

INTRODUCED: November 13, 2017

AN ORDINANCE No. 2017-215

To amend ch. 12 of the City Code by adding therein a new art. V (§§ 12-251—12-265) for the purpose of establishing policies concerning fund balances.

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Patrons – Mr. Agelasto, Ms. Robertson, Ms. Gray  
Vice President Newbille, Ms. Larson and Mr. Jones

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Approved as to form and legality  
by the City Attorney

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PUBLIC HEARING: DEC 11 2017 AT 6 P.M.

THE CITY OF RICHMOND HEREBY ORDAINS:

§ 1. That Chapter 12 of the Code of the City of Richmond (2015) be and is hereby amended and reordained by **adding therein a new** Article V, consisting of sections numbered 12-251 through 12-265, as follows:

**ARTICLE V**

**FUND BALANCES**

**DIVISION 1**

**GENERALLY**

**Sec. 12-251. Definitions.**

AYES: 9 NOES: 0 ABSTAIN:

ADOPTED: DEC 11 2017 REJECTED:  STRICKEN:

(a) The following words, terms, and phrases, when used in this division, have the meanings ascribed to them in this subsection, except where the context clearly indicates a different meaning:

(1) *Calculated general fund surplus.* “Calculated general fund surplus” means the general fund balance less all of the following:

a. The amount of any committed fund balance other than the Budget and Revenue Stabilization Contingency Reserve, non-spendable fund balance, or restricted fund balance.

b. Any encumbered amount properly reported within a committed fund balance, non-spendable fund balance, or restricted fund balance.

c. The amount of the unassigned fund balance as reported in the City’s comprehensive annual financial report for the immediately preceding fiscal year.

d. The amount of the Budget and Revenue Stabilization Contingency Reserve as reported in the City’s comprehensive annual financial report for the immediately preceding fiscal year.

e. Any amounts “due to” or “due from” the School Board of the City of Richmond, Virginia.

(2) *General fund balance.* “General fund balance” means, for a fiscal year, the net position of the general fund calculated as of June 30 in accordance with generally accepted accounting principles.

(3) *Special purpose reserve.* “Special purpose reserve” means an assigned fund balance or a committed fund balance for which this article does not expressly provide and

that does not exist as of the date on which the ordinance initially establishing this article becomes effective.

(b) The terms “assigned fund balance,” “committed fund balance,” “non-spendable fund balance,” “restricted fund balance”, and “unassigned fund balance” have the meanings ascribed to them by Governmental Accounting Standards Board Statement No. 54.

**Sec. 12-252. Disposition of calculated general fund surplus; reporting.**

(a) It is the policy of the City that each years calculated general fund surplus be allocated as follows:

(1) Fifty percent to the “rainy day fund,” with the exact allocation between the Budget and Revenue Stabilization Contingency Reserve and the unassigned fund balance determined by the Mayor in the Mayor’s discretion.

(2) Forty percent to the Capital Maintenance Reserve.

(3) Ten percent to special purpose reserves as determined pursuant to section 12-265.

(b) No later than September 15 of each year, the Mayor shall furnish the City Council with a report on the general fund balance. The report must include all of the following:

(1) The amount of the unaudited general fund balance from the fiscal year ending on the June 30 immediately preceding the date on which this report is due.

(2) The unaudited calculated general fund surplus from the fiscal year ending on the June 30 immediately preceding the date on which this report is due.

(3) The Mayor’s proposals, if any, for the creation of any special purpose reserves pursuant to section 12-265.

**DIVISION 2**

## **RESERVES AND GOALS**

### **Sec. 12-261. “Rainy day” fund.**

The “rainy day” fund consists of the Budget and Revenue Stabilization Contingency Reserve and the unassigned fund balance. It is the goal of the City that the total of the “rainy day” fund be equal to at least 16.67 percent of budgeted general fund operating expenses for the latest fiscal year for which the City Council has adopted a general fund budget.

### **Sec. 12-262. Unassigned fund balance.**

(a) It is the goal of the City that the unassigned fund balance be equal to at least 13.67 percent of budgeted general fund operating expenses for the latest fiscal year for which the City Council has adopted a general fund budget.

(b) It is the policy of the City that appropriations be made from the unassigned fund balance (i) only in the event of unusual, unanticipated, and seemingly insurmountable hardship and (ii) only after all other reserves or contingency funds have been exhausted.

(c) If funds are expended from the unassigned fund balance to cover appropriations, the Mayor shall submit to the City Council, within 90 days after the date on which such funds were expended, a plan to restore the amount of the unassigned fund balance so expended within three years after the date on which such funds were expended.

