

RESOLUTION NO. 10-278

**A RESOLUTION OF THE CITY COMMISSION OF THE
CITY OF KEY WEST, FLORIDA, ADOPTING THE
ATTACHED "FUND BALANCE POLICY" FOR THE
CITY OF KEY WEST; PROVIDING FOR AN
EFFECTIVE DATE**

WHEREAS, in order to protect the City of Key West against unanticipated events that could affect the financial condition of the City and jeopardize the continuation of essential public services, it is necessary to have a clear fiscal policy on maintaining fund balances;

NOW THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF KEY WEST, FLORIDA, AS FOLLOWS:

Section 1: That a Fund Balance Policy, as specifically described in the attached Memorandum dated September 8, 2010 by Mark Z. Finigan, is hereby adopted.

Section 2: That this Resolution shall go into effect immediately upon its passage and adoption and authentication by the signature of the presiding officer and the Clerk of the Commission.

Passed and adopted by the City Commission at a meeting held this 21 day of September, 2010.

Authenticated by the presiding officer and Clerk of the Commission on September 22, 2010.

Filed with the Clerk September 23, 2010.

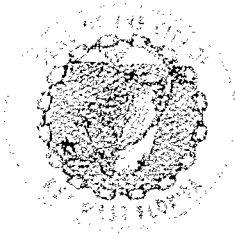


CRAIG GATES, MAYOR

ATTEST:



CHERYL SMITH, CITY CLERK



CITY MANAGER'S OFFICE Executive Summary

TO: Jim Scholl, City Manager
FROM: Mark Z. Finigan, Assistant City Manager
DATE: September 9, 2010
SUBJECT: Executive Summary
Fund Balance Policy

A handwritten signature in black ink, appearing to read "MZF", is positioned to the right of the "FROM:" line.

ACTION STATEMENT:

Establish a fund balance/retained earnings policy tailored to the needs of the City of Key West 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/retained earnings and reserves in the City's various operating funds to provide the capacity to: (1) provide sufficient cash flow for daily financial needs, (2), offset significant economic downturns or revenue shortfalls, and (3) provide funds for unforeseen expenditures related to emergencies. The proposed Fund Balance Policy for the City of Key West is attached.

BACKGROUND:

To follow is the "Best Practice" directive from the Government Finance Officers Association, entitled "Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (BUDGET and CAAFR)". Such guidance can also be used when setting ranges for other City funds.

The Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund. Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and specific plans for increasing or decreasing the level of unrestricted fund balance, if it is inconsistent with that policy.

*The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. **Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two***

months of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances. Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time.

In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- The potential drain upon general fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require that a higher level of unrestricted fund balance be maintained in the general fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the general fund);
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained); and
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose).

Furthermore, governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than on unrestricted fund balance.

Naturally, any policy addressing desirable levels of unrestricted fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints. In this case in particular, it is essential that differences between GAAP fund balance and budgetary fund balance be fully appreciated by all interested parties.

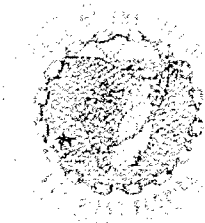
To follow are a few policy excerpts from other Florida governmental units which address unrestricted fund balance percentages and/or ranges:

- City of Leesburg
 - In the general fund, there shall be created a reservation of fund balance equal to 20% of the current fiscal year budget for the fund.
 - The City has created a total of six enterprise funds to account for the following utility services: electric, natural gas, sanitation services, communication services, water and wastewater treatment. In each of the enterprise funds now or hereafter created by the Commission, there shall be created a reservation of retained earnings equal to 25% of the current fiscal year budget for that fund.
- City of Tamarac
 - The fund balance range for the General Fund shall be not less than 7.5% and not more than 10% of the total budgeted expenditures of the General Fund budget.
 - The fund balance range for the Stormwater Fund shall be not less than 5% and not more than 7.5% of the total budgeted expenditures of the Stormwater Fund budget.
- City of Tarpon Springs
 - General Fund. There shall be a reservation (unrestricted / undesignated) of fund balance equal to 20% of the current fiscal year operating expenditure and transfers out budgeted for the fund.
- City of Fort Walton Beach.
 - Maintain a minimum General Fund unreserved/undesignated fund balance of 30% of total annual expenditures as endorsed by City Council at the May 2008 Budget Policy Meeting.
- Citrus County
 - The County will establish a minimum unreserved fund balance in the General Fund of eight (8%) and a maximum of seventeen (17%).


The aforementioned governmental units have adopted a policy which obviously has considered the unique factors and conditions of their community. It should be noted that for the most part, coastal communities tend to establish unrestricted fund balance levels which are higher than other communities. Additionally, coastal communities largely dependent on a stream of revenues that may be subject to volatility – tourist based revenues – also tend to factor such possible instability into unrestricted fund balances levels.

RECOMMENDATION:

City Commission approve the recommended Fund Balance Policy for the City of Key West.



CITY MANAGER'S OFFICE MEMORANDUM

TO: Jim Scholl, City Manager
FROM: Mark Z. Finigan, Assistant City Manager 
DATE: September 9, 2010
SUBJECT: Fund Balance Policy

FUND BALANCE POLICY

POLICY

The City will establish and maintain reservations of Fund Balance/Retained Earnings in each of the various governmental and proprietary fund type funds of the City. For purpose of initially establishing the balance and maintaining hereafter, the City shall retain the minimum requirement for each fund. Additional funds will be retained in the Unreserved Fund Balance to the extent available to reach target levels.

