

ORDINANCE NO.

FILE OF CITY COUNCIL

BILL NO. 31 - 2024

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APRIL 3, 2024

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AN ORDINANCE

ADOPTING FUND BALANCE POLICY FOR THE CITY OF ALLENTOWN

**NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF ALLENTOWN:**

**WHEREAS**, the City of Allentown (“City”) is a City of the third class operating under a Home Rule Charter form of governance authorized by the Home Rule and Optional Plans Law, 53 Pa.C.S.A. §2961 et.seq.

**WHEREAS**, Section 507 of the Home Rule Charter of the City of Allentown provides for the establishment of a Department of Finance for the purpose of creating a unified City accounting system which shall include, but not limited to, responsibility for the administration of the receipt, expenditure, accounting, investment, custody and control of municipal funds and assets, including the budget (both operating and capital), and all other financial matters that may arise;

**WHEREAS**, the City desires to adopt a Fund Balance Policy to establish guidelines for the management of the fiscal affairs of the City including, but not limited to, financial policies relative to the balance of the City’s General and Risk Fund consistent with Governmental Accounting Standards Board Statement No. 54, the use of nonrecurring revenues, the funding of capital expenditures and the annual budget process;

**WHEREAS**, the adoption of a Fund Balance Policy is an important measure of economic stability and is essential to ensure that the City maintains adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and other similar circumstances; and

**WHEREAS**, the City does hereby adopt a Fund Balance Policy for the management of certain fiscal affairs of the City of Allentown in accordance with and including the terms as follows:

**FUND BALANCE POLICY  
PURPOSE:**

The purpose of this policy is to ensure that City Council, Mayor, and Administration of the City of Allentown (hereinafter, the “City”) has endorsed a policy with respect to its Fund Balances for the General Fund and the Risk Fund that contemplates the following desired effects.

Maintain strong investment grade credit ratings with the rating agencies.

Provide sufficient cash flow needs during low points in the operating cycle for daily financial needs.

Maintain sufficient reserves to meet unexpected obligations for which there is no budget.

Offset significant revenue shortfalls.

The City does not experience any of the following financial distress according to Pennsylvania Economic League Act of July 10, 1987 (“ACT 47”):

Substantial and/or sequential budget deficit years.

Missing debt service payment(s) or required payment(s) to judgment creditor(s);

Failing to make payroll, remit payroll taxes.

Failing to meet minimum municipal obligations towards its retirement funds.

#### **DEFINITIONS:**

**Fund Equity** – A fund’s equity is generally its assets and deferred outflows of resources net of its liabilities and deferred inflows of resources.

**Fund Balance Classifications:** The fund equity of governmental funds are classified in five separate categories. The components of fund balance are as follows:

**Non-spendable Fund Balance:** This category represents funds that are not in spendable form and includes such items as prepaid expenditures and inventory.

**Restricted Fund Balance:** This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.

**Committed Fund Balance:** This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by City Council. Such commitment is made via a resolution by City Council and must be made prior to the end of the year. Removal of this commitment requires a resolution by City Council.

**Assigned Fund Balance:** This category represents intentions of an individual or group designated by City Council to use the funds for specific purposes. Through a resolution of City Council, the designee would have to be delegated the responsibility to assign funds. Through the approval of the City’s Administrative Order, City Council has provided that the Finance Director serves as the designee for assignments.

**Unassigned Fund Balance:** This category represents all other funds available for investment or other purposes not yet Restricted, Committed, or Assigned. As used herein, the terms “Unassigned” or “Unassigned Funds” shall be synonymous with the term Unassigned Fund Balance.

**Operating Cycle:** The City’s fiscal year, which is the calendar year.

**Unrestricted Fund Balance:** When used in this policy, the term “Unrestricted Fund Balance” shall mean the Fund Balance is also uncommitted, Unassigned, excludes Custodial and Fiduciary Funds, and is synonymous with terms such as operating reserves. As used herein, the terms “Unrestricted” or “Unrestricted Funds” shall be synonymous with the term Unrestricted Fund Balance.

**AUTHORITY:**

The Government Accounting Standards Board (“GASB”) Statement No. 54 strongly recommends that government units identify “non-spendable” amounts within each fund, as well as “restricted,” “committed,” “assigned,” and “unassigned” amounts.

The Government Finance Officers Association (“GFOA”) recommends that,

“[G]overnments’ establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for 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.”

Furthermore, Section 507 of the Code grants the City the general authority to “make and adopt any...rules and regulations...necessary for the proper management, care and control of the City and its finances” (emphasis added).

**POLICY:**

**General Fund Balance**

**Restricted Fund Balance:** Any portion of the General Fund Balance that is Restricted shall have a higher priority for payment than Assigned or Unassigned Fund Balances.

**Minimum Unassigned Fund Balance:** The City’s goal is to achieve and maintain an unassigned fund balance in the General Fund of at least 17% of the annual amount assigned for the General Fund expenditures, including transfers to other funds, but not including Restricted Funds.

**Replenishment of Minimum Fund Balance Reserves:** If unassigned fund balance unintentionally falls below 17%, the Mayor shall prepare and submit a plan to restore the minimum required level as soon as economic conditions allow. The plan shall detail the steps necessary for the replenishment of fund balance as well as estimated timeline for achieving such.

These steps may include, but are not limited to, identifying new, nonrecurring, or alternative sources of revenue; increasing existing revenues, charges and/or fees; use of year end surpluses; and/or enacting cost saving measures such a delaying capital purchases, reducing departmental operating budgets, freezing vacant positions, and/or reducing the workforce. The replenishment of fund balance to the minimum level shall be accomplished within a three-year period. If restoration of the reserve cannot be accomplished within such a period without severe hardship to the City, then City Council shall establish an extended timeline for attaining the minimum balance.

**Appropriation of Unassigned Fund Balance:** The Unassigned Fund Balance may be employed temporarily below the minimum threshold set in this section in case of a material threat to public safety of the citizens of the City but shall be restored within the following budget year in a manner consistent with the Minimum Unassigned Fund Balance listed above.

**The Risk Fund Balance:**

The Risk Fund must maintain a minimum reserve of two months of average expenditures in the prior year budget.

**Monitoring and Reporting:**

The City Council may at any time, whether on a monthly, quarterly, or annual basis, require the Mayor, and/or the Director of Finance to report on the state of the Fund Balances consistent with this policy.