



## **Fund Balance Analysis** **For the FY 2004 & 2005 2YB**

Beginning and ending fund balances, reserves, and designations provide indications of the financial position of funds. Fund position analysis is a key effort in long term financial planning and in building the Two Year Budget (2YB.) The Fund Overview schedule provides prior year audited “actuals” (for FY 2001 and FY 2002.) FY 2003 amounts are estimated and were not audited at the time of this report. Budgeted amounts for FY 2004 and 2005 include planned use of fund balance or retained earnings. Beginning and ending fund balance dollar amounts for all City funds are shown on the [Fund Balance](#) schedule.

### **Categories**

Fund balance and retained earnings measure the City’s financial capacity and position at any point in time. The City monitors fund balances quarterly, whenever any significant financial plans are considered (such as a major capital project), and in the Comprehensive Annual Financial Report (CAFR).

Fund balance and retained earnings categories include the following:

- **Reserved** Commitments for which the City is legally responsible such as repayment guarantee amounts of bond issues, encumbrances, dedicated purposes, capital repairs, replacements or expansion, and inventory. Reserves are established for commitments made in executed contracts and can change only in accordance with changes to those documents. Reserved funds are committed and cannot be reallocated or used for other purposes.
- **Designations** The City Council may designate, by resolution or other official action, fund balance for specific uses such as future capital projects, rebudgeted projects from prior fiscal years, to protect the City from financial adversity and preserve its fiscal integrity, or other planned activities. Designated funds are committed only by policy, not by law or legal commitment. The City Council may choose to reallocate them to other purposes. Designated fund balances reflect officially approved priority uses and as such are deemed unavailable. However, they are somewhat discretionary unlike reserves.
- **Available** – Funds balance remaining after all obligations (reserves and designations) are deducted. These amounts are “unreserved and undesignated” fund balance and are available for allocation.

Boise City’s policy is to review the unreserved, undesignated fund balance quarterly and to allocate available funds periodically, especially in the taxing funds.

The definition for each of the fund types is provided in [“Glossary”](#) in the appendix.

### **TAX FUNDS**

**General Fund** – In FY 2003, City Council approved a “management target” for all General Fund departments that required them to reduce their operating budgets. The departments successfully met their management target as well as generated other cost savings through innovative cost reduction methods. This resulted in \$3,677,044 in available funding for such things as department special operating projects, unfunded capital projects, or other one-time uses. By policy, City Council continues to provide incentives to departments to generate cost savings.



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For FY 2004 and 2005, City Council budgeted the estimated cost of all approved commitments. However, due to the projected lack of funding, City Council deferred \$5.3 million in FY 2004 and \$4.5 million in FY 2005 in budgeted operating expenses for a new fire ladder truck until FY 2005, and 2 new library branches, a new police headquarters facility, and the associated debt service payments for the library branches and police headquarters facility until FY 2006.

City Council will use the projected unallocated, available fund balance of over \$1.1 million at the end of FY 2004 and the \$66 thousand at the end of FY 2005 for [Unfunded Priorities](#).

**Capital Fund** - The Capital Fund balance, as a result of previous and current years' cost savings and/or revenue gains, is primarily reserved for current projects or allocated to specific capital projects based on priority needs as determined by the Mayor and City Council. For FY 2004 and 2005, City Council has approved the use of \$1,570,506 and \$1,632,957, respectively; of reserved impact fees and capital donations to fund several approved capital projects.

### **ENTERPRISE FUNDS**

**Airport Fund** - The Airport Fund accounts for all revenues such as terminal rent, landing and jet way fees, parking fees, and other charges at the airport, as well as the expenditures that support the maintenance and general operation of the facility. Capital improvements for the airport are primarily funded from Federal Aviation Administration (FAA) grants and Passenger Facility Charges (PFC's).



The Airport Fund operating surplus is earmarked to match FAA grant funds for capital projects. Debt service and capital additions for the airport are accounted for in this fund. At the end of each fiscal year, the capitalized cost for the capital projects is reclassified.

Beginning in FY 2004, the City will begin planning for the construction of a new \$16 million parking garage to accommodate increasing airport use, funded from grants, revenue bonds, and retained earnings. It is anticipated that most of the construction costs will be incurred in FY 2005.

**Geothermal Fund** - Geothermal is a clean, renewable energy source, making it an attractive choice to customers. The City charges customers a geothermal rate to cover operating costs and fund depreciation of assets. The current rates charged are competitive with natural gas rates and change in accordance with natural gas rate changes.

In FY 2004, the City is planning to add new customers, thus the increased capital costs. It is projected that with an increasing customer base the retained earnings balance will be fully recovered within six years. The Geothermal Fund is being studied to find ways, including adding customers, to eliminate the retained earnings deficit in the six-year projection window.



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**Irrigation Fund** – In FY 1997, the City initiated a Municipal Irrigation District to provide non-potable, pressurized irrigation water within the city limits. Service is provided upon request of the homeowner associations, developers or similar parties. Retained earnings are comprised solely of contributed assets, and therefore, not available.

Because the Fund and irrigation program is relatively new and the customer base is small, the fund is running annual deficits. City Council has agreed to fund the deficits with transfers until the program is either able to achieve full annual funding or until another management approach is established.

In FY 2003, the City operated three small irrigation systems. During FY 2004, the City plans to develop a long-term master plan to coordinate irrigation service between the City and the several other entities that operate irrigation systems within the city limits.

**Parking System Fund** - Boise City leases the Grove Street Parking Garage from the Capital City Development Corporation (CCDC). Under this agreement, the City gives CCDC the net revenues from the garage's operation; however, should CCDC meet its bond covenants, it must return a portion or all of the net revenues to the City. CCDC has met or exceeded its bond covenants over the past several years and has been able to return all of the Grove Street Garage's net operating revenues to the City.

