

Fund Balance Policy

Policy Purpose

The purpose of the policy is to establish a target level of fund balance for the general fund and to establish a process and criteria for the continued evaluation of the target level as conditions warrant. This policy shall also establish a process for reaching and/or maintaining the targeted level of fund balance and the priority for the use of resources in excess of the target. Finally, this policy shall provide a mechanism for monitoring and reporting the City's general fund balance. This policy applies only to the general fund.

Definitions and Classifications

Fund balance is a term used to describe the net assets of governmental funds. It is calculated as the difference between the assets and liabilities reported in a governmental fund.

Governmental fund balance is reported in five (5) classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five classifications of fund balance applicable to the general fund are defined as follows:

Restricted Fund Balance Components

Non-spendable – resources which cannot be spent because they are either, a) not in a spendable form or; b) legally or contractually required to be maintained intact.

Restricted – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislations.

Unrestricted Fund Balance Components

Committed – resources which are subject to limitations the government imposes upon itself at its highest level of design making (City Council), and that remain binding unless removed in the same manner.

Assigned – resources neither restricted nor committed for which a government has stated intended use as established by the City Council, or a body or official (management) to which the City Council has delegated the authority to assign amounts for specific purposes.

Unassigned – resources which cannot be properly classified in one of the other four categories. The general fund should be the only fund that reports a positive unassigned fund balance amount.

Background and Considerations

Fund balance is intended to serve as a measure of financial resources in a governmental fund. The City's management, credit rating agencies, and others monitor the levels of fund balance in the general fund as an important indicator of the City's economic condition. While credit agencies have always analyzed fund balance as part of their evaluation of credit-worthiness, increased attention has been focused on determining sufficient levels because of recent events in the credit markets.

In establishing an appropriate level of fund balance the City has considered the following factors:

Property Tax Base

Budget Management

Non-property Tax Revenues

Future Uses

Debt Profile

Employment Base

Liquidity

Fund Balance Policy

It is the policy of the City of South Portland to maintain a minimum unassigned fund balance in the general fund of 9% of the general fund budgeted expenditures measured on a Generally Accepted Accounting Principles (GAAP) basis. In the event that the unassigned fund balance drops below this minimum level, the City will develop a plan, implemented through the annual budgetary process, to bring the balance back to the target level over a period of no more than three (3) fiscal years. A super majority vote of five (5) affirmative votes will be required for the City Council to take action on an item that temporarily reduces the fund balance below this minimum target level. In no instance shall the unassigned fund balance in the general fund fall below 6% of general fund revenues for greater than a continuous two (2) fiscal year period.

Amounts in excess of the targeted maximum of 12% of general fund measured on a GAAP basis shall be used for capital improvements or other one-time expenditures as identified by the City Council. By utilizing excess fund balances for capital improvements, the City will reduce the need to incur long-term debt and will avoid creating an operating funding gap for subsequent fiscal years.

This policy has been adopted by the City to recognize the financial importance of a stable and sufficient level of the unassigned fund balance. However, the City Council reserves the right to appropriate funds from the unassigned fund balance for emergencies and other requirements the City Council believes to be in the best interest of the City of South Portland.

Tax Rate Stabilization Reserve

In periods of economic decline where valuation assessments are flat or decreasing, and/or periods of significant estimated revenue loss or periods of high increases in budgeted expenditures, the City Council may set aside funds in the tax rate stabilization reserve to be used to reduce the needs from taxation for the coming year(s). Funds set aside in the tax rate stabilization reserve should have a planned exit strategy to reduce the use of such reserves in subsequent budgets and should be fully funded to the extent necessary to properly provide a declining (tiered) use of this reserve for a period of no greater than five (5) years. The objective of this tiered approach is to lessen the impact in subsequent years for the lower estimated revenues from the tax rate stabilization reserve. Upon determining the need to use fund balance to offset the needs from taxation the City Finance Director will provide a recommendation for the funding of the reserve and the City Council will commit the necessary balance to fully fund the reserve in the best interest of the taxpayers.

Committed Balances

The City Council has established various reserves sub funds which are to be treated as committed and are listed in Exhibit A with brief description of the sub funds intended use

Assigned Balances

Unless already classified as restricted or committed, the following balances shall be classified as assigned, as per GAAP or as a matter of policy. Additional amounts may be assigned by the City Council and Administration as deemed necessary.

Encumbrances – Amounts encumbered at year-end by contract, including purchase order, or encumbered by some other means shall be classified as assigned.

Budget Appropriation – Amounts appropriated in the annual budget resolve, or in the supplemental budget resolves, for expenditures in ensuring fiscal year shall be classified as assigned.

Additionally, the City will have various sub funds which will be treated as assigned and are listed in Exhibit B with a brief description of the sub funds intended use.

Policy Administration

The Finance Director shall report fund balance in the appropriate classifications and make the appropriate disclosures in the City's financial statements.

Annually, during the Comprehensive Annual Financial Report (CAFR) presentation, the Finance Director shall report the City's fund balance and the classification of the various components in accordance with GAAP and this policy.

