

## **POSSIBLE MOTIONS**

### **Step 1:**

**I MOVE TO** approve the Administrator's recommendation to transfer \$440,862 to the Public Infrastructure Sinking Fund.

### **Step 2:**

**I MOVE TO** restrict \$250,000 of the General Fund unreserved, undesignated fund balance to a committed fund balance, available only for appropriation for the purposes of providing payment for landslide legal and geotechnical services and other related costs.

# Memo

**Thru :** Mark Gorman, Municipal Administrator

**To:** City and Borough of Sitka Assembly

**From:** Jay Sweeney, Chief Finance and Administrative Officer

**Date:** September 20, 2016

**Re:** Transfer of General Fund funds to Public Infrastructure Sinking Fund and Commitment of General Fund Balance of \$250,000

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Section 4.45.020 of the Sitka General Code (SGC) requires the Administrator, within 90 days after the start of the fiscal year, to prepare an analysis of the General Fund balance and recommend to the Assembly an amount to be transferred to the Public Infrastructure Sinking Fund (PISF). Within 60 days after this presentation to the Assembly, the amount determined by the Administrator is automatically transferred unless a super majority of the Assembly votes to change the recommended amount.

The annual analysis has been completed and \$690,862 is available. The Administrator is recommending that only \$440,862 be transferred to the PISF for the following reason:

The Municipality is anticipating unbudgeted legal, geotechnical and other expenses related to the August 2015 landslide. These could be as high as \$250,000. It is felt that the 2015 fund balance provides a good source to cover these expenses. The Administrator is recommending that this amount not be transferred to the PISF. Instead, it should be restricted in the form of a committed fund balance within the General Fund for the purposes of providing funding for the payment of legal, services and geotechnical services and related other costs.

The commitment of \$250,000 of the undesignated, unreserved fund balance of the General Fund does not require an ordinance or resolution. Passage of a motion is sufficient. Subsequent expenditure of the funds for the specific purposes they have been restricted for requires an appropriation. Likewise, transfer of funds from the General Fund to the Public Infrastructure Sinking Fund will requires an appropriation. All appropriations must be accomplished through budget ordinances (one follows this agenda item).

Appropriate Assembly motions to accomplish the various purposes described above are as follows:

***I move to accept the Administrator's recommendation to transfer \$440,862 to the Public Infrastructure Sinking Fund.***

***I move to restrict \$250,000 of the General Fund unreserved, undesignated fund balance to a committed fund balance, available only for appropriation for the purposes of providing payment for legal and geotechnical services and other related costs.***

Please note that the supplemental budget ordinance in the next agenda item is predicated upon the anticipation that the Assembly will pass the two motions stated above; if either motion is not passed, the related supplemental budget ordinance must be changed and should not be passed on first reading.

**Chapter 4.45**  
**LONG-TERM INFRASTRUCTURE SINKING FUND FOR THE REPAIR AND**  
**REPLACEMENT OF GENERAL FUND MUNICIPAL BUILDINGS, STREETS,**  
**SIDEWALKS, PARKING LOTS, AND PARKS**

Sections:

- 4.45.010 Establishment of the public infrastructure sinking fund.
- 4.45.020 Determination of the required balance of the public infrastructure sinking fund.
- 4.45.030 Assembly action.
- 4.45.040 Use of the sinking fund.
- 4.45.050 Emergency transfer of the sinking fund.

**4.45.010 Establishment of the public infrastructure sinking fund.**

There shall hereby be created, within the fund structure of the city and borough of Sitka, a sinking fund for the repair and replacement of general fund municipal buildings, streets, sidewalks, parking lots, and parks to be hereafter called the public infrastructure sinking fund. (Ord. 12-30 § 4 (part), 2012.)

**4.45.020 Determination of the required balance of the public infrastructure sinking fund.**

Within ninety days after the start of each fiscal year, the administrator shall prepare an analysis of the general fund balance with an accompanying recommendation as to an amount of the general fund balance available for potential transfer to the public infrastructure sinking fund. This analysis shall first take into account any portions of the general fund restricted by Chapter 4.44A before recommending any further amounts for potential transfer to the public infrastructure sinking fund. (Ord. 12-30 § 4 (part), 2012.)

**4.45.030 Assembly action.**

Within sixty days after presentation of the annual analysis by the administrator, the amount determined by the administrator shall automatically be transferred to the public infrastructure sinking fund, unless a super majority of the assembly votes to change the recommended amount. (Ord. 12-30 § 4 (part), 2012.)

