



City of Sedona

Fund Balance & Reserve Policy

Purpose and Objective

The City of Sedona is committed to sound fiscal management practices, financial stability and sustainability over the long-term. To ensure this stability, this policy establishes fund balance, net assets, and reserve minimums for certain operating and capital funds.

Scope and Applicability

This Fund Balance & Reserve Policy shall provide direction, based on local government best practices as established by the Government Finance Officers Association (GFOA) of the on minimum fund balance, net asset and reserve levels to ensure (1) adequate available funds to continue operations in the event of a natural disaster, economic downturn or other external event that may impact the ability of the City to collect revenue, (2) required reserves to cover debt service, and (3) appropriate reserves to maintain the City’s investment-grade bond rating.

This Policy shall be reviewed and updated as necessary by the Financial Services Department.

Table of Contents

Purpose and Objective	1
Scope and Applicability.....	1
Definitions	3
Fund Balance and Net Asset Targets.....	6
General Fund	6
Streets Fund.....	9
Wastewater Enterprise Fund.....	11
Public Transit Enterprise Fund	13
Other Funds	13
Assignment of Fund Balance.....	15

Surpluses and Shortfalls 15

 General Fund 15

 Wastewater Fund..... 15

Effective Date 16

Appendix A: Link to Best Practices 17

Definitions

1. Funds. Governmental accounting uses “fund accounting,” in which funds are the units of the government that track specific types of spending. In governmental accounting, funds are similar to subsidiary businesses that are part of a conglomerate in the private sector. Each fund, like a subsidiary business, has a separate set of balanced books, and each fund is a part of the whole for reporting purposes. Generally Accepted Accounting Principles (GAAP) divides funds into three categories: governmental, enterprise or proprietary, and fiduciary. The GAAP basis classification assigned to a fund impacts how the fund is displayed in the Annual Comprehensive Financial Report (ACFR). The funds within the City of Sedona that are covered by this policy are described below.

a. Governmental Funds. Governmental funds are those through which most governmental functions are accounted for.

i. General Fund. The General Fund is the primary operating fund of the City. It accounts for activity that is not required to be accounted for in other funds. City services such as public safety, operations and maintenance, community services, and general government activities are accounted for in the General Fund.

ii. Streets Fund. The Streets Fund accounts for the ongoing maintenance of streets infrastructure in the City, and the purchase of related equipment.

iii. Special Revenue Funds. Special revenue funds are a sub-type of governmental funds that account for revenue streams that are restricted to a specific purpose.

1. Development Impact Fee (DIF) Fund. The DIF fund accounts for development fee activities and the use of monies in this fund is restricted to the purpose for which the monies were received.

2. Art in Public Places Fund. The Art in Public Places Fund accounts for activities related to the 1% contribution to public art.

iv. Capital Project Fund. The Capital Project Fund accounts for general government capital expenditures. This fund does not include capital expenditures related to Art in Public Places, DIF, IT or Wastewater.

b. Enterprise Funds. Enterprise or proprietary funds are used to account for a government's ongoing activities that are similar to those often found in the private sector. These funds are also referred to as “business-type” funds. Enterprise funds have their own revenue streams (e.g., rate revenue or dedicated taxes) and should be self-supporting.

i. Wastewater Enterprise Fund. The Wastewater Fund accounts for revenue and expenses related to wastewater. This includes both operating and capital expenses.

ii. Public Transit Enterprise Fund. The Transit Fund accounts for activities related to the transit system.

iii. Information Technology Internal Service Fund. Internal service funds provide services that are charged to other funds based on pre-determined metrics. The IT Fund accounts for the IT costs for the City, including operating and expenses. These costs are allocated to other funds including the General Fund, Streets Fund and Wastewater Fund.