### **Sec. 12-263. Budget and Revenue Stabilization Contingency Reserve.**

(a) There is created a Budget and Revenue Stabilization Contingency Reserve. It is the goal of the City that the Budget and Revenue Stabilization Contingency Reserve be equal to three percent of budgeted general fund operating expenses for the latest fiscal year for which the City Council has adopted a general fund budget.

(b) It is the policy of the City that appropriations be made from the unassigned fund balance only when catastrophic, unforeseen, or unavoidable events cause a reduction in revenue of at least one-half of one percent over the then-current fiscal year's budgeted general fund revenues or an increase in expenditures of at least one-half of one percent over the then-current fiscal year's budgeted general fund operating expenses, either or both.

(c) If funds are expended from the Budget and Revenue Stabilization Contingency Reserve to cover appropriations, the Mayor shall submit to the City Council, within 90 days after the date on which such funds were expended, a plan to restore the amount of the unassigned fund balance so expended within three years after the date on which such funds were expended.

**Sec. 12-264. Capital Maintenance Reserve.**

There is created a Capital Maintenance Reserve. The City Council may make appropriations from the Capital Maintenance Reserve for the capital maintenance, as determined in accordance with generally accepted accounting principles, of (i) schools administered by the School Board of the City of Richmond, Virginia, (ii) streets and sidewalks as defined by section 24-1, and (iii) buildings and other facilities owned by the City. The City Council does not intend that appropriations be made from the Capital Maintenance Reserve for the construction of new schools, streets, sidewalks, buildings, or other facilities or to add additional area or space to existing schools, streets, sidewalks, buildings, or other facilities.

**Sec. 12-265. Special purpose reserves.**

Assignments for a special purpose reserve must be only for one-time, non-recurring purposes and may not be for an installment or phase of a multi-installment or multi-phase project. No such assignments may be made other than in accordance with this section. The City Council may, by resolution adopted no later than November 1, make an assignment of all or any part of the

portion of the calculated general fund surplus for the preceding fiscal year allocated for special purpose reserves pursuant to section 12-252. If, by November 1, the Council makes no such assignment or does not make such an assignment of all of the portion of the calculated general fund surplus for the preceding fiscal year allocated for special purpose reserves pursuant to section 12-252, the Mayor, in the Mayor's discretion, may make such an assignment in a writing to the City Council.

§ 2. This ordinance shall be in force and effect upon adoption, and its provisions shall apply to the fiscal year commencing July 1, 2017, and ending June 30, 2018, and all future fiscal years.



# Richmond City Council

The Voice of the People

Richmond, Virginia

Office of the Council Chief of Staff

## Ordinance/Resolution Request

**TO** Allen Jackson, Richmond City Attorney  
Richmond Office of the City Attorney

**THROUGH** Lou Brown Ali *LB*  
Council Chief of Staff

**FROM** William E. Echelberger, Jr, Council Budget Analyst *WE*

**COPY** Parker C. Agelasto, 5th District Representative  
Haskell Brown, Deputy City Attorney  
Meghan K. Brown, Deputy Council Chief of Staff  
Amy E. Robins, 5th District Liaison

**DATE** October 31, 2017

**PAGE/s** 1 of 6

**TITLE** Assignment of General Fund Balance

This is a request for the drafting of an Ordinance ☒ Resolution ☐

**REQUESTING COUNCILMEMBER/PATRON**

Parker C. Agelasto, 5th District  
Representative

**SUGGESTED STANDING COMMITTEE**

Finance and Economic Development

**ORDINANCE/RESOLUTION SUMMARY**

The Patron requests an ordinance to establish the financial policies for the City of Richmond regarding the year end General Fund Balance for fiscal years ending on or after June 30, 2018.

**1. Determination of the Calculated General Fund Surplus**

- a. For the purpose of implementing the City of Richmond's Fund Balance Policy, the Calculated General Fund Surplus is to be defined as the General Fund Balance as of June 30, less:
  - i. Any Non-spendable, Restricted, Committed, and Encumbered amounts,
  - ii. The amount of the Unassigned Fund Balance, as reported in the Consolidated Annual Financial Report (CAFR) for the immediately preceding fiscal year, and
  - iii. The amount of the Budget and Revenue Stabilization Contingency Reserve, as reported in the Consolidated Annual Financial Report (CAFR) for the immediately preceding fiscal year.
- b. This Calculated General Fund Surplus is not to include any amount due to/due from Richmond Public Schools. Such amounts should be reflected in one or more of the accounting entries included in the financial statements.

