

**CITY OF PARAMOUNT, CA**  
**FUND BALANCE POLICY**  
**EFFECTIVE FY 2023-24**

It is essential that the City of Paramount (“City”) maintain adequate levels of fund balance to effectively manage and operate city services and mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures). In most cases, discussions of fund balance will properly focus on the General Fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of fund balance in the General Fund.

The Government Finance Officers Association (GFOA) recommends that cities:

*“...establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for Generally Accepted Accounting Principles (GAAP) and budgetary purposes. Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period. In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed”.*

Fund balance refers to the difference between assets and liabilities in the City’s governmental funds balance sheet. This information is one of the most widely used elements of state and local government financial statements. Financial statement users examine fund balance information to identify the available liquid resources that can be used to repay long-term debt, add new programs, finance capital improvements, or enhance the financial position of the city.

Fund balance is reported in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, which classifies fund balance into five different categories. These categories are *Nonspendable*, *Restricted*, *Committed*, *Assigned* and *Unassigned*.

- **Nonspendable** resources are not in spendable form or required to be maintained intact, such as prepaid, land held for resale, or inventory.
- **Restricted** resources are subject to externally enforceable legal restrictions or imposed by law through constitutional provisions or enabling legislation.
- **Committed** resources are constrained to specific purposes by a formal action of the City Council, the highest level of decision-making authority for the City, such as a resolution. The constraint remains binding unless removed in the same formal manner by the City Council. Council action to commit fund balance must occur

within the fiscal reporting period while the amount committed may be determined subsequently.

- **Assigned** resources are constrained, by the City's intent, to be used for specific purposes but are neither restricted nor committed. The City Manager has the authority to assign unrestricted fund balance amounts where the City's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.
- **Unassigned** within the General Fund are the residual resources, either positive or negative, in excess of what can be properly classified in one of the other four fund balance categories. This also includes the negative residual resources in excess of what can be properly classified as nonspendable, restricted, or committed within all other governmental funds.

This Governmental Fund Balance Policy establishes the amount the City will strive to maintain in its fund reserve, the conditions under which the reserve may be spent, and directions to replenish reserves once used.

## **RESERVES HELD IN THE GENERAL FUND**

The City of Paramount shall maintain the following designations under the appropriate fund balance categories:

### **Reserves Committed by City Council Authority**

#### Operating Reserve

- **Purpose:** While other resources are set aside to mitigate revenue shortfalls for various emergencies and unforeseen circumstances, this Operating Reserve is established as a last resort contingency. To emphasize, the Operating Reserve is the base budget to be used as a final course of action, when all else fails.
- **Target Level:** The General Fund shall maintain a base (minimum) operating fund reserve for an effective and non-disruptive operation of city services. The City will set aside 50% of the annual General Fund Adopted Operating Expenditure Budget. If the Operating Reserve is anticipated to be less than this policy, then it shall be noted in the City's Budget document and a plan will be developed by Finance staff to address the target level.
- **Events or Conditions Prompting Its Use:** This reserve shall be used when all other reserves in the committed, assigned, and/or unassigned categories are insufficient to balance the annual operating budget to meet core services. [Access to this reserve may be triggered by an action of the City Council or when a resolution declaring a state of emergency for the City is in effect.](#)

## Emergency and Economic Uncertainty Reserve

- Purpose: This committed reserve is set aside for a catastrophic emergency that requires the repair or rebuilding of the City's streets, hard-scape, facilities, communication and technology systems, or other City-owned properties. This reserve is also held to mitigate annual revenue shortfalls due to a fluctuating economy, —unforeseen natural disaster, or actions by the state/federal government. This reserve shall be used to support core city services.
- Target Level: 10% of the audited actual General Fund ~~Adopted~~ Operating Expenditure ~~Budget~~. In the event the Emergency and Economic Uncertainty Reserve is used, the City should seek to replenish the reserve up to 10% within 36 months of use.
- Events or Conditions Prompting Its Use: This reserve may be utilized to provide resources to meet emergency expenditures in the case of flood, fire, earthquake, or other disasters or when there is a significant decrease in the General Fund revenues that requires additional funds to stabilize the budget. Access to this reserve shall be triggered by an ~~resolution declaring a state of emergency~~ action of for the City or ~~when there is a significant decrease of more than 10% in the General Fund revenues~~ when a resolution declaring a state of emergency for the City is in effect.