2. Fund Balance. Fund balance is the difference between a fund’s assets and liabilities, as reported in a governmental fund. The Governmental Accounting Standards Board (GASB) Statement No. 54 establishes the following fund balance classifications based on the constraints that control how monies in each classification may be spent.

a. Non-Spendable Fund Balance. This classification includes amounts that are not liquid, or easily converted to cash, e.g., inventories, and amounts that are required to be held intact, e.g., endowments.

b. Restricted Fund Balance. Restricted funds may be spent only for specific purposes stipulated by external resource providers (e.g., grant providers), constitutionally, or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

c. Committed Fund Balance. Fund Balance amounts that are committed are bound by formal action of the City’s highest decision-making authority, in the City of Sedona, the City Council. Commitments may be changed or removed only by another formal action of the City Council.

d. Assigned Fund Balance. Amounts within fund balance that are assigned have an *intended* purpose. This purpose may be established by informal action of

the City Council, or through an official or body designated by the City Council. In governmental funds other than the General Fund, assigned fund balance represents amounts not restricted or committed. Resources in governmental funds other than the General Fund are, at a minimum, intended to be used for the purpose of the fund.

- e. Unassigned Fund Balance.** The unassigned fund balance classification represents the residual fund balance that is not included in other classifications. Unassigned amounts are available for any valid government purpose. If another governmental fund has a deficit fund balance, it is reported as negative unassigned fund balance. Only the General Fund may report a positive unassigned fund balance.
- 3. Net Assets.** Net assets are the difference between a fund's assets and liabilities, as reported in an enterprise or fiduciary fund. Because enterprise and fiduciary funds have a specific purpose, they do not report any "unassigned" net assets.
- 4. Available Fund Balance (governmental funds).** Remaining fund balance after all balances designated as non-spendable, restricted, committed, and/or assigned within the fund.
- 5. Available Net Assets (enterprise funds).** Net assets include amounts that represent property, plant, and equipment. Because these amounts are not liquid, or easily converted to cash, staff will exclude these non-spendable net assets from consideration in a calculation of available net assets or in establishing a net asset target.
- 6. Fund Balance/Net Asset Targets.** Target amounts for fund balance or net assets. Usually expressed as a percentage of the adopted budget.
- 7. Fund Balance/Net Asset Target Calculation.** Certain reserves of fund balance or net assets, as well as the unassigned fund balance in the General Fund, are reported as a percentage of the budget. For purposes of this calculation, which is completed at the end of each fiscal year, the adopted budget for the upcoming fiscal year shall be used. For example, to report on fund balance percentages as of 6/30/2025 (FY25), the calculation shall use the FY26 operating budget. This ensures that increases in the operating budget are accounted for in the City's reserves that are based on operating costs.
- 8. Surplus.** A surplus is the amount by which the specific designation of fund balance or net assets exceeds an established target.

- 9. Shortfall.** A shortfall is the amount by which the specific designation of fund balance or net assets/working capital falls below the established target.

Fund Balance and Net Asset Targets

Fund balance targets shall be established for governmental funds with an adopted expenditure budget. Net asset targets shall be established for enterprise funds with an adopted expenditure budget. Targets shall consider the volatility of revenues that support operations or capital expenditures, the predictability of the expenditures, and cash flows to ensure liquidity. See **Definitions / Fund Balance/Net Asset Target Calculation**.

General Fund

General Fund. As the main operating fund for the City, the financial health and sustainability of the General Fund is critical. The fund balance of the General Fund shall include (but is not limited to) the following reserve designations outlined below.

- 1. Operating Reserve.** The General Fund Operating Reserve establishes a minimum reserve to ensure ongoing operations. This reserve shall:
- Temporarily insulate General Fund program and services against an economic recession to allow staff and City Council to make budgetary decisions that may be necessary,
 - Enable the City to continue operations during an emergency or natural disaster, and
 - Ensure that the City can withstand a revenue reduction due to a change in state or federal legislation, adverse litigation or other unforeseen action.

The Government Finance Officers Association (GFOA) best practice, *Fund Balance Guidelines for the General Fund* recommends a minimum unassigned fund balance or emergency reserve of no less than two months of operations; however, setting a reserve for operations should include a deeper analysis of the circumstances of the government:

The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it

easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition.