**2. Assignment of the Calculated General Fund Surplus**

- a. The Calculated General Fund Surplus is to be apportioned as follows:

- i. Fifty percent (50.0%) reserved to address the City's "Rainy Day" Fund reserves until the "Rainy Day" Fund policy goals are achieved,
    - 1. Allocation of amounts between the two components of the City's "Rainy Day" Fund reserves is to be at the discretion of the administration.
    - 2. Such allocation between the two components of the City's "Rainy Day" Fund reserves is to be structured so as to allow for accumulation of the amount required for the Budget and Revenue Stabilization Contingency Reserve, and continued growth of the City's Unassigned Fund Balance.
  - ii. Forty percent (40%) reserved for a Capital Maintenance Reserve,
  - iii. Ten (10.0%) reserved for Special Purpose Reserves for other items as may be determined by City Council, or the Administration.
- b. Annually, no later than September 1 the Mayor, or Chief Administrative Officer, are to provide a report on the General Fund Balance. This report is to include:
- i. The amount of the unaudited General Fund Balance from the just ended fiscal year, as calculated in paragraph 1, and
  - ii. The Mayor's proposals and recommendations for the assignment of any Special Purpose Reserves. These proposals may be considered by Council in its assignment of such reserves as provided for below.
- 3. "Rainy Day" Fund Policy**
- a. Scope and Definition**
- i. The City of Richmond's "Rainy Day" Fund Policy addresses two components, 1) the Unassigned Fund Balance and 2) the Budget and Revenue Stabilization Contingency Reserve. These are collectively referred to as the City's "Rainy Day" Funds.
  - ii. The City of Richmond is to set aside two months (16.67%) of General Fund operating expenses as the combined total of the City's "Rainy Day" Funds.
  - iii. Monthly General Fund operating expenses are to be defined as the total adopted General Fund Budget for the next Fiscal Year divided by twelve.
- b. Unassigned Fun Balance**
- i. It is to be the goal of the City of Richmond to maintain an Unassigned Fund Balance equal to 13.67% of the total adopted General Fund expenditure budget, as defined above.
  - ii. Unassigned Fund Balance is to be used only:
    - 1. In the event of unusual, unanticipated, and seemingly insurmountable hardship, and
    - 2. Only after all other reserve or contingency funds have been exhausted.
  - iii. In the event that funds from the Unassigned Fund Balance are utilized, the Mayor is to submit a plan to City Council within 90 days for restoration of the amount utilized within three years.
  - iv. The Unassigned Fund Balance may exceed 13.67% during the time period required to fully implement the City's Rainy Day Fund Policy.
- c. Budget and Revenue Stabilization Contingency Reserve**
- i. The City of Richmond is to maintain a Budget and Revenue Stabilization Contingency Reserve equal to 3.0% of the total adopted General Fund Expenditure Budget for the next Fiscal Year.
  - ii. The Budget and Revenue Stabilization Contingency Reserve may be used only when catastrophic, unforeseen or unavoidable events cause a reduction in



revenue or increase in expenditures of at least one-half of one percent over the then-current fiscal year's budgeted amount of revenue or expenditures.

- iii. In the event that funds from the Budget and Revenue Stabilization Contingency Reserve are utilized, the Mayor is to submit a plan to City Council within 90 days for restoration of the amount utilized within three years.

#### **4. Capital Maintenance Reserve**

- a. After accounting for the Non-spendable, Restricted, Committed, and Encumbered amounts the City of Richmond is to set aside Forty percent (40%) of any remaining year end General Fund Balance (Surplus) for a Capital Maintenance Reserve.
- b. Funds from the Capital Maintenance Reserve may be appropriated for capital maintenance of Richmond Public Schools, maintenance of streets and sidewalks by the City of Richmond, and maintenance of existing capital facilities by the City of Richmond.
- c. Funds from the Capital Maintenance Reserve may not be used for new construction, including construction to add additional space to an existing facility.

#### **5. Special Purpose Reserves**

- a. Annually, no later than November 1, City Council may approve a resolution to assign all or part of the 10% of the unaudited General Fund Balance (Surplus) that is 1) not otherwise categorized as Non-spendable, Restricted, Committed, or Encumbered, and 2) reserved for other items as may be determined by City Council, or the Administration.
  - i. Assignments must be for one-time, non-recurring items.
  - ii. No assignment may be for a phase, or installment, of a multi-part project.
- b. Any amount of the audited, or unaudited General Fund Balance that is: 1) not otherwise categorized as Non-spendable, Restricted, Committed, or Encumbered, and 2) not assigned by City Council may be assigned by the Mayor after November 1.
- c. In the event that City Council does not approve a resolution to assign all or part of the audited, or unaudited General Fund Balance (Surplus) available for Special Purpose Reserves by November 1, the Mayor may assign all, or part, of the available General Fund Balance (Surplus).