**4.45.040 Use of the sinking fund.**

The assembly shall annually appropriate an amount from the public infrastructure sinking fund to be used exclusively for the repair and replacement of general fund municipal buildings, streets, sidewalks, parking lots, and parks as recommended by the administrator in his annual budget. (Ord. 12-30 § 4 (part), 2012.)

**4.45.050 Emergency transfer of the sinking fund.**

The assembly shall have the authority to transfer any portion of the public infrastructure sinking fund to the general fund in the case of an emergency threatening public health, safety, or welfare which requires use of public funds. Such a transfer shall require an approval of a super majority of the assembly. (Ord. 12-30 § 4 (part), 2012.)

A stylized graphic of an open book. The pages are represented by dark, irregular shapes. On the right page, a large dollar sign (\$) is prominently displayed. The book is set against a light gray background with a darker gray border.

**FUND BALANCE**

NEW AND IMPROVED

BY STEPHEN J. GAUTHIER

There is probably no single item in a typical state or local government's financial statements that attracts more attention than fund balance. In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This latest GASB standard will not affect the calculation of fund balance, but will fundamentally alter the various components used to report it.

## BACKGROUND

Accountants use the term *fund balance* to describe the arithmetic difference between the assets and liabilities reported in a governmental fund (e.g., general fund). The categories that have been used until now to present fund balance have focused on whether resources were *available for appropriation* (i.e., budgeting). Thus, the traditional presentation of fund balance distinguished *unreserved fund balance* (i.e., available for appropriation) from *reserved fund balance* (i.e., not available for appropriation).

Fund balance might not be available for appropriation (i.e., reserved) for a variety of reasons. Some resources of a governmental fund, by their very nature, cannot be spent (e.g., prepaid rent and inventories of supplies). Other resources may convert to spendable form only at a much later date (e.g., the long-term portion of notes receivable). Still other resources may be available for spending, but their use is externally restricted to a purpose narrower than the purpose of the fund in which they are reported.

In addition, governing bodies themselves frequently place their own limitations on how they will use resources otherwise available for appropriation (e.g., "earmarking"). Likewise, a government's management may have tentative plans for all or a portion of those resources. In either case, a government traditionally has had the *option* of indicating these tentative managerial plans and self-imposed limitations by presenting a portion of unreserved fund balance as *designated*.

This traditional approach to classifying fund balance is summarized in Exhibit 1.

Three considerations led the GASB to undertake its recent reexamination of the components used to report fund balance. First, the traditional terminology was not self-explanatory

and has frequently led to misunderstandings. Second, governments often have applied the different categories inconsistently in practice. Finally, some have questioned whether the historic focus on availability for appropriation best serves the needs of financial statement users.

## NEW GUIDANCE

**Focus.** GASB Statement No. 54 will shift the focus of fund balance reporting from the availability of fund resources for budgeting to "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."<sup>1</sup>

**Components of fund balance.** GASB Statement No. 54 establishes five components of fund balance. Because circumstances differ among governments, not every government or every governmental fund will report all of those components.

Constraints on how amounts can be spent are not really an issue for resources that are *inherently nonspendable*. Examples include inventories and prepaids; the long-term portion of loans receivable<sup>2</sup>; and non-financial assets held for resale.<sup>3</sup> Still other resources cannot be spent because *legal or contractual provisions require that they be maintained intact* (e.g., the principal of an endowment). GASB Statement No. 54

directs that the portion of fund balance reflecting both be labeled ***nonspendable fund balance***.

Not all limitations on how resources may be used have the same force. Some limitations are externally enforceable and lie beyond the power of the government to change unilaterally (e.g., restrictions imposed by a grant contract or a bond covenant). Other limitations are self-imposed, but would require formal action at the highest level of the government to remove (e.g., resources legally "earmarked" for a given project by the governing body). Still other limitations are less binding and function more as a declaration of intent. GASB Statement No. 54 has created a separate category to accommodate each of these situations.

■ **Restricted fund balance.** The term *restricted fund balance* will encompass net fund resources subject to externally enforceable legal restrictions. It is no accident that the term *restricted fund balance* so closely resembles the term

## Exhibit 1: Traditional Components of Fund Balance

### (Focus on Availability for Appropriation)

#### ▣ Reserved fund balance (not available for appropriation)

- Portion of net resources that *cannot ever be spent* because of their form
- Portion of net resources that *cannot yet be spent*
- Portion of net resources that *cannot be spent for any and all fund-related purposes* because of external limitations

#### ▣ Unreserved fund balance (available for appropriation)

- Designated unreserved fund balance (available for appropriation, with a limitation on use imposed by the government itself)
  - Portion of net resources subject to limitations imposed by the governing body
  - Portion of net resources set aside by management in connection with its tentative plans
- Undesignated unreserved fund balance (available for appropriation, with no external or internal limitation)