- a. Sedona Risk Factors.** While the City of Sedona faces the possibility of wildfires and flooding, Sedona’s risk of natural disaster or emergency is not significantly higher than other cities. Additionally, the City does not rely heavily on federal or state grants for day-to-day operations. However, Sedona does not levy a property tax for operations. Property tax revenues are the least volatile revenue stream, as collections are certain. Sedona relies primarily on sales and bed tax for its operating revenue for governmental activities. Sales and bed tax are volatile and sensitive to economic and environmental changes. To mitigate the risk of a reduction in anticipated revenue, the City must establish a General Fund Operating Reserve that will ensure ongoing operations in the event of lower than expected or interrupted revenue streams.
- b. Target.** To ensure that the General Fund can continue to operate, and given the risk associated with Sedona’s volatile revenue streams, the General Fund Operating Reserve target shall be set at 30% of budgeted expenditures (equivalent to 3.5 months of normal operations).
- c. Use of the General Fund Operating Reserve.** The City Council may use this reserve during a recession to either maintain General Fund programs and/or services in the short-term, or as bridge funding while staff and City Council evaluate current programs and services for potential cuts to expenditures as a response to declining revenues. The timing for the use of reserves may vary but should:

 - i. Be considered in the event of an anticipated ongoing reduction in overall General Fund revenue of more than 3% and expenditure savings are not expected to cover the reduction in revenue,
 - ii. Be used within a defined time horizon (usually 12-18 months), and
 - iii. Not be used as a long-term solution for revenue deficits.
- d. Replenishment of Operating Reserves.** The GFOA recommends that local governments should seek to replenish operating reserves within one to three years of use, and identifies the following factors influencing the replenishment time horizon:

- i. The budgetary reason behind the reserve target (for Sedona, the volatile nature of sales and bed tax revenue),
- ii. Recovering from an extreme event (e.g., a natural disaster),
- iii. Political continuity (ensuring that the City can continue to operate and sustain critical services),
- iv. Financial planning time horizons,
- v. Long-term forecasts and economic conditions, and
- vi. External financing obligations.

The City of Sedona shall consider applicable factors influencing the replenishment time horizon if a use of operating reserves is deemed necessary. Staff will develop a plan for replenishment for City Council's review and approval. The plan for replenishment shall include the time horizon and factors influencing it, as well as a long-term (10-year) financial forecast. Should the time horizon be lengthened due to additional unanticipated changes in legislation and/or an extended recession, an amended plan shall be brought to City Council for approval.

2. Other General Fund Designations of Fund Balance and Reserves

- a. **Budget Carryover Reserve.** This reserve is based on budgeted amounts that should be carried over from one fiscal year to the next. Amounts carried over must be legally encumbered and will vary based on the outstanding obligations at the end of the fiscal year. The amounts in the Budget Carryover Reserve shall not be considered surplus or included in any other reserves or designations. Encumbrances carried forward must be paid within 60 days of the end of the fiscal year. (42 A.R.S. §17108)
- b. **Equipment Replacement Reserve.** The Equipment Replacement Reserve is intended to smooth the cost of vehicles and equipment over time by reserving an amount approximately equal to the anticipated future cost of replacement divided by the useful life of the asset.

Example:

A truck is purchased for Public Works for \$56,000. Its useful life is expected to be seven (7) years.

$$\$56,000 \div 7 = \$8,000$$

\$8,000 should be added to the reserve annually to replace the truck when it reaches end-of-life.

The Financial Services Department shall review the vehicle and equipment replacement plan annually to ensure that adequate reserves are in place to purchase replacements. An annual allocation from this reserve shall be included in the Annual Operating Budget, to purchase replacements planned during the fiscal year. New vehicles and equipment purchased supplementing the existing fleet will require additional monies to be contributed to the reserve.

- c. Capital Reserve.** The City Council may, at its discretion, establish a reserve for capital project expenditures. The City of Sedona funds most capital projects with pay-as-you-go funding from General Fund surplus. If established, a Capital Reserve may designate monies not included in another reserve, for specific, planned projects, or as a general reserve for future projects.
- d. Additional Reserves.** The City may establish additional committed, assigned, or unassigned fund balances reserves in any amount as deemed necessary.
- e. Use of Other Reserves.** Unlike the General Fund Operating Reserve, the use of other reserves is driven by the purpose of the reserve. Use of the Equipment Replacement Reserve shall be part of the annual budget according to the equipment replacement plans for the fiscal year. Use of other reserves may be recommended by staff during the annual budget process and are at the discretion of the City Council.

