

CITY OF WESTMINSTER

FUND BALANCE POLICY

I. GENERAL POLICY/PURPOSE

The City of Westminster provides a wide range of services that impact the public safety and the quality of life of its residents and community members. As an essential part of sound financial management, this policy addresses the need to meet seasonal cash flow shortfalls, economic downturns or a local disaster by maintaining adequate reserves for the general government fund types and internal service funds. The purpose of this policy is to secure the City's financial stability during a changing environment and establish a procedure for the allocation of unrestricted fund balance into adequate committed reserves. Fund balance shall be exclusive of all restrictions, commitments and assignments not available for use in emergencies and contingencies.

There are almost always important limitations on the purpose for which all or a portion of the resources of a governmental fund can be used. The forces of these limitations can vary significantly, depending upon their source. Therefore, the various components of fund balance are designed to indicate the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. Fund balance is categorized in five classifications, depicting the relative strength of the spending constraints placed on the purposes for which the resources can be used. The five classifications are:

Non-spendable: amounts not in spendable form or are required to be maintained intact (inventories, prepaid items).

Restricted: portions of fund balance that reflect resources subject to externally enforceable legal restrictions. Amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation (Measure M, grantors).

Committed: amounts constrained to specific purpose by a government itself, using the highest level of decision-making authority (City Council), and remains binding unless removed in the same manner.

Assigned: amounts a government intends to use for a specific purpose; intent can be expressed by the governing body, or by an official body to which the governing body delegates the authority (infrastructure and rehabilitation funding).

Unassigned: amounts available for any purpose; reported only in the General Fund.

CITY OF WESTMINSTER

FUND BALANCE POLICY

II. USE OF RESERVE FUNDS

The following General Fund and Internal Service Fund reserves are designed in the event of unforeseen expenditures that require ongoing funding for significant future outlays. The committed balances are established by a resolution of the City Council and cannot be changed except by a similar subsequent City Council action. The reserves are presented as follows:

General Fund - Committed Emergency/Contingency Reserve

- **Purpose:** These funds are maintained to mitigate annual budget revenue shortfalls as a protection from a fluctuating economy, including financial hardship or downturns in the economy and/or Council-approved expenditures in excess of revenues.
- **Target Level:** The City's target will be 17% of the General Fund operating expenditures, in accordance with the recommendation of the Government Finance Officers Association (GFOA).
- **Events or Conditions Prompting Its Use:** This reserve may be utilized as needed to pay outstanding operating expenditures due to budgeted revenue shortfalls. Use may include, but is not limited to:
 - Significant decrease in property, sales, or transactions and use tax, or other revenues.
 - Reductions in revenue due to actions by the state/federal government.
 - Provide temporary resources in the event of an economic downturn while expenditure reductions are implemented.
 - Provide resources to meet emergency expenditures in the case of flood, fire, earthquake, or other disasters.
 - Use of funds in this category should only be used to respond to a severe economic or other crisis. This category is only used in the most unusual or unexpected situation, and it is ideally never used.

General Fund - Budget Uncertainty Reserve

- **Purpose:** These funds are reserved to address unexpected expenses or revenue fluctuations in future years. Reserves should only be used to provide a short-term solution to maintaining services until projected revenue growth or necessary expenditure reductions are achieved to balance the budget.
- **Target Level:** The City's target will be 10% General Fund operating expenditures.
- **Events or Conditions Prompting Its Use:**
 - This reserve may be utilized in years when revenues do not exceed expenditures associated with volatility in revenue, such as changes in market conditions or funding sources.
 - These funds help ensure smooth operations during periods of uncertainty, to continue functioning effectively and meeting commitments.
 - Contingency funds serve as a reserve for unforeseen costs, such as emergency repairs, legal fees, or sudden market changes.

CITY OF WESTMINSTER

FUND BALANCE POLICY

General Fund - Infrastructure Contingency Reserve

- Purpose: These funds are reserved to address planning, development, or maintenance of city infrastructure.
- Target Level: The City's target is to add 10% of the actual General Fund audited surplus to the Infrastructure Contingency Reserve each year when the General Fund ends with a surplus balance.

General Fund - PARS Pension Section 115 Trust

- Purpose: These funds will be used to pay City pension costs in future years when projected expenditures exceed projected revenues. Funds in the 115 trust can only be used to pay pension costs.
- Target Level: The City's target is to transfer 20% of the General Fund actual audited surplus to the PARS Section 115 Trust for future California Public Employees Retirement System (CalPERS) unfunded liability payments in the year following the surplus.

General Fund - Other Post Employment Benefits (OPEB) Fund Section 115 Trust

- Purpose: These funds will be used to pay City OPEB costs in future years when projected expenditures exceed projected revenues. Funds in the 115 trust can only be used to pay OPEB costs.
- Target Level: The City's target is to transfer 10% of the General Fund actual audited surplus to the PARS Section 115 Trust for future Other Post Employment Benefit (OPEB) liability payments in the year following the surplus.

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Internal Service Fund - Committed Liability Reserves

- Purpose: Reserves will be maintained at a level which, together with purchased insurance policies, adequately protect the City.
- Target Level: The City will strive to maintain a reserve of \$500,000 (indexed for inflation since 2025) in both the Risk Management and Workers Compensation/Employee Benefits funds to cover future obligations.
- Events or Conditions Prompting Its Use: These reserves may be utilized to offset unexpected losses experienced by the City as a result of ongoing litigation.

Internal Service Fund- Committed Information Technology and Fleet Replacement Reserves

- Purpose: The City has established and maintains both an IT Equipment Fund to provide for the timely replacement of information technology, both hardware and software, and a Motor Pool Fund to provide for the timely replacement of vehicles and related equipment. The amounts retained in these funds, coupled with the annual contributions received by them from any source shall be adequate to fully fund the replacements approved in any given year.
- Target Level: The City will strive to maintain a reserve of \$500,000 (indexed for inflation since 2025) in these funds to cover future obligations.
- Events or Conditions Prompting Its Use: This reserve may be utilized in the event of an unplanned failure of a City asset, including, but not limited to, IT equipment (i.e. server), vehicles and related equipment.

CITY OF WESTMINSTER

FUND BALANCE POLICY

Internal Service Fund - Committed Major Equipment Replacement Reserve

- Purpose: The City has established and maintains a Facilities/Maintenance Fund for the purpose of maintaining and improving the city-owned, general government buildings and structures. The amount retained in this fund, coupled with annual contributions received by it from any source, shall be adequate to fully fund the maintenance and replacements approved in any given year.
- Target Level: The City will strive to maintain a reserve of \$500,000 (indexed for inflation since 2025) in this fund to cover future obligations.
- Events or Conditions Prompting Its Use: This reserved may be utilized in the event of an unplanned failure of a City asset, including, but not limited to, buildings and structures (i.e. roof leak).

III. PERIODIC REVIEW

This Reserve Policy and the appropriate level of reserves are to be reviewed and approved by the City Council every year during the budget process. The Finance Department will continue to monitor reserve and investment balances year-round to maintain healthy reserve levels.

IV. EXCESS FUND BALANCE FUTURE YEARS

If revenues exceed expenditures in any given fiscal year, first priority of the use of the excess funds will be to fund the General Fund, and then the Internal Service Funds up to the targeted level. Once these have attained full funding, staff shall make a recommendation to Council as to the best use of fund balances in excess of established policy.