*restricted net assets* used in the context of government-wide financial reporting. In both cases, the *restrictions* concerned would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.<sup>4</sup> Note that there is no need for the limitation to be narrower than the purpose of the fund.<sup>5</sup>

- **Committed fund balance.** The term *committed fund balance* will be used to describe the portion of fund balance that represents resources whose use is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation would need to occur no later than the close of the reporting period. Note, once again, that there is no requirement that the limitation be narrower than the purpose of the fund.<sup>6</sup>

- **Assigned fund balance.** The *assigned fund balance* category will cover the portion of fund balance that reflects a government's *intended* use of resources. Such intent would have to be established at either the highest level of decision making, or by a body (e.g., finance committee) or an official designated for that purpose.<sup>7</sup> Logically speaking, a government cannot *assign* resources that it does not have; therefore, the amount reported as *assigned fund balance* could never exceed total fund balance less its nonspendable, restricted, and committed components. Once again, note that there is no requirement that the limitation be narrower than the purpose of the fund.

Of course, the general fund, as the principal operating fund of a government, may have net resources in excess of what is properly categorized in one of the four categories just already described. If so, the surplus will be presented as **unassigned fund balance**. A positive amount of unassigned fund balance, however, will never be reported in a governmental fund other than the general fund, because GASB Statement No. 54 prohibits reporting resources in another fund unless they are at least *assigned* to the purpose of that fund. All the same, funds other than the general fund could report a negative amount of unassigned fund balance should the total of nonspendable fund balance, restricted fund balance, and committed fund balance exceed the total net resources of the fund.

The new components of fund balance are summarized in Exhibit 2.

**Stabilization arrangements.** Governments often establish “rainy day funds” or “contingency funds” to provide a financial cushion against unanticipated adverse financial or economic circumstances. The appropriate classification of such resources within fund balance depends on the specific nature of the arrangement.

On the one hand, if the use of the resources is limited in a way that is legally enforceable by an outside party, classification as restricted fund balance would be appropriate. On the other hand, if the limitation was imposed by the highest level of decision making and can only be removed by formal action equivalent to the action taken to impose it, the use of the committed fund balance classification would be appropriate. It would never be appropriate, however, to classify such resources as assigned fund balance.



## Exhibit 2: New Components of Fund Balance — GASB Statement No. 54

(Focus on Extent to which Government Is Bound to Honor Constraints on the Specific Purposes for Which Amounts Can Be Spent)

- ☞ **Nonspendable fund balance** (inherently nonspendable)
  - Portion of net resources that cannot be spent because of their form
  - Portion of net resources that cannot be spent because they must be maintained intact
- ☞ **Restricted fund balance** (externally enforceable limitations on use)
  - Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments
  - Limitations imposed by law through constitutional provisions or enabling legislation
- ☞ **Committed fund balance** (self-imposed limitations set in place prior to the end of the period)
  - Limitation imposed at highest level of decision making that requires formal action at the same level to remove
- ☞ **Assigned fund balance** (limitation resulting from intended use)
  - Intended use established by highest level of decision making
  - Intended use established by body designated for that purpose
  - Intended use established by official designated for that purpose
- ☞ **Unassigned fund balance** (residual net resources)
  - Total fund balance in the general fund in excess of *nonspendable*, *restricted*, *committed*, and assigned fund balance (i.e., surplus)
  - Excess of *nonspendable*, *restricted*, and *committed* fund balance over total fund balance (i.e., deficit)

GASB Statement No. 54, paragraph 20, places serious limits on what qualifies as a *stabilization arrangement* for this purpose:

The formal action that imposes the parameters for spending should identify and describe the specific circumstances under which a need for stabilization arises. Those circumstances should be such that they would not be expected to occur routinely. For example, a stabilization amount that can be accessed “in an emergency” would not qualify to be classified within the committed category because the circumstances or conditions that constitute an emergency are not sufficiently detailed, and it is not unlikely that an “emergency” of some nature would routinely occur. Similarly, a stabilization amount that can be accessed to offset an “anticipated revenue shortfall” would not qualify unless the shortfall was quantified and was of a magnitude that would distinguish it from other revenue shortfalls that occur during the normal course of governmental operations.

