NORTH MIAMI
FLORIDA
776 N.E. 125 Street, North Miami, Florida 33161

Council Report

To: The Honorable Mayor and City Council

From: Vernon Paul, Jr., Finance Director

Date: ~~June 12, 2012~~ **June 26, 2012 (Second Reading)**

RE: Ordinances of the City of North Miami, Florida appropriating $5,000,000 from the Biscayne Landing Lease initial settlement of $17,500,000 to create a Budget Reserve Fund Balance and adding a new chapter in the City Municipal Code to create a policy as mandated by GASB 54 for the classification of fund balance reserves.

RECOMMENDATION

It is recommended that the City Council establish the proposed reserve fund by ordinance, setting aside $5,000,000.00 from the Biscayne Landing Lease initial settlement of $17,500,000.00. This approach is suggesting that any changes to the reserves will require an adoption of a new ordinance with a first and second reading, eliminating the ability to change the reserve level without careful consideration and a 4/5th vote of the City Council. The goal is to maintain adequate financial reserve so that in time of economic downturns and annual revenue fluctuations, the City can continue to provide essential services to meet expenditure obligation while establish a policy for fund balance classification as mandated by GASB 54.

BACKGROUND

In February 2009, The Government Accounting Standard Board issued Statement No.54, "Fund Balance Reporting and Government Fund Type Definitions" (GASB 54). The Statement required government entities to adhere to the reporting requirements and adopt a policy implementing GASB 54 if they were to receive a qualified or clean audit opinion. Prior to end of fiscal year 2011, the city had not implemented the recommended policy to meet the deadline for compliance. The policy was to create a reserve option regarding the different category and classification, identifying the different fund balance as proposed by GASB 54 for fiscal year 2011 financial reporting. Staff took the opportunity at the City Manager's request to designate $5,000,000.00 for Local Economic Uncertainty.

GASB 54 is a fund balance classification and financial reporting mandate and is recommended to be adopted by policy. The budget reserve fund balance requirements address how General Fund Reserves can and cannot be spent and the requirements for the Reserves be adopted by Ordinance.

The reserve level will be reviewed on an annual basis or as needed as part of the City's Budget process. Recommendations for changes will come from the City Manager to the City Council. This will enable long-term planning in order to meet City Council's objective of developing and implementing comprehensive budgeted reserves. The Biscayne Landing Lease Initial settlement has provided the opportunity to create a reserve for fund balances. Staff has taken the opportunity to insert in this proposed ordinance the mandates of GASB 54.

Summary: GASB Statement No. 54 establishes a hierarchy of fund balance classifications based primarily on the extent to which governments are bound by constraints placed on resources, and clarifies the definition of existing governmental fund types. The City must determine if current special revenue funds meet the revised fund definition for such funds. Finally, the City will create policies and procedures to determine if resources would meet the definition of committed or assigned. Statement No. 54 is effective for financial statements for periods beginning after June 15, 2010.

Attachments

(1) Ordinance No.
(2) GASB 54 Fact Sheet

ORDINANCE NO._____

AN ORDINANCE OF THE MAYOR AND CITY COUNCIL OF THE CITY OF NORTH MIAMI, FLORIDA, AMENDING CHAPTER 2 OF THE CITY CODE OF ORDINANCES ENTITLED "ADMINISTRATION", SPECIFICALLY AT ARTICLE I ENTITLED "IN GENERAL", TO CREATE A NEW SECTION 2-2 ENTITLED "RESERVE FUND ACCOUNT", IN ORDER TO ESTABLISH AND ADMINISTER A RESERVE FUND ACCOUNT IN ACCORDANCE WITH THE GOVERNMENT ACCOUNTING STANDARD BOARD STATEMENT NO. 54, FUND BALANCE REPORTING AND GOVERNMENT FUND TYPE DEFINITIONS (GASB 54), WITH AN INITIAL MINIMUM ALLOCATION OF FIVE MILLION DOLLARS ($5,000,000.00) FROM THE BISCAYNE LANDING LEASE PROCEEDS; PROVIDING FOR CONFLICTS, REPEAL, SEVERABILITY, CODIFICATION, AND AN EFFECTIVE DATE.

WHEREAS, the Government Accounting Standard Board Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions ("GASB 54") require government entities to adhere to financial reporting guidelines and addresses how general fund reserves may properly be classified and expended; and

WHEREAS, the City of North Miami ("City") administration respectfully recommends to the Mayor and City Council, the creation of a reserve fund account in accordance with GASB 54, with an initial minimum allocation of Five Million Dollars ($5,000,000.00) from the Biscayne Landing Lease proceeds; and

WHEREAS, the creation of a reserve fund account will enable the City to conduct long-term strategic planning with greater precision, while having the assurance of a "rainy-day" fund in the event of an emergency; and

WHEREAS, the reserve fund amount may be reviewed and adjusted annually or on an as needed basis, as part of the City's Fiscal Year Budget process; and

WHEREAS, the Mayor and City Council find that the proposed Ordinance reinforces the strategic goals, plans, objectives and policies of the City to better serve and protect the public's health, safety and welfare.