Streets Fund

Streets Fund. The Streets Fund is a governmental fund that is used to account for operations and maintenance costs associated with streets, sidewalks, shared-use-paths and other appurtenances of roadways.

- 1. Operating Reserve.** The Streets Fund Operating Reserve establishes a minimum reserve to ensure the current service levels are maintained in the event of large and unanticipated one-time expenditure requirements, a revenue reduction due to a change in state or federal legislation, adverse litigation or any similar unforeseen action, and/or slower revenue growth that typically occurs during an economic recession.

- a. Target.** To ensure that the Streets Fund can continue to operate, and given the higher risk associated with Sedona’s revenue streams, the Streets Fund Operating Reserve shall be 30% budgeted expenditures (equivalent to 3.5 months of normal operations).
 - b. Use of the Streets Fund Operating Reserves.** The City Council may use this reserve during a recession to either maintain streets maintenance programs and related services, or as bridge funding while staff and City Council evaluate the level of service for potential cuts as a response to declining revenues.
 - c. Restrictions.** The portion of Streets Fund monies from the City’s share of the Arizona Highway User Revenue Fund (HURF) are restricted and may not be transferred to another fund or used for any other purpose.
 - d. Replenishment of Streets Fund Operating Reserve.** Replenishment of the Streets Fund Operating Reserve shall follow the GFOA recommendations outlined under the replenishment of General Fund Operating Reserves; however, if recovery from the event or recession is anticipated to lengthen the time horizon, replenishment of General Fund Operating Reserves shall be prioritized, except for funds restricted to streets (e.g., HURF). If the Streets Fund Operating Reserve is used, the replenishment shall be included in the plan approved by Council. (see General Fund / General Fund Operating Reserve / Replenishment of General Fund Operating Reserve)
- 2. Streets Rehabilitation / Pavement Preservation Reserve.** The Streets Rehabilitation/Pavement Preservation Reserve temporarily insulates the City’s rehabilitation and preservation program against an economic recession or legislative changes that may cause a reduction in revenue.
 - a. Target.** The target for the Streets Rehabilitation/ Pavement Preservation Reserve shall be 16%, equivalent to two months of budgeted expenditures.
 - b. Use and Replenishment of the Streets Rehabilitation/Pavement Preservation Reserve.** The use and replenishment of the Rehabilitation/Preservation Reserve shall follow the Streets Operating Reserve detailed above.
- 3. Equipment Replacement Reserve.** The Equipment Replacement Reserve in the Streets Fund will be established based on an annual allocation of equipment costs

over the useful life of the asset. This reserve will be used to fund the replacement of such equipment. The Equipment Replacement Reserve is intended to smooth the cost of vehicles and equipment over time by reserving an amount approximately equal to the anticipated future cost of replacement divided by the useful life of the asset. (See General Fund / Equipment Replacement Reserve)

- a. Use of the Equipment Replacement Reserve.** Use of the Equipment Replacement Reserve shall be part of the annual budget allocation according to the equipment replacement plans for the fiscal year.
- 4. Budget Carryover Reserve.** This reserve is based on budgeted amounts that should be carried over from one fiscal year to the next. Amounts carried over must be legally encumbered and will vary based on the outstanding obligations at the end of the fiscal year. The amounts in the Budget Carryover Reserve shall not be considered surplus or included in any other reserves or designations. Encumbrances carried forward must be paid within 60 days of the end of the fiscal year. (42 A.R.S. §17108)

Wastewater Enterprise Fund

Wastewater Enterprise Fund. The Wastewater Enterprise Fund is a business-type fund that is used to account for all the activity related to the operation, maintenance and capital investments of the Wastewater system. The fund balance of the Wastewater Enterprise Fund is separated into several categories depending on the purpose.

