

# CITY OF BOCA RATON

## DEPARTMENTAL POLICY

DATE OF ISSUE: September 22, 2009

NO: **FS-31**

EFFECTIVE DATE: September 22, 2009

SUBJECT: Fund Balance Policy

REVISED DATE:

APPROVED:

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Linda C. Davidson  
Financial Services Director

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### **I**      **PURPOSE**

To establish a fund balance policy tailored to the needs of the City of Boca Raton (the "City") to establish a level of funding that protects 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 and reserves in the City's governmental funds to provide the capacity to: (1) provide sufficient cash flow for daily financial needs, (2) secure and maintain investment grade bond ratings, (3) offset significant economic downturns or revenue shortfalls, (4) provide funds for unforeseen expenditures related to emergencies, (5) provide funds for pension plan deficits, and (6) provide funds for limitations imposed by section 401(a)(17) or section 415(b) of the Internal Revenue Code.

### **II**      **POLICY**

The City will establish and maintain reservations of Fund Balance, as defined within, in the General Fund in accordance with this policy.

### **III**      **DEFINITIONS/GENERAL INFORMATION**

**Fund Balance** – the cumulative difference of all revenue and expenditures from the government's creation. It can also be considered to be the difference between fund assets and fund liabilities, and can be known as fund equity.

**Assigned Fund Balance** – These are amounts that the City intends to use for a specific purpose; the intent shall be expressed by City Council or by a City official or other Board to which the City Council delegates that authority.

**Restricted Fund Balance** – Amounts that have externally enforceable limitations on use. These amounts are constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government).

**Committed Fund Balance** – Amounts that have self imposed limitations, established through actions of the City Council, the City's highest level of decision making authority, set in place prior to the end of the period. These amounts cannot be used for any other purpose unless the City Council takes the same action to remove or change the constraint.

**Non-Spendable Fund Balance** – Amounts that are inherently not spendable because of their form (such as inventory).

**Unassigned Fund Balance** – Portion of fund balance which is not obligated or specifically designated and are available for any purpose.

**IV MINIMUM LEVEL OF UNASSIGNED FUND BALANCE**

The City will maintain a diversified and stable revenue system that will equally allocate the burden of supporting all services and protect the City from short-term fluctuations in any one revenue source.

The City will project revenues on a conservative basis so that actual revenues will consistently meet or exceed budgeted revenues.

The General Fund Unassigned fund balance, at year end, will range between ten and twenty percent of the following year's budgeted expenditures. In any fiscal year where the City is unable to fund the minimum reservation of fund balance as required in this section, the City shall not budget any amount of unassigned fund balance for the purpose of balancing the budget.

**General Fund – Committed**

The City hereby establishes the following committed fund balances in the General Fund –

**a. Emergency Operating Reserve**

In order to provide the resources necessary to ensure continued operations of the City should a natural disaster or significant change in the weather pattern occur, the City shall establish and maintain an operating reserve fund within the general fund. The amount shall be determined as part of the annual budget process.

*b. Pension Plan Deficits*

The City sponsors three defined benefit plans – General Employee’s Pension Plan, Police and Firefighter’s Retirement System, and the Executive Employees’ Retirement Plan. For all three plans, after employee contributions, the City is required to contribute the remaining amounts necessary to finance the benefits through periodic contributions of actuarially determined amounts.

The City will establish and maintain a retirement plan fund balance equal to the unfunded portion of the actuarially determined amounts. Additions to this retirement fund balance will be determined as part of the annual budget process.

*c. Limitations imposed by section 401(a)(17) or section 415(b) of the Internal Revenue Code*

The City pays each eligible payee of the retirement plan a supplemental retirement benefit equal to the difference, determined on an annual basis, between the amount of the payee's monthly retirement benefit which would have been payable under the retirement plan if not for a reduction due to the application of section 401(a)(17) or section 415(b) of the Internal Revenue Code, and the reduced monthly retirement benefit paid by the retirement plan to the payee. Any funds needed to pay this supplemental retirement benefit will be committed by the City Council. Additions to this committed fund balance will be determined as part of the annual budget process.

*General Fund – Assigned*

The Boca Raton Community Redevelopment Agency (“CRA”), a blended component unit of the City, has issued tax increment revenue bonds to fund capital projects at Mizner Park. On an annual basis, in preparation of potential deficiencies in pledged revenue from Mizner Park operations and public service taxes allocated to the Mizner Park Lock Box Fund, City Council or a designated authority will determine an assigned amount of fund balance to pay bond principal and interest.

**V DISBURSEMENT OF COMMITTED FUND BALANCES**

**VI UTILIZATION OF SURPLUS RESERVES**

In the event that the unassigned fund balance exceeds the amounts set forth above, the excess may be utilized for any lawful purpose of the City. It may also be used for one-time costs including the establishment of or increase in restrictions or commitments of fund balance.

**VII REPLENISHMENT OF RESERVE DEFICITS**

If, at the end of any fiscal year, the actual amount of unassigned fund balance falls below the minimum required fund balance level set forth herein, the City Manager shall prepare and submit a plan for expenditure or expense reductions and / or revenue increases to the City Council. As part of the annual budget review, the City Council shall review and, if necessary, amend the plan submitted by the City Manager for restoring the amounts of unassigned fund balance to the required minimum levels. Any deficit in the required minimum amount must be restored no later than the end of the second fiscal year following the occurrence.

**VIII ANNUAL REVIEW AND DETERMINATION OF RESERVE AMOUNTS**

Compliance with the provisions of this policy shall be reviewed as a part of the annual budget adoption process, and the amounts of restricted, committed and unassigned fund balance shall be determined as part of the annual process.

**IX ADDITIONAL INFORMATION, REQUIREMENTS/RESPONSIBILITIES**

It will be the responsibility of the Financial Services Director to keep this policy current.