NOW THEREFORE, BE IT ORDAINED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF NORTH MIAMI, FLORIDA, THAT:

Section 1. Chapter 2, of the City Code of Ordinances entitled "Administration" is hereby amended, specifically at Article I entitled "In General", to create a new Section 2-2 entitled "Reserve Fund Account", in order to establish and administer a reserve fund account in accordance with the Government Accounting Standard Board Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions (GASB 54), with an initial minimum allocation of Five Million Dollars ($5,000,000.00) from the Biscayne Landing Lease proceeds, as follows:

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CHAPTER 2. ADMINISTRATION

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ARTICLE I. IN GENERAL.

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~~**Sec. 2-2–2-15. Reserved.**~~

Sec. 2-2. Reserve Fund Account.

(a) The city shall establish and maintain a reserve fund account in accordance with the Government Accounting Standard Board Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions ("GASB 54"). The initial minimum allocation shall be five million dollars ($5,000,000.00) from proceeds derived from the Biscayne Landing lease.

(b) The amount maintained in the reserve fund account may be adjusted, from time to time, by recommendation of the city manager to the mayor and city council, as part of the city's fiscal year budget process. Any adjustments causing a decrease of the initial minimum fund allocation amount set forth in subparagraph (a) above, shall only be made by ordinance requiring at least a 4/5th affirmative vote of the mayor and city council. The mayor and city council are required to replenish deficits below the minimum allocation amount as soon as it is practicable.

Sec. 2-3–2-15. Reserved.

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Section 2. **Conflicts.** In the event that the provisions of this Ordinance are in conflict with any other ordinance, rule or regulation, the provisions of this Ordinance shall prevail.

Section 3. **Repeal.** All ordinances or parts of ordinances in conflict herewith are repealed.

Section 4. **Severability.** If any word, clause, phrase, sentence, paragraph or section of this Ordinance is held to be invalid by a court of competent jurisdiction, such declaration of invalidity shall not affect any other word, clause, phrase, sentence, paragraph or section of this Ordinance.

Section 5. **Codification.** The provisions of this Ordinance may become and be made a part of the code of ordinances of the City of North Miami, Florida. The sections of the Ordinance may be renumbered or re-lettered to accomplish such, and the word "ordinance" may be changed to "section," "article" or any other appropriate word.

Section 6. **Effective Date.** This Ordinance shall become effective immediately upon adoption on second reading.

PASSED AND ADOPTED by a 5-0 vote of the Mayor and City Council of the City of North Miami, Florida, on first reading this 12 day of June, 2012.

PASSED AND ADOPTED by a _____ vote of the Mayor and City Council of the City of North Miami, Florida, on second reading this _____ day of _____, 2012.

_____
ANDRE D. PIERRE, ESQ.
MAYOR

ATTEST:

_____
MICHAEL A. ETIENNE, ESQ.
CITY CLERK

APPROVED AS TO FORM AND
LEGAL SUFFICIENCY:

_____
REGINE M. MONESTIME
CITY ATTORNEY

SPONSORED BY: CITY ADMINISTRATION

Moved by: _____

Seconded by: _____

Vote:

Mayor Andre D. Pierre, Esq.	_____ (Yes)	_____ (No)
Vice Mayor Jean R. Marcellus	_____ (Yes)	_____ (No)
Councilperson Michael R. Blynn, Esq.	_____ (Yes)	_____ (No)
Councilperson Scott Galvin	_____ (Yes)	_____ (No)
Councilperson Marie Erlande Steril	_____ (Yes)	_____ (No)

Additions shown by underlining. Deletions shown by ~~overstriking~~.

Fact Sheet about Fund Balance Reporting and Governmental Fund Type Definitions

1. Why has the GASB issued new standards for reporting fund balance?

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* to address issues related to how fund balance was being reported. The GASB's original intention was to clear up confusion regarding the relationship between reserved fund balance and restricted net assets. However, the GASB's research revealed that the existing standards guiding fund balance reporting were being interpreted inconsistently by different governments. Consequently, the fund balance information reported by many governments also was inconsistent. It also became clear that the understandability of fund balance information was affected and that financial statement users were unable to readily interpret reported fund balance information.

2. Why did the GASB decide not to just clarify the existing fund balance classifications (reserved, designated, unreserved)?

The GASB considered pursuing a solely educational approach to these issues. However, it became apparent based on interviews and survey results that, even if all governments interpreted the requirements consistently, the resulting information would not meet the needs of people who use fund balance information to identify available resources and assess liquidity and financial flexibility.

3. How will governments report fund balance in the future?

Fund balance will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)
- *Restricted fund balance*—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation
- *Committed fund balance*—amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint
- *Assigned fund balance*—amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority

- *Unassigned fund balance*—amounts that are available for any purpose; these amounts are reported only in the general fund.

