



*CITY OF POUGHKEEPSIE, NEW YORK*  
*Fund Balance Policy*

**DRAFT**

Hon. Marc Nelson  
Mayor

Dr. Brian Martinez  
Commissioner of Finance

## **1. Purpose**

The purpose of this policy is to establish a key element of the financial stability of the City of Poughkeepsie (the “City”) by defining and providing guidelines to maintain a prudent level of fund balance. Fund balance is an important measure, but not the only measure, of economic stability. It is essential that the City maintain adequate levels of fund balance to mitigate financial risk from unforeseen revenue fluctuations or unanticipated expenditures. A proper level of Fund Balance serves to protect the City’s credit worthiness and liquidity. It also provides taxpayers and stakeholders a degree of assurance that unforeseen and extraordinary events are likely to adversely impact them.

Both the Office of the New York State Comptroller and the Government Finance Officers Association (“GFOA”) recommend that local governments establish a policy to maintain reasonable levels of unexpended surplus funds in their General Fund and other principal funds to hedge against unanticipated expenditures and/or revenue shortfalls.

## **2. Background and Fiscal Distress Considerations**

As of January 1, 2023, the City General Fund reported an accumulated negative Fund Balance position of approximately \$3 Million (unaudited).

Moody’s Investors Service has assigned an underlying credit rating to the City of “Ba1” with a “Stable Outlook,” which is considered by the investment community to be below investment grade. The below investment grade credit rating indicates a substantial credit risk on the debt obligations of the City.

In 2013, the Office of the New York State Comptroller developed a Fiscal Stress Monitoring System (“FSMS”) to assist in providing an early identification of municipalities that are susceptible to certain forms on financial stress. FSMS fiscal stress scores are based on financial information that is required to be filed annually with the State Comptroller. The most recent fiscal stress score under the FSMS places the City in the “Significant Fiscal Stress” category.

### 3. Definitions

*Fund Balance.* At its simplest, Fund Balance is defined as the difference between the City's Assets and its Liabilities. It is the sum total of its assets (Cash, Accounts Receivable, Inventories, etc.) minus the sum total of its liabilities (Accounts Payable, Debt Service Obligations, etc.).

GASB 54 requires that Fund Balance be recorded in five distinct classifications.

- A. *Non-Spendable Fund Balance.* Includes amounts that are not in spendable form or are required to remain intact, including, but not limited to prepaid expenses, inventories, and long-term portions of accounts receivable, financial assets held for resale, and principal of endowments.
- B. *Restricted Fund Balance.* Includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. The most common forms of Restricted Fund Balance are Reserves created by Common Council legislative action.
- C. *Committed Fund Balance.* Includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority. Such commitments can be changed or lifted only by the government taking the same action that originally imposed the constraint. Examples of committed fund balance would include self-insurance contingencies, capital expenditures or claims and judgements.
- D. *Assigned Fund Balance.* Comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates its authority. In governmental Funds other than the General Fund, Assigned Fund Balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. An example of an Assigned Fund Balance would be an appropriation of a Fund Balance to offset the need for a tax increase.
- E. *Unassigned Fund Balance.* The residual classification of the Fund Balance includes all amounts not contained in other classifications. Unassigned Fund Balance are technically available for any purpose (for example, a "rainy day fund").

The Committed Fund Balance + Assigned Fund Balance + Unassigned Fund Balance = Unrestricted Fund Balance.

#### 4. Unassigned Fund Balance Policy

The City recognizes the importance of maintaining an appropriate level of undesignated fund balance to withstand short-term financial emergencies. As a best practice, the GFOA suggests that gauging the appropriate level of unrestricted fund balance be based on the greater of the predictability of either two months of regular operating revenues or regular operating expenditures. When available, it shall be the policy of the City to maintain Unrestricted Fund Balance in accordance GFOA's best practice. As detailed in the below calculation, as of January 1, 2023, this would equate to an unrestricted fund balance of \$ 10,108,567.