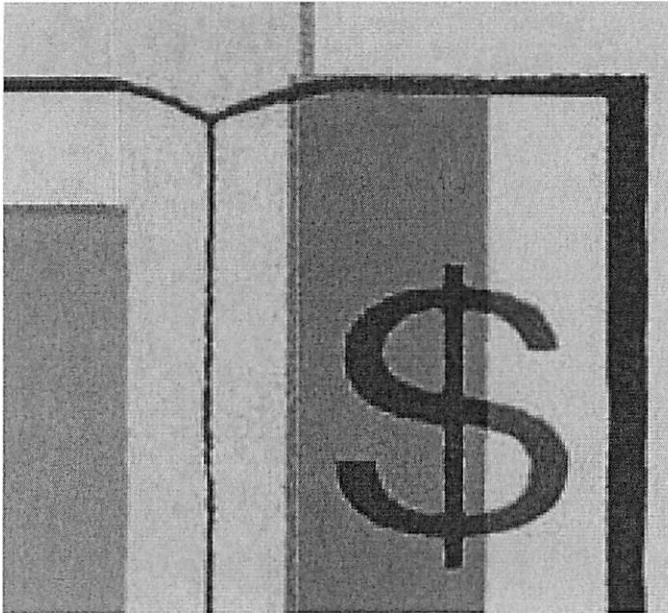
**Appropriated fund balance.** Not infrequently, governments balance their budget by appropriating a portion of existing fund balance to bridge the gap between appropriations and estimated revenues. The portion of fund balance thus appropriated for the following year would properly be classified as assigned fund balance.

**Flow assumptions.** Frequently resources for a single project will come from multiple sources. For example, a city may elect to finance a new bridge partially from restricted grant proceeds (*restricted fund balance*), partially from earmarked revenues (*committed fund balance*), and partially from other available resources expressly set aside for the purpose (*assigned fund balance*). In that case, flow assumptions would be needed:

- When both restricted resources and other resources are to be used, how are outlays allocated to each (e.g., restricted resources presumed to be spent first? Spending presumed to occur on a pro rata basis?)?
- When committed, assigned, and unassigned resources are to be used, how are outlays allocated among the various categories?

### COMPARISON OF OLD AND NEW

Perhaps the best way to gain an understanding of the new fund balance categories is to contrast how certain specific items are reported today with how those same items will be reported in the future under GASB Statement No. 54.



**Reserved fund balance.** Currently, reserved fund balance comprises three elements:

- Resources that by their very nature cannot be spent (e.g., prepaid rent)
- Resources that are not yet available for spending (e.g., long-term portion of loans receivable)
- Resources externally restricted to a purpose narrower than the fund

The first of these elements will *always* be reported as nonspendable fund balance. The second element *normally* would be reported as nonspendable fund balance (i.e., unless there was a limitation on how the amounts eventually received could be used, in which case the classification would be restricted, committed, or assigned fund balance, as appropriate). The third element will be reported as restricted fund balance.

**Designated unreserved fund balance.** Currently this category comprises two elements:

- Limitations that the government places upon itself
- Tentative management plans

Net resources currently reflected in the first category will be reported in the future as either committed fund balance or as assigned fund balance, depending upon the source of the limitation. The latter will be reported as either assigned fund balance (if management is designated to make such assignments) or unassigned fund balance.

**Undesignated unreserved fund balance.** Today this residual category includes resources whose use is limited, but not for a purpose narrower than the purpose of the fund. Under GASB Statement No. 54, there is no requirement that a limitation be narrower than the purpose of the fund. Accordingly, items that are restricted, committed, or assigned simply for the purpose of the fund will be reported as restricted, committed, or assigned fund balance.

Also, reporting designated unreserved fund balance today is optional. Under GASB Statement No. 54, the use of the equivalent category (i.e., assigned fund balance) will be required. Therefore, many governments that today do not report designated unreserved fund balance will report as assigned fund balance a portion of what today is labeled simply unreserved fund balance.

#### EFFECTIVE DATE

Governments will need to implement GASB Statement No. 54 starting with the fiscal period that ends June 30, 2011. In the statistical section of the comprehensive annual financial report, retroactive implementation is encouraged, but not required. If a government declines to restate amounts from previous years in the statistical section, it will need to provide an explanation. ¶

#### Notes

1. GASB Statement No. 54, paragraph 5.
2. Assuming that there are not constraints on the use of the amounts eventually collected.
3. Assuming that there are not constraints on the use of the proceeds of the eventual sale.
4. The criteria for restricted net assets set forth in GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, paragraph 34, are identical to the criteria for *restricted fund balance* in GASB Statement No. 54, paragraph 8.
5. If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is subject to restrictions, then those items should be reflected in restricted fund balance, rather than in nonspendable fund balance.
6. If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is committed, then those items should be reflected in committed fund balance, rather than in nonspendable fund balance.
7. If the use of the amounts to be collected on long-term loans receivable and the amounts resulting from the sale of nonfinancial assets is assigned, then those items should be reflected in assigned fund balance, rather than in nonspendable fund balance.

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