The unreserved retained earnings of the Parking System Fund are used to maintain the facility and match the funding of partnered parking garage projects. There are no major repair and maintenance projects planned for FY 2004 and 2005.

**Sewer Fund** - The Sewer Fund is an enterprise fund that completely supports the management and operation of the City's sewer system. The City charges customers user fees to fund the operating expenses and capital improvements. The FY 2004 budgeted revenues are based on a 5% rate increase. Hook-on fees fund the cost of line and trunk extensions. When land is developed, the City charges the developer for the cost of installation of sewer trunk lines. The individual property owner is charged for extending the trunk lines to the structure.



Sewer Fund retained earnings are accumulated to fund expansion, capital replacements and repairs. For FY 2004 and FY 2005, capital expenditures are supported by retained earnings amounts of \$6,693,455 and \$4,062,978, respectively, for facilities and pipeline expansion projects.

**Solid Waste Fund** - The Solid Waste Fund is an enterprise fund that completely supports the management and operation of the City's solid waste system. The City currently contracts with BFI to meet the City's solid waste disposal needs. The City charges users a fee based on the type of business or residential occupancy.



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For several years, it was the intention of City Council to use the accumulated retained earnings to cover operating costs and special projects and maintain customer rates. In FY 2002, for instance, more than \$690,000 was used for land acquisition.

Historically, customer rates generated revenues in excess of annual operating costs. These surplus funds accumulated well above the City's targeted 45-day cash/investment reserve used for day-to-day operations and the targeted total cash/investment reserve (inclusive of the 45-day cash reserve) used to fund contingency events. In an effort to maintain customer rates, the City Council directed that the accumulated funds be used to offset annual operating cost increases and several pilot projects such as glass recycling.

In December 2002, City Council approved a series of customer rate increases to assure that the Solid Waste Fund could cover contract cost increases and landfill fee increases, and maintain targeted cash reserves. The first recommended increase was 5% effective March 1, 2003, followed by 5% effective September 1, 2003, 5% effective September 1, 2004, and 3.75% effective September 1, 2005. The FY 2004 budgeted revenues are based on a 5% rate increase. The subsequent rate increases, when approved by City Council, will reduce the use of retained earnings to cover operating costs in FY 2005, provided contract costs can be contained within the approved budget amounts.

### **OTHER FUNDS**

**Community Development Fund** - The Community Development Fund supports capital projects and programs benefiting low/moderate income citizens funded through federal block grants. With the federal grants, the City funds programs such as Community House that primarily provides emergency and transitional housing. The City does not maintain any retained earnings in this fund since all expenditures are reimbursed during the fiscal year.

**City Shop Fund** - The City Shop Fund accounts for the cost of operating a maintenance facility for the City's automotive equipment. The unreserved City Shop fund balance is used to meet operating shortfalls and capital needs.

**Debt Service Fund** - The Debt Service Fund accounts for the interest and principal payments on bonds issued for tax-funded operations and capital projects. At the end of FY 2003, \$787,061 was reserved to satisfy bond reserve requirements for outstanding indebtedness. City Council has designated the \$7,759,870 balance for post retirement benefits. This designated amount is projected to increase in FY 2004 and FY 2005 in relation to union employee salaries. The City Council did not approve any general employee merit increase due to the lack of funding resources. The police union contract will expire March 30, 2004. Results of the renegotiation may impact the projected designated balance.



**L.M. Cunningham Fund** - The L.M. Cunningham Fund supports the operating costs of the City arboretum, whereby City departments purchase trees and plant material at a predetermined rate



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based on size and condition. The trees and plants are planted along the City right-of-ways, City parks, and other City areas. Retained earnings are available and held for unexpected shortfalls.

**Risk Management Fund** - The Risk Management Fund accounts for the operation of the City's comprehensive liability and insurance programs and the Occupational Safety and Industrial Hygiene program. Self-insured losses are paid through the Risk Management Fund. Costs are billed directly to City departments on the basis of exposure, actual losses and services provided. Unreserved retained earnings are used to fund operating shortfalls as a result of unexpected losses and increased liability requirements.

**Workers Compensation Fund** - This program was initiated in FY 1999, whereby the City funds a claim liability account and self-insured losses are paid through the Workers Compensation Fund. Costs are billed directly to City departments on the basis of exposure, actual losses and services provided. Unreserved retained earnings are used to fund operating shortfalls as a result of unexpected losses and increased liability requirements.

### **FIDUCIARY FUNDS**

The City maintains trust and agency funds to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments, and/or funds.

The **Deferred Compensation Fund** accounts for assets held in the deferred compensation plans of the City held in trust for the exclusive benefit of employees. In FY 1999, and previous years, the City did not budget revenues and expenditures in this fund. However, as a result of changes in the accounting treatment due to federal legislation, the City budgeted revenues and expenditures for FY 2004 and 2005. The fund balance is projected to increase in correlation with employee salaries.

The City also maintains dedicated trust funds such as the **Humane Society Trust** and **Perpetual Care Trust**. These funds are trust funds held for dedicated purposes.

The **Housing Rehabilitation Fund** accounts for several revolving loan funds that provide low interest loans for housing. Various federal grants were used to establish the existing fund balance. The collections of the loans are used to run the program and make new loans to qualified citizens. The amount reserved for loans is dependent on the number of qualified loan applicants and fluctuates from year to year.

The **Boise City Trust Fund** accounts for items that must be held in trust for any other reason. There are no known items to be held in trust for FY 2004 and FY 2005. However, the City has budgeted appropriation that can be transferred upon approval and resolution by City Council to other funds for such things as rebudgeted items from the prior fiscal year, awarded grants and donations, new programs, and unanticipated events.