#### **BACKGROUND**

##### **Summary:**

##### **Fund Balance**

- § 15.2-2510. Of the Code of Virginia requires that:

"The treasurer or other chief financial officer of each locality shall file annually on or before November 30 with the Auditor of Public Accounts a detailed statement prepared according to the Auditor's specifications showing the amount of revenues, expenditures and fund balances of the locality for the preceding fiscal year, accompanied by the locality's audited financial report."
- The Governmental Accounting Standards Board (GASB) Statement No. 54, defines 5 categories of Fund Balance:
  - Non-spendable – Amounts that cannot be spent due to either their physical form or as a result of a legal or contractual obligation (such as inventory or the corpus of an endowment fund).

- Restricted – Amounts constrained to specific purposes by either a third party (such as grantors, bondholders, and creditors) or by law through constitutional provisions or enabling legislation.
- Committed – Amounts constrained to specific purposes by formal action (adoption of an ordinance) by the government's highest level of decision-making authority (City Council). Committed amounts do not lapse nor can they be used for any other purpose unless the government takes the same level of action (adoption of another ordinance) to remove or change the constraint.
- Assigned – Amounts constrained by the City's expressed intent to use resources for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body has delegated the authority.
- Unassigned – Amounts that are available for any purpose. These amounts are reported only in the General Fund, although unassigned fund balance may be expressed as a negative amount in the other governmental funds.
- According to the Governmental Accounting Standards Board (GASB) Statement No. 54, an Assigned Fund Balance can be designated by the governing body, or the administration, after the close of the fiscal year, but prior to the finalization of the government's financial statements.
- A subsequent budget amendment would be required to implement the purpose of any assignment.
- Provision of a preliminary financial report by September 1 would allow City Council to exercise its prerogatives to assign the spendable fund balance.
- "Rainy Day" Fund Policy
- There is no legal requirement that governs the size of a locality's Fund Balance.
- The Government Finance Officers Association (GFOA) "... recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." This equals 16.67%.
- The City of Richmond has two Fund Balance Policies:
  - Revenue Stabilization and Contingency Fund Policy
    - Established by Resolution No. 2012-R041.
    - Set at a minimum reservation of \$10,000,000.
    - These funds may be used, "... only when catastrophic, unforeseen or unavoidable events cause a reduction in revenue or increase in expenditures of at least one-half of one percent over the then-current fiscal year's budgeted amount of revenue or expenditures."
    - No time frame, or other parameters are established for restoration after utilization of the Revenue Stabilization and Contingency Fund.
  - Unassigned Fund Balance Policy
    - Established by Resolution No. 2012-R042.
    - Sets a goal that the unassigned General Fund balance be at least ten percent of total budgeted expenditures, which are defined as General Fund Budgeted Expenditures plus Richmond Public School Budgeted Expenditures, less the budgeted transfer to Schools from the General Fund.
    - Unassigned Fund Balance is to be used only in the event of, "...unusual, unanticipated and seemingly insurmountable hardship, and only after all other reserve or contingency funds have been exhausted." The Mayor is required to propose a budget that that will provide operating surpluses of one-half of one

percent (0.5%) of expenditures until the Unassigned General Fund balance reaches at least ten percent (10%) of the Total Budgeted Expenditure.

- If the Unassigned Fund Balance is used, it must be replenished over the following three years.
- As of June 30, 2016 the City of Richmond's two Fund Balances totaled \$108.2 million:
  - \$98.2 million Unassigned Fund Balance
  - \$10.0 million Revenue Stabilization and Contingency Fund
- The FY16 Unassigned Fund Balance was 12.0% of Total Budgeted Expenditures.
- The FY16 Unassigned Fund Balance was 14.14% of actual General Fund expenditures.
- When combined with the \$10 million Revenue Stabilization and Contingency Fund, the total FY16 Fund Balance held in reserve of \$108.2 million equaled 15.58% of General Fund Expenditures for FY17 (Recast to reflect the treatment of Streets and roads as a Special Fund).

