abstentions: 0

Approved and adopted, this the 3rd day of November, 2020

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Rawley McCoy,  
Mayor of the City of Victoria

*Thomas A. Gwosdz*

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Thomas A. Gwosdz,  
City Attorney

*April Hilbrich*

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April Hilbrich,  
City Secretary



## Exhibit “A”

### City of Victoria Fund Balance Policy, in Accordance with GASB Statement No. 54, and, Working Capital Reserve Policy

#### **Purpose:**

The following policy has been adopted by the City of Victoria City Council in order to address:

1. The implications of Governmental Accounting Standards Board ("GASB") Statement No. 54; *Fund Balance Reporting and Governmental Fund Definitions*;
2. Establishing Minimum Fund Balance/Working Capital Reserve Policy; and,
3. Establishing *Self Finance/Stabilization Fund*.

The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the City and jeopardize the continuation of necessary public services. This policy will ensure that the City maintains adequate fund balances and working capital reserves in order to:

- a) Provide sufficient cash flow for daily financial needs,
- b) Secure and maintain investment grade bond ratings,
- c) Offset significant economic downturns or revenue shortfalls, and,
- d) Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersede all previous regulations regarding the City's fund balance and reserve policies.

#### **I. Fund Balance Policy in Accordance with GASB Statement No. 54**

**Fund Type Definitions:** The following definitions will be used in reporting activity in governmental funds across the City. (Note: this only pertains to Governmental Fund types and not Proprietary Fund types (i.e. Enterprise funds, Internal Service funds, etc.).

General Fund is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue funds are used to account and report the proceeds of *specific revenue sources* that are *restricted* or *committed* to expenditures for specific purposes other than debt service or capital projects.

Debt Service funds are used to account for all financial resources restricted, committed or assigned to expenditures for principal and interest.

Capital Projects funds are used to account for all financial resources restricted, committed or assigned to expenditures for acquisition or construction of capital assets.

Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's purposes. An example would be a donation received from a third party, but the City is only able to spend the earnings on the donation amount (i.e. interest and not principal) for the purposes of maintaining the City's infrastructure or whatever restriction is placed upon the donation.

**Fund Balance Reporting in Governmental Fund:** Fund balance will be reported in governmental funds under the following categories using the definitions provided by *GASB Statement No. 54*:

- **Non-spendable fund balance**

*Definition* - includes amounts that cannot be spent, such as inventory or prepaid items, because they are either:

- a. Not in spendable form, or
- b. Legally or contractually required to be maintained intact

*Classification* - Non-spendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- a. The City will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the City),
- b. The City will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance),
- c. The City will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained in-tact, and
- d. The City will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale.

- **Restricted fund balance**

*Definition* - includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation. An example would be debt reserve funds as established by debt covenant or other funds established by laws or legislation.

- **Committed fund balance**

*Definition* - includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority (City Council). An example would be committing hotel / motel tax funds for future construction of a Visitor's Center.

*Authority to Commit* - Commitments will only be used for specific purposes pursuant to a formal action of the City Council. The action to commit funds must occur prior to fiscal year-end, to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A two-thirds majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

- **Assigned fund balance**

*Definition* - includes amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. An example would be encumbrances (i.e. Purchase Orders) for purchase of goods, supplies and/or construction services.

*Authority to Assign* - City Council shall have the authority to assign any amount of funds to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. The assignments may occur subsequent to fiscal year-end.

- Unassigned fund balance

*Definition* - includes the residual classification for the City's General Fund and includes all spendable amounts not contained in the other classifications. An example would be spendable funds not classified as non-spendable, restricted, committed or assigned.

**Governmental Funds Operational Guidelines:** The following guidelines address the classification and use of fund balance in governmental funds:

Classifying fund balance amounts - Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include non-spendable resources and amounts that are restricted, committed, assigned, or any combination of those classifications. In addition, the General Fund may also include an unassigned amount.

Encumbrance reporting - Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

Prioritization of fund balance use - When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Minimum unassigned fund balance:

- *General Fund* - The City will maintain a minimum unassigned fund balance in its General Fund of 25 percent of the subsequent year's (3-month reserve) budgeted expenditures and outgoing transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

*Replenishing fund balance* - When fund balance falls below the 25 percent (3-month reserve) range, the City will replenish shortages.

*Surplus fund balance* - Should unassigned fund balance of the General Fund ever exceed the minimum 25 percent (3-month reserve) range, the City may consider such fund balance surpluses for one-time expenditures that are nonrecurring in nature. In addition, surplus fund balances exceeding the minimum 25 percent (3-month reserve) range, could be assigned to a capital improvement project; or, transferred to *the Self Finance/Stabilization Fund*, in order to fund the City's Capital Improvement Plan or other one-time expenditure(s).

- *Debt Service Fund* – The City will maintain a minimum fund balance in its Debt Service Fund of a one month or 1/12 of annual debt service requirements, in accordance with IRS guidelines. Revenues within this fund are by nature stable and based on property tax revenues. Balances are maintained to meet contingencies and to make certain that the next year's debt service payments may be met in a timely manner. The fund balance in this fund is considered restricted and may only be used on debt service and associated expenditures.
- *Special Revenue Funds* – The City will maintain a fund in its Motel Tax and Convention & Visitor's Bureau funds of 25 percent of the subsequent year's (3-month reserve) budgeted expenditures and outgoing transfers. Due to the nature of revenues in these funds, any excess fund balance would be limited to expenditures for the hotel and tourism industry. All other special revenue funds are related to grants which by their nature do not have a fund balance as revenues and expenditures will equal each other each fiscal year.