Should the City fall below the minimum target level, the Finance Director shall prepare a plan to restore the unassigned fund balance to the target level prior to the ensuing fiscal year's budget adoption.

Should the City exceed the maximum target level, the City Manager shall prepare a recommendation to utilize excess funds for capital improvements or other one-time expenditures.

Exhibit A

Committed Funds

Equipment Replacement (1801)

The fund was established to set aside funds for the purchase of equipment for the City not included in the general operating budget.

Unemployment – City (1803)

The fund was established to set aside funds for the City's portion of payments to the Bureau of Employment in lieu of contributing to the statewide system.

Self-Insurance – City (1804)

The fund was established to set aside funds for City damages not covered by the City's insurance policies.

Municipal Facilities (1805)

The fund was established to set aside funds for the improvements to municipal facilities.

Safety Reserve (1806)

The fund was established to set aside funds for workers compensation claims and the purchase of safety supplies and equipment for City employees.

Computerization Project (1807)

The purpose is to set aside funds for the purchase of computer network, hardware, and software for the City information technology system.

Litigation – Legal (1809)

The purpose is to set aside funds for non routine legal issues.

Communication Equipment – Police (1822)

The purpose is to set aside funds for upkeep and replacement of radios and other communication equipment for the Police Department.

Body Armor – Police (1824)

The purpose is to set aside funds for the purchase of vests and other body armor for the Police Department.

Fire (1830)

The fund was established to set aside funds for the purchase of various vehicles and special equipment for the Fire Department.

Public Works Equipment (1836)

The fund was established to set aside funds for the purchase of various vehicles and special equipment for the Public Works Department.

Snow Removal (1840)

The fund was established to set aside funds for the streets and sidewalks snow removal operating budget for years have higher than normal winter storms.

Cummings Road Sewer (1845)

The fund was established to set aside funds for ongoing maintenance of the sewer system for the Cummings Road area.

Bus (1847)

The fund was established to set aside funds for ongoing maintenance and purchase of buses for the Transportation Department.

Tax Stabilization (1861)

The fund was established to help reduce the tax burden on taxpayers during poor economic periods as more fully disclosed in the formal policy.

Call Company Retirement (1864)

The City Council set aside funds to recognize long-term call company volunteers upon retirement.

Pool (1866)

The fund was established for the purpose of major maintenance needs for the pool at the Community Center.

Energy Efficient (1869)

The fund was established to fund energy efficient projects within City Departments.

Solid Waste (1871)

The fund was established to set aside unused operating funds from Public Works Rubbish Disposal contracted services account for the early repayment of the 65 gallon trash and recyclables containers.

Municipal Buildings & Land Acquisition (1872)

The fund was established from the sale of surplus property to fund maintenance to municipal buildings and land acquisitions.

Special Revenue Sub Funds

Hazardous Materials (2018)

The fund was established to set aside the monies from hazardous materials clean ups to fund special equipment and training for such materials.

Recycling (2024)

The fund was established to collect and raise funds for various recycling projects.

Golf Course (2071)

The fund was established to collect fees from the municipal golf course and maintain the golf course on an ongoing basis.

Recreation (2072)

The fund was established to collect funds and administrator various recreation programs offered by the department.

Boat Ramp (2074)

The fund was established to raise funds for the municipal boat ramp for utilities and other maintenance needs.

Portland Street Pier (2075)

The fund was established to collect the user fees at the pier and to maintain the facility.

Art in the Park (2076)

The fund was established to raise funds for the annual art in the park program at Mill Creek Park and other art programs of the committee .

Street Openings (2082)

The fund was established to set aside money for street opening projects and to pay for any costs involved with the street opening.

Sewer Impact (2084)

The fund was established to collect sewer impact fees collected and implement the objectives of the program.

SPCTV (2088)

The fund was established to collect cable franchise fees and fund the operations of the South Portland Cable TV local access channels.

Thomas Knight Boat Landing (2117)

The fund was established to collect the user fees for the boat landing and to pay the costs of operating the boat landing.

Freshwater Wetland Fund (2165)

The fund was established to collect planning fees for preserving wetlands.

Land Bank Trust (2179)

The fund was established to collect funds for land bank trust and the mission of the program.

Exhibit B

Assigned Funds

General Fund Sub Funds

Vehicle Replacement – Police (1828)

The fund was established to collect special duty funds relating to the vehicles for the purpose of replacing these vehicles for the Police Department.

Phone System (1867)

The fund was established to charge departments for the phone system equipment and set aside these monies for the replacement of phones throughout the City and any upgrades needed to the phone system.

Compensated Absences (1868)

The fund was established to set aside monies for the liability of accrued vacation and sick time payouts upon termination of employment.

Outside OT – Police (2172)

The fund was established to collect and administer the Police Department outside special duty program.

Outside OT – Fire (2173)

The fund was established to collect and administer the Fire Department outside special duty program.

Fuel Distribution (2176)

The fund was established to operate the unleaded and diesel fuel distribution system for the various City Departments.