



## CITY OF SOUTH TUCSON RESOLUTION NO: 20-15

**A RESOLUTION OF THE MAYOR AND COUNCIL OF THE CITY OF SOUTH TUCSON, [“CITY”] ARIZONA, RATIFYING, APPROVING, AND ADOPTING THE FUND BALANCE POLICY IN ACCORDANCE WITH GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54 AND THE RECOMMENDATION OF THE GOVERNMENT FINANCE OFFICERS ASSOCIATION [GFOA]**

**WHEREAS**, the Government Accounting Standards Board (GASB) issued Statement No. 54 – Fund Balance Reporting and Government Fund Type Definitions, which changes the terminology used for fund balance reporting on balance sheets of Governmental Funds; and

**WHEREAS**, for financial statement reporting purposes, the GASB Statement defines Restricted amounts as those that are constrained to specific purposes by their providers through constitutional provisions or enabling legislation; and

**WHEREAS**, the City Council may commit General Fund balance for specific purposes by taking formal action and these committed amounts cannot be sued for any other purpose unless the City Council removes or changes the specific use through the same formal action taken to establish the commitment; and

**WHEREAS**, the policy delegates to the Finance Director the authority to assign unrestricted (assigned or unassigned) fund balance amount where the City's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements; and

**WHEREAS**, it is prudent to have an established fund balance reserve policy for the General and Risk Management Funds within the City; and

**WHEREAS**, the Fund Balance Policy establishes a 20% General Fund Reserve which shall be met and maintained; and

**WHEREAS**, it is necessary for the preservation of the peace, health, and safety of the City of South Tucson, Arizona, that an emergency be declared to exist, and that this Resolution be effective immediately upon its passage and adoption.

**THEREFORE, NOW BE IT RESOLVED** by the Mayor and Council of the City of South Tucson, Arizona, as follows:

**SECTION 1.** The City Council hereby approves the Fund Balance Policy for compliance with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type definitions in substantially the form submitted and attached hereto as Exhibit A.

**SECTION 2.** The City Council hereby sets the reserve level as stated within the attached policy.

**SECTION 3.** The City Council hereby removes all prior and committed fund balance designations.

**PASSED AND ADOPTED** by the Mayor and Council of the City of South Tucson, Arizona, this 16<sup>th</sup> day of June, 2020.

**APPROVED/EXECUTED**

  
MAYOR, BOB TESO

ATTEST:

APPROVED AS TO FORM:

  
City Clerk, Veronica B. Moreno

  
City Attorney, Bobby Yu, Esq.



## CITY COUNCIL AGENDA REPORT

June 16, 2020

**TO:** Mayor and Councilmembers  
**FROM:** Lourdes Aguirre, Finance Director  
**SUBJECT:** Resolution No. 20-15  
**AFFECTED DEPARTMENTS:** City-Wide  
**ITEM REQUEST:** Fund Balance Policy

### TITLE OF AGENDA ITEM:

RESOLUTION NO. 20-15 OF THE MAYOR AND COUNCIL OF THE CITY OF SOUTH TUCSON, ["CITY"] ARIZONA, RATIFYING, APPROVING, AND ADOPTING THE FUND BALANCE POLICY IN ACCORDANCE WITH GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54 AND THE RECOMMENDATION OF THE GOVERNMENT FINANCE OFFICERS ASSOCIATION [GFOA]

### EXECUTIVE SUMMARY:

The topic of Fund Balance Policy was first presented and discussed during the council meeting of March 3<sup>rd</sup> and drafts of both the Policy and Resolution were published for the March 17<sup>th</sup> meeting, but the meeting was cancelled due to COVID-19. At this point, staff would like revisit the topic and recommend the approval and adoption of said policy. Attached for your review are the following materials:

1. GFOA Fund Balance Guidelines for the General Fund – best practice (2 pages)
2. Fund Balance Policy in line with GASB Statement No. 54 (4 pages)  
Objective is as follows:
  - A.) Comply with GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions.
  - B.) Establish sound formal fiscal reserve policies. These policies will be the foundation for ensuring that strong fiscal management and policies guide future City decisions.
  - C.) Build adequate reserves. This action will provide the City with resources to help stabilize the organization and will position it during economic downturns or large-scale emergencies. In addition, it is critical to minimize the potential for reactive decision-making, which can lead to unpleasant consequences.
  - D.) Guide the City toward meeting its short-term and long-term obligations.