## Infrastructure and Facility Emergencies

- ~~Purpose: This committed reserve is set aside for a catastrophic emergency that requires the repair or rebuilding of the City's streets, hard-scape, facilities, communication and technology systems, or other City-owned properties.~~
- ~~Target Level: 10% of the General Fund Adopted Operating Expenditure Budget~~
- ~~Events or Conditions Prompting Its Use: This reserve may be utilized to provide resources to meet emergency expenditures in the case of flood, fire, earthquake, or other disasters.~~

## **Reserves Assigned by City Manager/Management**

### Compensated Absences – (Calculated Liability)

- Annually, the value of compensated absences, which is the liability derived from employee accrued sick, vacation, and other compensated leave balances, is computed. This reserve will be adjusted annually during the audit to equal the compensated absences of the current year in audit.

#### Retiree Benefit Obligations – (70% of Pension and OPEB Long-Term Liabilities)

- Purpose: This reserve is set aside to pay down the long-term pension and other post employee benefits (OPEB) liabilities to at least 70% of the total obligations.
- Target Level: Annually, the City shall contribute 1% of the General Fund Adopted Operating Expenditure Budget necessary to meet the funding target of at least 70% of the UAL and Total OPEB Liability for all retiree benefit obligations.

#### Self-Insurance – (\$800,000)

- The City is a member of the California Joint Powers Insurance Authority (CJPIA). Together with CJPIA insurance policies, a reserve of \$800,000 shall be maintained to provide adequate protection against losses that exceed, or excluded from, the existing insurance coverage. A periodic analysis is required to adjust the reserve to an appropriate level to ensure adequate funds are available.

#### Capital Projects – (Future Capital Project Costs)

- The City Manager has established this assigned reserve, [or fund](#), for capital projects and should continue to replenish, as needed, to meet the funding needs of future capital improvement projects.

#### Continuing Appropriation (Multi-year Project Carryover)

- This amount represents the unexpended portion of the cost of public improvements that were adopted in the previous year budget. A continuing appropriation does not expire at the conclusion of a fiscal year, but continues until the public improvement is completed.
- For management and accounting purposes, this amount is determined and adjusted near or at the closing of the fiscal year, where the unexpended amount for capital improvement projects shall be set aside to continue funding the projects in the following year until the project is completed.

#### Other Assignments

- From time to time, the City Manager may determine an amount to be set aside to fulfill certain special projects or programs at his discretion.

## RESERVES HELD IN OTHER FUNDS

### Water Fund Operating Reserve

- Purpose: The operating reserves are maintained to mitigate revenue shortfalls due to economic downturns or financial hardship for various reasons.
- Target Level: The Water Fund should strive to maintain a budgetary base (minimum) operating fund reserve of no less than two months (17%) of the Water Fund Adopted Operating Expenditure Budget for an effective and non-disruptive operation of the city's water utility program. Whenever possible, the City should strive to increase its base reserve to more than 17%. If the Operating Reserve is anticipated to be less than this policy, then it shall be noted in the City's Budget document and a plan will be developed by Finance staff to address the target level.

### Water Fund Rate Stabilization

- Purpose: The Water Fund shall reserve \$500,000 for use when the average water rate increase exceeds 10% within a single year. The rate stabilization reserve will be used to limit the average rate increase to 10% for that year. The rate stabilization reserve will soften spikes in rate increases and help water customers prepare for the eventual rate increases.

### Equipment Replacement Fund

- Purpose: The city shall strive to establish a reserve of at least 50% of the replacement value of City vehicles and equipment, and maintain the reserve through the annual budget adoption process.

## EXCEEDING RESERVE POLICY

In most cases, the fund balance policies are set at levels which maximize the use of public resources. The committed and assigned fund balances shall not be more than twice their respective reserve policies. Reserve levels should not exceed policy guidelines for compensated absences, retiree benefit obligations and continuing appropriations.