**"Rainy Day" Fund Policy - Budget and Revenue Stabilization Contingency Reserve**

- Localities have proven reluctant to utilize Unassigned Fund Balance to cover unexpected event, which has led many to designations of Assigned Fund Balance, or Committed Fund Balance to address the eventualities.
- Richmond's Revenue Stabilization and Contingency Fund is currently a flat \$10,000,000 that does not adjust for inflation, or increases in the General Fund Budget.
- There is no standard to the amount that should be set aside in these funds. Examples from other Virginia localities include:
  - Charlottesville - a Downturn Reserve Fund equal to 3% of the City's general fund budget.
  - Norfolk - an Economic Downturn Reserve of 2.5% of the three year average Real Estate Tax Revenues
  - Fairfax County - maintains two reserves:
    - Revenue Stabilization Fund: 5.0% of General Fund expenditures, may be used only in the event of a significant economic downturn.
    - Managed Reserve: 4.0% of General Fund expenditures, provides for temporary financing of critical unforeseen disbursements of a catastrophic emergency nature.
  - Arlington County maintains one reserve, and three contingency funds:
    - General Fund Operating Reserve: 5.0% of General Fund budget, may be used to meet critical, unpredictable financial needs.
    - Budget, Economic & Revenue Stabilization Contingent: an appropriated contingency fund, currently set at \$4 million, established to address unexpected events, such as major weather events or a local/regional emergency requiring immediate incurrence of cost in response: revenue declines and local or regional economic stress.
    - General Fund Contingent: an appropriated contingency fund of \$250,000 established to cover unforeseen expense items or new projects initiated after a fiscal year has begun.
    - Economic Development Contingent: an appropriated contingency fund of \$617,000 established to cover the cost of economic development grants.
- The recommended level for the Budget and Revenue Stabilization Contingency Reserve is 3.0%

### **Rainy Day" Fund Policy - Unassigned Fund Balance**

- The bond rating agencies use Unassigned Fund Balance as one of several important measures of fiscal health.
- This place of importance reflects localities' reliance on Unassigned Fund Balance as a "Rainy Day Fund".
- During the last recession, even with the existence of an Unassigned Fund Balance, most localities chose to cut spending. Several reasons have been put forward to explain the reluctance to tap into the Unassigned Fund Balance:
  - Preservation of balance to cover a one-time event.
  - Difficulty of replacing the reserves balance
  - High reserve funds are a sign of fiscal strength.

### **Capital Maintenance Reserve**

- The City of Richmond has no policy that addresses funding of Capital projects with General Fund cash - whether from current revenues, or reservation of fund balance. The City's Adopted Capital Improvement Plan relies almost exclusively of General Obligation Debt.
- Other localities have general policies that address capital funding. Examples include:
  - Charlottesville, Virginia - "Transfer at least 3% of general fund expenditures to the Capital Improvement Fund (CIP)"
  - Fairfax, Virginia - "...the County budget shall include funds for cyclic and scheduled replacement or rehabilitation of equipment and other property in order to minimize disruption of budgetary planning from irregularly scheduled monetary demands."  
  
"Financing capital projects from current revenues indicates the County's intent to show purposeful restraint in incurring long-term debt."
  - Lynchburg, Virginia - Funds in excess of the targeted 10% fund balance may be considered to supplement "pay-as-you-go" capital outlay expenditures, other non-recurring expenditures or as additions to fund balance.
  - Norfolk, Virginia - "... excess surplus amounts may be used to provide cash funding for capital projects to reduce the future debt burden upon the city;"
- Adoption of a formal policy on the use of General Fund balances for Capital Maintenance Projects will assist to decrease the City's reliance on debt financing.

### **Special Purpose Reserves**

- General Fund balance can be committed or assigned for specific purposes.
- The City of Richmond had no such special reservations of Fund Balance for FY2016.
- The FY13 through FY16 Consolidated Annual Financial Reports (CAFR) identified commitments and assignments of fund balance for Economic Development, Information Technology, Fleet, School Laptops, and Parks.
- A Committed Fund Balance must be designated by the governing body prior to the end of the fiscal year. An Assigned Fund Balance, however, can be designated by the governing body, or the administration, after the close of the fiscal year, but prior to the finalization of the government's financial statements.

**FISCAL IMPACT STATEMENT**Fiscal Impact Yes ☐ No ☒Budget Amendment Required Yes ☐ No ☒

Estimated Cost or Revenue Impact

This policy is to be effective upon adoption for Fiscal Year 2018 and all future fiscal years.

Attachment/s Yes ☐ No ☒Richmond City Council Ordinance/Resolution Request Form, updated 10.3.2012 /urs