**RECOMMENDATION(S):** Approval of Resolution 20-15

**Attachment(s):** Total of 6 pages (please see above)

City Manager Concurrence: \_\_\_\_\_ **COPY**

# CITY OF SOUTH TUCSON

## EXHIBIT A. Fund Balance Policy

### Purpose and Scope

The Fund Balance policy is a component of the Fiscal Sustainability Policy that is intended to guide the City's financial planning to meet financial obligations while providing high quality services and shall serve as a cornerstone for other budgetary and financial decisions. One of the key components of a financially stable organization is the establishment and maintenance of appropriate reserves and the adoption of a prudent reserve policy. This policy establishes a clearly delineated policy to govern decision-making and fiscal actions by its officials for the General Fund and other major funds of the City. This policy also establishes the procedures for reporting within the annual financial statements, unrestricted fund balance (comprised of Committed, Assigned, and Unassigned categories) with the City's governmental funds (General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds), and authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

### Approving Authority – City Council

### Objectives

- A. Comply with GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions.
- B. Establish sound formal fiscal reserve policies. These policies will be the foundation for ensuring that strong fiscal management and policies guide future City decisions.
- C. Build adequate reserves. This action will provide the City with resources to help stabilize the organization and will position it during economic downturns or large-scale emergencies. In addition, it is critical to minimize the potential for reactive decision-making, which can lead to unpleasant consequences.
- D. Guide the City toward meeting its short-term and long-term obligations.

### Definitions

Fund balance is the difference between the assets and liabilities reported in the City's governmental funds. There are generally limitations on the purpose for which all or a portion of the resources of a governmental fund may be used. The force behind these limitations can vary significantly, depending upon its source. Consequently, the fund balance reported in the annual financial statements is categorized into five components whereby each component identifies the extent to which the City is bound to honor constraints on the specific purpose of which amounts in the fund can be spent. The five components of fund balance are as follows:

- **Nonspendable:** The portion of a fund balance that cannot be spent because it is either: (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans/advances receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment. This category was traditionally reported as a “reserved” fund balance under the old statement.
- **Restricted:** The portion of a fund balance that has constraints placed on the use of resources that are either: (a) externally imposed by creditor (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. This category was traditionally reported as a “reserved” fund balance under the old standard.
- **Committed:** The portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council and remain binding unless removed in the same manner. This category was traditionally reported as a “designated” fund balance under the old statement.
- **Assigned:** The portion of a fund balance that includes amounts that are constrained by the governments intent to be used for specific purposes, but that are neither Restricted nor Committed. Such intent needs to be established either by the City Council or by an official designated for that purposes. This category was traditionally reported as a “designated” fund balance under the old standard.
- **Unassigned:** The portion of a fund balance that does not fall into one of the above categories within the General Fund. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. This category was traditionally reported as an “undesignated” fund balance under the old standard.

## **Policy**

### **DELEGATION OF ASSIGNMENT AUTHORITY**

This policy delegates to the Finance Director the authority to assign unrestricted (assigned or unassigned) fund balance amounts where the City’s intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

### **GENERAL FUND RESERVE POLICY**

1. At the end of each fiscal year, the City shall maintain a Committed Fund Balance equal to 20% of operating expenditures in the General Fund for operating contingencies and catastrophic events. For purpose of this statement, the General Fund Budget shall include appropriations for operating expenditures plus transfers from the General Fund to Other Funds. This 20% policy shall be considered the minimum level necessary to adequately provide for:
  - Economic uncertainties
  - Reductions or interruptions of revenue streams

Any catastrophic events / natural disasters  
Financial hardships or downturns in the local or national economy  
Cash flow requirements

2. The City shall ensure that the fund balance always remains at 20% of operating expenditures by fiscal year end, notwithstanding any of the allowable reductions (uses) listed above.
3. In addition to the designations noted above, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years which are carried forward into the new year, debt service reserve requirements, and other services or designations required by contractual obligations, state law, or generally accepted accounting principles.
4. This designated fund balance shall not be considered available for compensation adjustments, or increases to staff or service levels.
5. The status of the General Fund Reserve shall be analyzed and estimated by the Finance Department using departmental year-end estimates and reported with the adoption of each year's budget. The actual General Fund restricted fund balance shall be reported no less than annually in the agenda report accepting the Comprehensive Annual Financial Report.
6. Any reserves in excess of the 20% designation shall be available for appropriation for one-time expenditures, pension payments or capital needs as recommended by the City Manager and approved by the City Council.

#### **CAPITAL EQUIPMENT/IMPROVEMENT RESERVE POLICY**

The reserve is intended for capital needs as set forth in the Fiscal Sustainability Policy. There is no minimum reserve amount set although use of the funds set aside for capital equipment requires City Council action for its use.

#### **GENERAL PROVISIONS**

##### **Deviations from the Policy**

No deviations from the Fiscal Reserve Policy will be allowed except as approved by the City Council. This would include increasing or decreasing the basis of emergency reserves, expenditures from reserves for anything other than the intended use of said reserve, and expenditures from any fund balances above the stated basis of the emergency reserves. Any such request must be reviewed by the Finance Director for analysis of the fiscal impact. The Finance Director will then submit the request to the City Manager with a recommendation followed by a presentation to the City Council for action.

**Replenishment of Reserves**

As reserves are set in place for use of unforeseen or catastrophic events, it is possible for the reserve to fall below the set policy amount. Should a particular reserve fall below the anticipated reserve level as stated in this Policy, the City Manager will bring forward a plan as part of the subsequent fiscal year budget, to replenish said reserve in a reasonable timeframe.

This policy is in place to provide a measure of protection of the City against unforeseen circumstances and to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provision of this policy.

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