- *Self-Finance/Stabilization Fund* – This fund supports the City’s philosophy for one-time repairs, one-time programs/expenditures, and one-time major capital projects to reduce the use of long-term debt where possible. The funding sources are transfers from the City’s funds using excess fund balance or working capital balance. This fund will also be used to offset any governmental fund balance deficits below the reserve policy for each fund. Appropriations from this fund will be made at the discretion of City Council during the budget process and fiscal year as needs arise.

## **II. Working Capital Policy for Non-Governmental Funds**

**Proprietary Funds Operational Guidelines:** The following guidelines address the classification and use of working capital balance in proprietary funds:

### Minimum unassigned working capital balance:

- *Water/Wastewater Operating Utility Fund* – The City will maintain a minimum unassigned working capital balance in its Water/Wastewater Operating Utility Fund of 25 percent of the subsequent year's (3-month reserve) budgeted expenses and outgoing transfers. This minimum working capital balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

*Replenishing working capital* - When the unassigned working capital balance falls below the 25 percent (3-month reserve) range, the City will replenish shortages.

*Surplus working capital* - Should unassigned working capital balance of the Water/Wastewater Operating Utility Fund ever exceed the minimum 25 percent (3-month reserve) range, the City may consider such working capital balance surpluses for one-time expenses that are nonrecurring in nature. In addition, surplus working capital exceeding the minimum 25 percent (3-month reserve) range could be assigned to a capital improvement project; or, transferred to *the Self Finance/Stabilization Fund*, in order to fund the City’s Capital Improvement Plan or other one-time expense(s).

- *Environmental Services Fund* – The City will maintain a minimum unassigned working capital balance in its Environmental Services Fund of 25 percent of the subsequent year's (3-month reserve) budgeted expenses and outgoing transfers. This minimum working capital balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

*Replenishing working capital* - When the unassigned working capital balance falls below the 25 percent (3-month reserve) range, the City will replenish shortages.

*Surplus working capital* - Should unassigned working capital balance of the Environmental Services Fund ever exceed the minimum 25 percent (3-month reserve) range, the City may consider such working capital balance surpluses for one-time expenses that are nonrecurring in nature. In addition, surplus working capital exceeding the minimum 25 percent (3-month reserve) range could be assigned to a capital improvement project; or, transferred to *the Self Finance/Stabilization Fund*, in order to fund the City’s Capital Improvement Plan or other one-time expense(s).

- *Community Center Fund* – The City will maintain a minimum unassigned working capital balance in its Community Center Fund of 25 percent of the subsequent year's (3-month reserve) budgeted expenses and outgoing transfers. This minimum working capital balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

*Replenishing working capital* - when the unassigned working capital balance falls below the 25 percent (3-month reserve) range, the City will replenish shortages.

*Surplus working capital* - Should unassigned working capital balance of the Community Center Fund ever exceed the minimum 25 percent (3-month reserve) range, the City may consider such working capital balance surpluses for one-time expenses that are nonrecurring in nature. In addition, surplus working capital exceeding the minimum 25 percent (3-month reserve) range could be assigned to a capital improvement project; or, transferred to *the Self Finance/Stabilization Fund*, in order to fund the City's Capital Improvement Plan or one-time expense(s).

- *700 Main Center Fund* – The City will maintain a minimum unassigned working capital balance in its 700 Main Center Fund of 1 month of the subsequent year's budgeted expenses and outgoing transfers. This minimum working capital balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

*Replenishing working capital* - When the unassigned working capital balance falls below the 1-month reserve range, the City will replenish shortages.

*Surplus fund working capital* - Should unassigned working capital balance of the 700 Main Center Fund ever exceed the minimum 1-month reserve range, the City may consider such working capital balance surpluses for one-time expenses that are nonrecurring in nature. In addition, surplus working capital exceeding the minimum 1-month reserve range could be assigned to a capital improvement project; or, transferred to *the Self Finance/Stabilization Fund*, in order to fund the City's Capital Improvement Plan or one-time expense(s).

- *Internal Services Funds* – The City will maintain a minimum unassigned working capital balance in its Internal Services Funds of 1 month of the subsequent year's budgeted expenses and outgoing transfers, except for the Workers' Compensation Fund and Health Plan Fund which will strive to maintain a minimum working capital of 3 months or more, due to the nature of the funds' activity. This minimum working capital balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

*Replenishing working capital* - When the unassigned working capital balance falls below the 1-month reserve range (excluding the Workers' Compensation Fund and Health Plan Fund), the City will replenish shortages.

*Surplus working capital* - Should unassigned working capital balance of an Internal Services Fund ever exceed the minimum 1-month reserve range (excluding the Workers' Compensation Fund and Health Plan Fund), the City may consider such working capital balance surpluses for one-time expenses that are nonrecurring in nature. In addition, surplus working capital exceeding the minimum 1-month reserve range could be assigned to a capital improvement project; or, transferred to *the Self Finance/Stabilization Fund*, the City's Capital Improvement Plan or one-time expense(s).

### **III. Implementation and Review**

Upon adoption of this policy the City Council authorizes the City Manager to establish any standards and procedures which may be necessary for its implementation. The Director of Finance and/or the Chief Financial Officer shall review this policy at least annually and make any recommendations for change to the City Manager and City Council.

Approved and adopted by the City of Victoria City Council on this the \_\_\_ day of October 2020.