



**LACEY CITY COUNCIL
WORKSESSION
THURSDAY, FEBRUARY 1, 2018
7:00 – 8:45 P.M.
LACEY CITY HALL – 420 COLLEGE STREET SE**

AGENDA

- 7:00 SEPTIC - TO - SEWER POLICY DISCUSSION**
PETER BROOKS, WATER RESOURCES MANAGER
(VERBAL - PRESENTATION)
- 8:00 FUND BALANCE (RESERVES)**
TROY WOO, DIRECTOR OF FINANCE
(STAFF REPORT)
- 8:45 ADJOURN**



LACEY CITY COUNCIL WORKSESSION
February 1, 2018

SUBJECT: Reserve Designations Ordinance

RECOMMENDATION: Upon review and concurrence, recommend full City Council adoption of the proposed ordinance.

STAFF CONTACT: Scott Spence, City Manager 
Troy Woo, Finance Director 

ORIGINATED BY: Troy Woo, Finance Department

ATTACHMENTS:

1. [Draft Proposed Ordinance](#)
2. [Summary for Proposed Ordinance](#)

FISCAL NOTE:

PRIOR REVIEW: Finance and Economic Development Committee on January 3, 2018

BACKGROUND:

The Governmental Accounting Standards Board (GASB) issued Statement No. 54 during February 2009. The City Council has taken action to commit certain fund balances during every other year since the implementation date. It has been two years since the City Council last designated fund balance designations. Some of the designations have been expended as intended and the City Council has affirmed past commitments and identified new priorities. There is additional fund balance available for the City Council to designate, so the timing is appropriate for the City Council to re-establish the existing and establish new fund balance designations.

GASB Statement No. 54 provides the following classifications for fund balances:

- **Nonspendable**
 - This classification includes fund balances that are not in a spendable form, such as inventories, long-term receivables, and property held for resale. Fund

balances that are legally or contractually required to remain intact, such as a corpus of a permanent fund, are also included in this classification.

- **Restricted**
 - Restricted fund balances include resources that are constrained for a specific purpose by external parties, constitutional provisions, and enabling legislation. Contractual agreements and bond covenants are examples of external parties that could require constraints that would be considered restricted fund balances.
- **Committed**
 - Committed fund balances include resources that are constrained by the highest level of decision making authority of a government. For the City of Lacey, the highest level is the City Council.
- **Assigned**
 - Amounts that are intended to be used for a specific purpose would be considered assigned fund balance. The intent is expressed by the governing body, a subcommittee, or an official authorized by the governing body.
- **Unassigned**
 - Unassigned fund balances are available for any purpose. All remaining fund balances will automatically be classified as unassigned.

The fund balances that will be reported as nonspendable and restricted are classified automatically by the nature of the fund balance, so City Council action is not required to classify fund balances as nonspendable or restricted. The reserve established for the Public, Educational, and Governmental (PEG) fees are restricted for improvements of the PEG broadcast is an example of a restricted reserve. PEG fee uses are restricted for cable services by the franchise agreement.

Authorization to classify fund balances as committed is limited to the City Council. To classify fund balances as committed, the City Council must take formal action. The City Council has full discretion regarding the committed fund balances, but the action must meet specific purpose criteria standards. Committing fund balance to a specific project such as the replacement of a building meets the criteria, but a generic rainy day (stabilization) reserve does not meet the criteria. To meet the specific purpose criteria the formal action needs to identify and describe with sufficient detail the specific circumstances under which a need for restriction occurs. For example, a City Council formal action that constrains \$1 million for a rainy day fund to be used only in an emergency is not allowed to be reported as a committed fund balance. This action does not provide sufficient detail to determine what would constitute an emergency. In addition, the following rules apply to committed fund balances:

- A committed fund balance constraint imposed by the City Council can only be changed or removed by the same formal action.

- In order to be reported on the face of the annual financial statements, the constraints must be adopted prior to the end of the fiscal year to be reported.
- The adoption of the budget document does not qualify as formal action to constrain the resources, because the budget authorization is only for one year.

Assigned fund balances include amounts that are *intended* to be used for specific purposes. This intent can be expressed by the City Council, a City Council Committee, or an official authorized by the governing body such as the City Manager. The residual amounts in governmental funds other than the General Fund are considered assigned. Governmental funds include the General, special revenue, capital, debt service, and special assessment funds. For example, the residual fund balance in the Street Fund (special revenue) will be considered assigned for street and transportation purposes.

The City Council previously authorized the City Manager and City Finance Director to assign funds based on the intent expressed by the City Council. The proposed ordinance includes a provision to re-authorize the same authority to assign fund balance.

Unassigned fund balances include all the remaining fund balances. Unassigned fund balances can be used for any purpose and typically are only reported in the General Fund.

At its January 3, 2018, meeting, the Finance and Economic Development Committee reviewed the proposed fund balance designations, recommended changes, and recommended full Council review prior to consideration of the proposed ordinance. Staff requests review of the proposed fund balance designations and upon concurrence recommend City Council adoption of the ordinance at a future regular City Council meeting.

ADVANTAGES:

1. Review and adoption of the ordinance will help ensure the City's financial reporting remains compliant with GASB Standards and Generally Accepted Accounting Principles (GAAP).
2. The City's Comprehensive Annual Financial Report (CAFR) will more accurately reflect the City Council's vision and intent.
3. Periodic reviews by the City Council will better align fund balances with the annual priorities and long-term goal and vision of the City and will ensure the City Council's commitments are still valid.