4. Why is unassigned fund balance reported only in the general fund?

When a government transfers resources from the general fund to another governmental fund, it is communicating that, at a minimum, it intends to use those resources for the purpose of the fund receiving them. This expression of intent meets the requirements for classification as assigned fund balance. Because unassigned fund balance represents amounts that are not constrained in any way, not even by an intention to use them for a specific purpose, the general fund is the only appropriate place to report this classification of fund balance.

In the other governmental funds, however, if a government spends more on a specific purpose than the resources available for that purpose in the fund, then it may need to report a negative amount as unassigned fund balance. If a government cannot cover the deficit with amounts assigned to other purposes in that fund, then the remaining deficit should be reported on the unassigned fund balance line.

5. How will rainy-day amounts be reported under Statement 54?

Statement 54 treats stabilization arrangements as a specific purpose, allowing governments to report these amounts in the general fund as restricted or committed, if they meet the applicable definitions and criteria. Stabilization amounts that do not qualify to be reported as restricted or committed should be included in unassigned fund balance. Governments may report stabilization amounts in a special revenue fund only if they derive from specific revenue sources that are restricted or committed to stabilization.

Regardless of where stabilization amounts are reported, governments also will disclose key information about their stabilization arrangements in the notes to the financial statements, including the authority by which the arrangements were established, the conditions under which additions to the stabilization amounts are required, and the circumstances under which amounts may be used.

6. How has Statement 54 changed the way encumbrances are reported?

The new standards clarify that an encumbrance is not a specific purpose and therefore should not be reported as a separate line on the face of the balance sheet. Encumbering amounts that are restricted or committed does not further limit the purposes for which they can be used. If the encumbering process meets the definition and criteria for committed fund balance, then encumbering an assigned or unassigned amount could result in the amount being reported as committed; however, it would be reported with other amounts committed to the same or similar purposes, *not* as "committed for encumbrances." If a government has significant encumbrances, it should disclose them under the standards for significant commitments.

7. What did the GASB find out about the reporting of governmental funds?

In practice, many governments have interpreted in different ways the prior standards on reporting governmental funds contained in National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles.* This is particularly true for special revenue funds.

8. How does Statement 54 clarify the special revenue fund type definition?

Statement 54 makes clear that, for financial reporting purposes, a special revenue fund may only be established around one or more revenue sources that are restricted or committed to purposes other than capital projects or debt service. For example, a school district might report state and federal aid for elementary and secondary education in a special fund if those revenue sources represent a substantial portion of the fund's total inflows.

9. How does Statement 54 clarify the definitions of debt service and capital projects fund types?

Statement 54 revises the definitions of the debt service and capital projects fund types so that consistent language and structure are used across all of the governmental fund type definitions. Although the existing definition of a capital project fund specifies that they should be used to account for "the acquisition or construction of major capital facilities," many governments have used them to report on capital assets that are not facilities or major or either. Based on constituent feedback, the GASB broadened the definition to encompass capital outlays in general.

10. How will Statement 54 impact the reporting of governmental funds?

The most significant changes are likely to occur in the reporting of special revenue funds, because that is where there has been the most variation in how the prior standards were interpreted. Some governments may not be able to continue to report some of their special revenue funds under the clarified definition. The Statement 54 definition is considered by some to be more permissive that the NCGA Statement 1 definition. However, practice has varied so much that the Statement 54 definition may appear more restrictive to some governments.

11. Does Statement 54 affect how governments use funds for internal accounting purposes or for special reporting?

No. Statement 54 affects only the *reporting* of governmental funds in general purpose external financial reports in conformity with generally accepted accounting principles (GAAP). Governments may continue to use any funds they choose or are required to for their internal accounting or for special purpose reporting.

12. What if a state law requires local governments to report a particular type of fund or to report using the current classifications of fund balance?

For general purpose external financial reporting under GAAP, governments are required to follow Statement 54. If a law conflicts with Statement 54 or any other part of GAAP, the legal requirements can be met by presenting supplemental schedules. Governments will still be able to comply with such state laws in their general purpose external financial report, but outside of the basic financial statements, notes to the basic financial statements, and required supplementary information.

13. What other note disclosures does Statement 54 require?

In addition to the disclosures already mentioned, Statement 54 requires governments to disclose:

- Additional detail regarding the purposes of restrictions, commitments, and assignments, if the required level of detail is not met through display on the face of the balance sheet
- The decision-making authority and formal action, if any, that results in commitments of fund balance
- The bodies or persons with the authority to express intended uses of resources that result in assigned fund balance
- The order in which a government assumes restricted, committed, assigned, and unassigned amounts are spent when amounts in more than one classification are available for a particular purpose
- Information about minimum fund balance policies, if a government has one
- The purpose for each major special revenue fund, identifying which revenues and other resources are reported in each of those funds.

14. When should Statement 54 be implemented?

Governments should implement Statement 54 no later than the first fiscal year beginning after June 15, 2010 (for example, the fiscal year starting on July 1, 2010 and ending on June 30, 2011). Governments are encouraged to implement the standards earlier.