DEFINITIONS

Fund Balance - The cumulative difference of all revenues and expenditures. Where the term Fund Balance is utilized, the term Retained Earnings may be substituted for proprietary funds.

- **Reserved Fund Balance** - portion of the Fund Balance that is legally restricted to a specific use or otherwise not available for appropriation or expenditure.
- **Unreserved Fund Balance** - a measure of how much Fund Balance is left over at the end of the current fiscal year which can be used for the subsequent fiscal year's budget which is not obligated or specifically designated and can be used to meet contingencies and working capital requirements.

FUND BALANCE GOALS

A. General Fund - In the General Fund, there shall be maintained an Unreserved Fund Balance equivalent to a minimum of **twenty (20%)** percent and a maximum of **twenty-five (25%)** percent of the current fiscal year operating expenditures and transfers out less capital outlay budgeted for the fund. For purposes of this calculation, the expenditures shall be the budget as originally adopted by ordinance in September for the subsequent fiscal year. This reserve shall be in addition to all other required reserves or designation of fund balance.

B. Special Revenue Funds - Special revenue funds are created to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. No specific reservation of Fund Balance is created by virtue of enactment of this policy. The amount of any reservation of Fund Balance shall be governed by the legal authority underlying the creation of the individual funds.

C. Debt Service Fund - Debt service funds are typically subject to the creation of very specific reserve amounts as part of the ordinance or resolution which authorizes the issuance of the bonds. This policy does not create any specific reservation of Fund Balance within any Debt Service Fund. Reserve requirement for any outstanding bond issue will be consistent with the ordinance or resolution authorizing the issuance of the bonds.

D. Capital Projects Fund - The Capital Projects Fund is created to account for resources designated to construct or acquire general fixed assets and major improvements. These projects may extend beyond a single fiscal year. No specific reserve requirement is established for the Capital Projects Fund. However, at a minimum, the fiscal year end Reserved Fund Balance, and estimated revenues for the ensuing fiscal year must be sufficient to meet all outstanding fund encumbrances.

E. Enterprise Funds - For each enterprise fund, there shall be created a reservation of Retained Earnings equal to a minimum of **twenty (20%)** percent and a maximum of **twenty-five (25%)** percent of the current fiscal year operating expenditures and transfers out less capital outlay budgeted for the fund. For the purposes of this calculation, the current fiscal year budget shall be the budget as originally adopted by ordinance in September for the subsequent fiscal year. This reserve shall be in addition to all other required reservations of Retained Earnings including, but not limited to, amounts reserved for debt service and/or amounts reserved for renewal and replacement of long lived assets.

Policy for the Sewer, Stormwater and Solid Waste Fund should provide for Commission Approved exceptions. There are times when short term drops in Retained Earnings are part of a sound rate making policy (10 year outlook).

An exception to the above Enterprise Funds policy is the Transit Fund. This fund operates annually on a breakeven basis primarily supported through State and

Federally funded grants, with an annual subsidy from other City fund(s) necessary to meet the operating and capital requirements of the Transit Fund. While this policy does not dictate the necessity of an operating reserve, it is recommended the Transit Fund strive to maintain a minimum 5% to a maximum 10% reserve level.

F. Internal Service Funds – These funds are generally intended to operate on a "break-even" basis. In any fiscal year when it is projected that the actual amount of unreserved retained earnings will be less than or equal to zero at year end, it will be necessary to either increase the rates charged or reduce expenses or both. As this policy relates to the City's Insurance Fund, it is assumed an adopted 50% confidence rate for funding requirements for all claims reported and unreported, as provided for the City's annual actuarially review.

MINIMUM RESERVE REQUIREMENTS

In the event funds are not available to initially establish minimum required balances, the Unreserved Fund Balance target shall be achieved by adding a designated amount to the budget to cover the deficiency over a period not to exceed five (5) fiscal years.

UTILIZATION OF MINIMUM RESERVES

Appropriation from the minimum Unreserved Fund Balance shall require the approval of the City Commission and shall be only for one-time expenditures, such as capital purchases, and not for ongoing expenditures unless a viable revenue plan designated to sustain the expenditures is simultaneously adopted.

REPLENISHMENT OF MINIMUM RESERVE DEFICITS

If it is anticipated at the completion of any fiscal year that the projected or estimated amount of Unreserved Fund Balance will be less than the minimum requirement, then the City Manager shall prepare and submit in conjunction with the proposed budget a plan for the expenditure or expense reductions and/or revenue increases necessary to restore the minimum requirements in the subsequent budget year or other appropriate period.

UTILIZATION OF SURPLUS RESERVES

In the event that the Unreserved Fund Balance exceeds the maximum requirements, the excess may be utilized for any lawful purpose approved by City Commission. It is recommended that the first priority be given to utilizing the excess within the fund in which it was generated. In order to minimize the long term effect of such use, the excess shall be appropriated to fund one time expenditures or expenses which do not

result in recurring operating costs, or other one time costs including the establishment of or increase in legitimate reservations or designations of fund balance or reservations of retained earnings in other funds.

ANNUAL REVIEW

Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process.