\$60,651,406 <- 2023 Annual General Fund Operating Revenue (Unaudited, without ARPA)  
*Divide by 12 (Months)*

Equals \$ 5,054,283 Average Monthly Operating Revenue  
*Multiply by 2 (Months)*

#### **Equals \$10,108,567 <- Unassigned Fund Balance Goal**

The maintenance of unassigned fund balance is not to be construed as surpluses or over-taxation by the City. Rather, it is an element of sound fiscal management required for improving its credit rating and financial management flexibility.

Unrestricted fund balance will be monitored by the Commissioner or Finances. At a minimum, the above calculation shall be completed annually by the Commissioner of Finance at a date no later than October 1st. Annual revenue will be based off the most recently completed fiscal year for which full results of General Fund operations are available (audited or unaudited).

#### 5. Unassigned Fund Balance Restoration Plan

The unassigned fund balance of the General Fund may fall below the approved minimum level due to fluctuations between planned and actual revenues and expenditures, other financial emergencies or catastrophic events of an unforeseen nature. In instances when the City's unassigned fund balance falls below the parameters of this Policy, the Commissioner of Finance shall develop a strategy and make recommendation(s) to the City Common Council to restore the fund balance to the minimum level.

When a shortfall is reported by the Commissioner of Finance, it must be rebuilt over a reasonable timeframe. Fiscal strategies deemed appropriate for consideration and recommendation by the Commissioner of Finance may include:

- Increasing real property taxes and exceeding the State imposed real property tax cap;
- Increasing departmental revenues and State and Federal grants;
- Reducing expenditures by achieving economies of scale and efficiencies, as well as right sizing the workforce, and;
- Selling surplus property or assets not required for the provision of municipal Purposes essential to services, and; 1

- Investing the maximum amounts of available funds in investments authorized by the Common Council and consistent with the City’s Investment Policy. <sup>2</sup>
- Use of revenues associated with 2023-2032 Sales Tax Agreement.

## Notes

<sup>1</sup> When dealing with the sale of municipal assets (anticipated or unanticipated), no less than 50% of the “gain on sale of City asset” should be deposited toward the unassigned fund balance until the parameters of this policy have been achieved.

<sup>2</sup> Unless deemed unfitting by the Commissioner of Finance, all interest from Municipal Cooperation Agreements beginning in 2023 should be deposited toward the unassigned fund balance until the parameters of this policy have been achieved.

## **6. Commissioner of Finance Unassigned Fund Balance Restoration Plan (2023)**

As of January 1st, 2023, the City is presently below the above stated policy goal. In accordance with this policy, the Commissioner of Finance has set forth the following plan for consideration by the City Common Council.

The City’s goal is to use available resources to reduce the negative unassigned fund balance. The City will endeavor to meet at least 25% of the stated two-month operating balance by the end of 2024. This policy acknowledges the need to eradicate the City’s negative General Fund balance that has contributed to below investment grade credit ratings. In addition, the objectives of this policy acknowledge actions that are required to elevate the city’s fiscal stress monitoring score as one of New York State’s most fiscally stressed cities. This process shall be repeated annually to achieve fund balance goals within approximately eight years or sooner. Quicker implementation may be achievable after accounting results to close the City’s portfolio of aged Capital Projects and Equipment are known. Other actions in 2023 may include but are not limited to: (a) deposits on the sale of municipal assets noted in this section (see note 1), and (b) commitments to deposit interest payments from municipal cooperation agreements (see note 2), the City budgeted \$500,000 in 2023 to the General Fund for the sole purpose of making an annual deposit to the unassigned fund balance. \$250,000 will be used from sales tax revenues dependent upon actual state wide distribution to Counties. The actions and goals listed above may be modified by the City and as approved by the City’s Common Council when by necessity future macro and local economic conditions require deviation from this policy. Otherwise, this policy commits the City and Common Council to reaching fund balance goals stated herein as soon as is practicable.

## 7. Annual Review & Amendments

This Policy will be reviewed and re-authorized at the beginning of every year.

---

Marc Nelson, MPA  
Mayor

---

Brian Martinez, PhD  
Commissioner of Finance

DRAFT