

RESOLUTION NO. 2024-27

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WEST COVINA, CALIFORNIA, AMENDING THE FUND BALANCE POLICY

The City Council of the City of West Covina hereby finds and declares as follows:

WHEREAS, in an effort to become more financially secure, the City Council adopted a Fund Balance Policy on July 7, 2015 through the adoption of Resolution No. 2015-52; and

WHEREAS, the City Council amended the Fund Balance Policy on March 1, 2016 through the adoption of Resolution No. 2016-18; on June 21, 2016 through the adoption of Resolution No. 2016-60; on June 5, 2018 through the adoption of Resolution No. 2018-64; and on May 17, 2022 through the adoption of Resolution No. 2022-47; and

WHEREAS, pursuant to the Fund Balance Policy, the City is required to maintain a minimum unassigned fund balance of at least 17% of the General Fund operating expenditures. If the reserve level falls below 17%, the City is required to amend the Fund Balance Policy, including a plan to rebuild the fund within three years. At the end of the fiscal year, the annual excess revenue over expenditures in the City's General Fund will be automatically allocated as follows, unless the transfer is overridden by an action of the City Council: 25% stays in the General Fund balance reserves, 40% is transferred to the City's Capital Projects Fund, 10% is transferred to the Vehicle Replacement Fund, and 25% goes to pay down the City's Other Post Employment Benefit (OPEB) liability; and

WHEREAS, the City Council has determined that the City has met the reserve level at a minimum of no less than two months of regular General Fund operating expenditures which is consistent with the Government Finance Officers Association (GFOA) recommended fund balance reserve level; and

WHEREAS, the City Council desires to amend the Fund Balance Policy to amend the allocations of annual excess revenues over expenditures as follows: 25% will stay in General Fund balance reserves, 25% will be transferred to the Capital Projects Fund, 10% will be transferred to the Vehicle Replacement Fund, 25% will go to pay down the City's Other Post Employment Benefit (OPEB) liability, and 15% will be transferred to the Self-Insurance Funds – General Liability and Workers' Compensation Funds.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF WEST COVINA, CALIFORNIA DOES RESOLVE AS FOLLOWS:

SECTION 1. The City Council hereby adopts the amended Fund Balance Policy attached hereto as Exhibit "A."

SECTION 2. Any and all prior resolutions adopting a Fund Balance Policy for the City of West Covina are hereby rescinded.

SECTION 3. The City Clerk shall certify to the adoption of this resolution and shall enter the same in the book of original resolutions and it shall become effective immediately.

APPROVED AND ADOPTED this 21st day of May, 2024.



Brian Calderón Tabatabai
Mayor

APPROVED AS TO FORM



Thomas P. Duarte
City Attorney

ATTEST



Lisa Sherrick
Assistant City Clerk

I, LISA SHERRICK, ASSISTANT CITY CLERK of the City of West Covina, California, do hereby certify that the foregoing Resolution No. 2024-27 was duly adopted by the City Council of the City of West Covina, California, at a regular meeting thereof held on the 21st day of May, 2024, by the following vote of the City Council:

AYES: Calderón Tabatabai, Cantos, Diaz, Lopez-Viado, Wu
NOES:
ABSENT:
ABSTAIN:



Lisa Sherrick
Assistant City Clerk

EXHIBIT A
FUND BALANCE POLICY

CITY OF WEST COVINA FUND BALANCE POLICY

POLICY

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This new standard has not changed the total amount of reported fund balance, but has substantially altered the categories and terminology used to describe its components. The new categories and terminology reflect an approach that will focus, not on financial resources available for appropriation within a fund, but on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the City's financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also 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*.

PROCEDURES

The term "Fund Balance" is used to describe the difference between assets (what is owned) and liabilities (what is owed) reported within a fund. In the past, fund balance has been classified into basically three separate components: Reserved, Designated, and Undesignated. There are almost always important limitations on the purpose for which all or a portion of the resources of a fund can be used. The force of these limitations can vary significantly, depending on their source. The various components of the "new" fund balance are designed to indicate the extent to which the City is bound by these limitations placed upon the resources.

GASB Statement No. 54 defines five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts can be spent. These new components of fund balance will replace the current existing three components. The five components are:

- Nonspendable fund balance (inherently nonspendable)
- Restricted fund balance (externally enforceable limitations on use)
- Committed fund balance (self-imposed limitations on use)
- Assigned fund balance (limitation resulting from intended use)
- Unassigned fund balance (residual net resources)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. Some examples of nonspendable fund balance are prepaid expenses, notes receivable, inventory and land held for resale. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This policy is focused on financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

COMMITTED FUND BALANCE

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; however, the amount can be determined subsequently.

ASSIGNED FUND BALANCE

Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Such intent needs to be established at either the highest level of decision making, or by an official designated for that purpose.

This policy hereby delegates the authority to assign amounts to be used for specific purposes to the City Manager for the purpose of reporting these amounts in the annual financial statements.

UNASSIGNED FUND BALANCE

These are residual positive net resource of the general fund in excess of what can properly be classified in one of the other four categories.

RESERVE POLICIES

The City shall maintain a minimum unassigned fund balance of at least 17% of the General Fund operating expenditures. If the reserve level falls below 17%, the City must amend this policy, including a plan to rebuild the fund within three years. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:

- Economic uncertainties, local disasters and other hardships or downturns in the local economy
- Contingencies for unforeseen operating or capital needs
- Cash flow requirements

At the end of the fiscal year, the annual excess revenue over expenditures in the City's General Fund will be automatically allocated as follows, unless the transfer is overridden by an action of City Council: 25% will stay in the General Fund Balance reserves, 25% will be transferred to the Capital Projects Fund, 15% will be transferred to the Self-Insurance Funds – General Liability and Workers Compensation Funds, 10% will be transferred to the Vehicle Replacement Fund and 25% will go to pay down the City's Other Post Employment Benefit (OPEB) liability.

FUND BALANCE CLASSIFICATION

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available the policy shall be to expend the restricted fund balance first before expending the unrestricted fund balance. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classification of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

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