DISADVANTAGES:

1. City Council imposed fund balance constraints, which are considered committed fund balances, will require formal action to change or remove the constraint. This could create additional procedures throughout the budget process.

ORDINANCE NO. XXXX

CITY OF LACEY

AN ORDINANCE ESTABLISHING FUND BALANCE DESIGNATIONS AS PROVIDED BY GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54 AND APPROVING A SUMMARY FOR PUBLICATION.

WHEREAS, the Governmental Accounting Standards Board (“GASB”) Statement No. 54 establishes the standard for governmental fund balance reporting and governmental fund balance type definitions, and

WHEREAS, fund balance measures the net financial resources that are available for future expenditures, and

WHEREAS, the City Council finds it beneficial to designate certain fund balances as Committed for specific purposes or projects and that the City Manager or Finance Director be authorized to designate certain other fund balances as Assigned for a specific purpose,

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, as follows:

Section 1. Ordinance No. 1484, an ordinance of the City of Lacey, Washington, establishing fund balance designations as provided by Governmental Accounting Standards Board Statement No. 54, is hereby rescinded.

Section 2. The fund balances of the City of Lacey designated in this Ordinance are committed for the specific purpose indicated. Amendments or modifications of the committed fund balances set forth herein shall require formal action by the City Council.

Section 3. The City Council authorizes the City Manager or City Finance Director to categorize other fund balances as assigned in order to carry out the intent of the City Council.

Section 4. The following portions of its December 31, 2016 governmental fund balances are considered committed:

- \$ 200,000 is committed for Insurance Deductibles
- \$ 2,000,000 is committed for Budget Policy
- \$ 8,000,000 is committed for Gateway Project
- \$ 900,000 is committed for City Hall Facility
- \$ 926,042 is committed for Future Pension Contribution Increases
- \$ 1,650,000 is committed for Strategic Investment
- \$ 500,000 is committed for 5700 Pacific Property Improvements
- \$ 1,000,000 is committed for Parks Priority 1 Project

- \$ 200,000 is committed for Senior Center Parking Expansion
- \$ 587,600 is committed for Regional Athletic Complex Debt
- \$ 900,000 is committed for Regional Athletic Complex Parking Expansion
- \$ 250,000 is committed for Affordable Housing Initiatives
- \$ 100,000 is committed for Carbon Reduction and Resiliency Plan
- \$ 593,574 is committed for Limited-Term Employee Program
- \$ 725,000 is committed for Future Police Station Expansion
- \$ 67,500 is committed for Furniture and Equipment Replacement
- \$ 500,000 is committed for Community Buildings Repairs
- \$ 375,000 is committed for Regional Athletic Complex Field Replacement
- \$ 350,000 is committed for Street Buildings Repair/Replacement
- \$ 400,000 is committed for Transportation Equipment and Improvements
- \$ 500,000 is committed for Capital Equipment Replacement
- \$ 385,000 is committed for Park Facilities Repair/Replacement
- \$ 1,500,000 is committed for Regional Athletic Complex Field Replacement
- \$ 150,000 is committed for Park Security Cameras
- \$ 500,000 is committed for IMS Communications Repair/Replace/Extension
- \$ 71,806 is committed for Public Art
- \$ 1,137,500 is committed for City Facility Repair/Replacement
- \$ 425,000 is committed for the Train Depot Project
- \$ 266,816 is committed for Jacob Smith House Improvements
- \$ 1,500,000 is committed for Capital Facilities Plan Projects
- \$ 82,010 is committed for Senior Center Repairs/Replacement
- \$ 45,635 is committed for Parks Priority 1 Project
- \$ 500,000 is committed for Regional Athletic Complex Field Replacement
- \$ 64,116 is committed for Woodland Trail Connection Grant Match
- \$ 350,000 is committed for Regional Athletic Complex Lifecycle Replacements
- \$ 300,000 is committed for Regional Athletic Complex Field Replacement

Section 5. Corrections. The City Clerk and the codifiers of this ordinance are authorized to make necessary corrections to this ordinance including, but not limited to, the correction of scrivener's/clerical errors, references, ordinance numbering, section/subsection numbers and any references thereto.

Section 6. The summary attached hereto is hereby approved for publication.

PASSED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, at a regularly called meeting thereof, held this 22nd day of February, 2018.

Approved as to form:

Mayor

ATTEST:

City Attorney

City Clerk

DRAFT

SUMMARY FOR PUBLICATION

ORDINANCE NO. XXXX

CITY OF LACEY

The City Council of the City of Lacey, Washington, passed on February 22, 2018, Ordinance No. XXXX entitled “**AN ORDINANCE ESTABLISHING FUND BALANCE DESIGNATIONS AS PROVIDED BY GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54 AND APPROVING A SUMMARY FOR PUBLICATION.**”

The main points of the Ordinance are described as follows:

1. The Ordinance rescinds Ordinance No. 1484.
2. The Ordinance restricts amendments or modifications of committed fund balances to formal action by the City Council.
3. The Ordinance authorizes the City Manager and Finance Director to categorize fund balances as assigned.
4. The Ordinance commits portions of governmental fund balances.
5. The Ordinance approves this Summary for Publication.

A copy of the full text of this ordinance will be mailed without charge to any person requesting the same from the City of Lacey.

City Clerk

Published: February 26, 2018