



DEPARTMENT: Finance

AUTHORIZED BY: City Council

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***POLICY: FUND BALANCE FOR GENERAL FUND & OPERATING RESERVE
REQUIREMENTS FOR ENTERPRISE FUNDS***

PURPOSE

The Fund Balance Policy of the City of Yakima is authorized, approved by, the City Council to:

- To establish reserve objectives and parameters necessary to safeguard public funds entrusted to the City of Yakima.
- To articulate City Council's intent for the governance over city finances.
- To communicate clear policy and strategy guidelines for city financial administration.
- To demonstrate to citizens, taxpayers and voters a transparent and accountable stewardship plan.
- To establish a fund balance target for the General Fund and an operating reserve requirement for the Enterprise Funds.

GENERAL FINANCIAL GOALS

1. To provide a financial base sufficient to sustain municipal services to maintain the social well-being and physical conditions of the City.
2. To provide a cushion for seasonal cash flow fluctuations, a financial safety net in the event of natural disasters, local and regional emergencies, economic downturns, withstand local and regional economic trauma, and to respond to other unforeseen circumstances.
3. To maintain available financial resources as a measure of the sound fiscal condition of the primary government fund, for consideration by bond rating agencies when evaluating the City's credit worthiness, and the governing body when making budgetary decisions.
4. To consider and provide for the needs of future generations in the Yakima community.

The distinction between "Fund Balance" and "Working Capital" comes from Government Accounting Standards which require modified accrual accounting for governmental funds and full accrual accounting for enterprise funds; this policy addresses each separately. Operating Reserve, or Working Capital, is the primary measure for evaluating continued creditworthiness and budgetary decisions for Enterprise Funds.

GENERAL FUND'S FUND BALANCE TARGET

1. Target is to achieve and maintain a Fund Balance of at least 12% of the Total Expenditures.
2. Fund Balance equals Total Assets minus Total Liabilities, on the Statement of Revenues, Expenditures and Changes in Fund Balances – Government Funds in the City's Annual Comprehensive Financial Report (ACFR).
3. Financial Reporting Definitions. Governmental Accounting Standards Board (GASB) Statement 54 distinguishes fund balance classified based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:
 - a. **Nonspendable fund balance** – amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).
 - b. **Restricted fund balance** – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).
 - c. **Committed fund balance** – amounts that can be used only for the specific purposes determined by a formal action of the City Council. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the council's commitment in connection with future construction projects).
 - d. **Assigned fund balance** – amounts intended to be used by the government for specific purposes. Intent can be expressed by the City Council or by a designee to whom that governing body delegates the authority. (In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed but by definition, being account for in a separate fund, are intended to be used for the purpose of that fund).
 - e. **Unassigned fund balance** – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.
4. Should City Council determine that it is prudent to mitigate current or anticipated risks (e.g., significant revenue shortfalls, natural disasters, significant economic downturns, or unanticipated expenditures), a budget amendment may be approved by City Council for current-year expenditures that decrease the General Fund's fund balance below target.
5. During every annual budget review and approval process, City Council shall consider and determine what dollar amount, or percentage of operating expenses, shall be identified in the adopted budget to add to a revenue shortfall reserve for unforeseen future circumstances.

6. If General Fund's fund balance falls below target, then the next year's budget must include projections of General Fund's fund balance levels to be considered as part of the annual budget process and the budget must include a plan to restore the General Fund's fund balance to target.
7. Cashflow rationale. The General Fund's principle sources of funds are Property Tax, Sales Tax and Utility & Franchise Taxes. The bulk of Property Taxes are received every year in April and October; Sales Tax and Utility & Franchise Taxes are received more evenly, although with some seasonality. Debt payments are disbursed mostly in June and December.

ENTERPRISE FUNDS' OPERATING RESERVE TARGET

1. Target is to maintain an Operating Reserve equivalent to 25% of total annual operating expenses.
2. Operating Reserve is Current Assets minus Current Liabilities, on the Statement of Net Position, Proprietary Funds, in the City's ACFR.
3. Unlike the general fund, which expenses long-term assets in the period purchased instead of depreciating, much of the asset value in an enterprise fund is not spendable. A large part of an enterprise fund's net position could be fixed assets which is not liquid, not a usable reserve. Whereas Fund Balance is simply akin to subtracting total liabilities from total assets, a Working Capital method of calculating Operating Reserves eliminates long-term assets and long-term liabilities from the calculation.
4. If the operating reserve is projected to fall below the target, then appropriate action, including rate increases and/or reductions in spending, will be taken to restore the reserve to the target level at the time of annual budget adoption.

REPORTING & FORECASTING

1. At time of annual audit completion, the Finance Director shall report the General Fund's fund balance and the Enterprise Funds' operating reserves to City Manager and City Council.
2. Mid-period fund balance calculations prove difficult, due to the cyclical aspect of inflows and outflows, the complex nature of one-time accruals and allocations available and completed only during year-end closing. Budgetary controls should instead be relied on during interim periods; quarterly financial revenue and expense reporting shall serve to ensure budgeted fund balance targets are on track.
3. At time of budget adoption, the Finance Department and City Manager will include forecasted General Fund's fund balance and Enterprise Funds' Operating Reserves in the material presented to City council prior to budget adoption.

POLICY GUIDANCE

1. The accounting policies of the City of Yakima conform to Generally Accepted Accounting Principles (GAAP) and the City adopts the pronouncements of the Governmental Accounting Standards Board (GASB) as the nationally-accepted standard-setting body for establishing governmental accounting and financial reporting principles.
2. The city considers best practice advisories (whitepapers) of the Government Finance Officers Association (GFOA) to apply uniform standards and procedures of governmental finance management within the governmental accounting sector to the City's specific circumstances.
3. The responsibility for designating funds to specific classifications shall be as follows:
 - a. Committed Fund Balance – the City Council, as the City's highest level of decision-making authority, shall establish, modify, or rescind a fund balance commitment by resolution.
 - b. Assigned Fund Balance – the City Manager or the Director of Finance and Budget may assign fund balance to a specific purpose.
4. Order of Expenditure of Funds. When an expenditure can be charted to multiple categories of fund balance (e.g., a project is being funded partly by a grant, funds set aside by the City, and unassigned fund balance), the most restricted category will be used first, then the next-most restricted category(ies).