- 1. Operating Reserve.** The Operating Reserve shall be maintained to ensure adequate working capital is available to guard against service disruption in the event of temporary revenue shortfalls or unpredicted one-time expenses.
 - a. Considerations and Risk.** The Wastewater Fund is not impacted by a potential economic downturn in the same way that the General Fund and other sales and bed tax-reliant funds. Nevertheless, it is important to establish adequate reserves to ensure that operations are able to continue in the event of an emergency during which regular revenues may not be immediately available.
 - b. Target.** The Operating Reserve for the Wastewater Enterprise Fund shall be maintained in a target range of 25% (90 days) to 33% (120 days) of budgeted operating expenses of the Fund.
- 2. Legal Debt Service Reserve.** Debt service reserves that are required according to any bond covenants shall be established and maintained to meet those legal requirements.

3. **Policy Debt Service Reserve.** In addition to any legally required debt service reserves, additional debt service reserves may be established in the case of debt issuances that do not have specific reserve requirements and are not covered by bond insurance.
4. **Equipment Replacement Reserve.** The Equipment Replacement Reserve in the Wastewater Fund shall be established based on an annual allocation of equipment costs over the useful life of the asset. This reserve will be used to fund the replacement of such equipment. The Equipment Replacement Reserve is intended to smooth the cost of vehicles and equipment over time by reserving an amount approximately equal to the anticipated future cost of replacement divided by the useful life of the asset. (See General Fund / Equipment Replacement Reserve)
5. **Major Maintenance Reserve.** The Major Maintenance Reserve shall be established based on management estimates of (1) the anticipated annual cost of major maintenance projects, and (2) the anticipated useful life of the maintenance performed (the time between completing the same maintenance project). Like the Equipment Replacement Reserve, the Major Maintenance Reserve is intended to smooth the cost of major maintenance over time by reserving an amount approximately equal to the anticipated future cost of the maintenance divided by the useful life.

Example:

Injection wells require backflushing. The cost is \$30,000 and this maintenance must be completed every three (3) years.

$$\$30,000 \div 3 = \$10,000$$

\$10,000 should be added to the reserve annually to fund the next anticipated backflush at the end of three years.

6. **Capital Improvements Reserve.** The Capital Improvements Reserve shall be established to ensure that planned pay-as-you-go projects have adequate funding.
 - a. **Target.** The target will vary depending on the capital plans for the Wastewater System and Treatment Plant. The reserve amount shall be evaluated by Finance staff and Wastewater administration to ensure adequate reserves for planned projects.
7. **Budget Carryover Reserve.** This reserve is based on budgeted amounts that should be carried over from one fiscal year to the next. Amounts carried over must be legally encumbered and will vary based on the outstanding obligations at the end of the

fiscal year. The amounts in the Budget Carryover Reserve shall not be considered surplus or included in any other reserves or designations. Encumbrances carried forward must be paid within 60 days of the end of the fiscal year. (42 A.R.S. §17108)

Public Transit Enterprise Fund

The Public Transit Fund is an enterprise fund that accounts for all of the activities related to the operations, maintenance and capital costs of Sedona's transit system. The Public Transit Fund maintains the following reserves.

- 1. Equipment Replacement Reserve.** The Equipment Replacement Reserve in the Streets Fund will be established based on an annual allocation of equipment costs over the useful life of the asset. This reserve will be used to fund the replacement of such equipment. The Equipment Replacement Reserve is intended to smooth the cost of vehicles and equipment over time by reserving an amount approximately equal to the anticipated future cost of replacement divided by the useful life of the asset. (See General Fund / Equipment Replacement Reserve)
 - a. Use of the Equipment Replacement Reserve.** Use of the Equipment Replacement Reserve shall be part of the annual budget allocation according to the equipment replacement plans for the fiscal year.
- 2. Additional Reserves.** The City may establish additional reserves for operations and/or to mitigate the risk related to grants, which are not a guaranteed revenue stream.
- 3. Budget Carryover Reserve.** This reserve is based on budgeted amounts that should be carried over from one fiscal year to the next. Amounts carried over must be legally encumbered and will vary based on the outstanding obligations at the end of the fiscal year. The amounts in the Budget Carryover Reserve shall not be considered surplus or included in any other reserves or designations. Encumbrances carried forward must be paid within 60 days of the end of the fiscal year. (42 A.R.S. §17108)

Other Funds

Municipal Court Fund. The Municipal Court Fund accounts for activities related to the Municipal Court. Reserves in this fund include restricted reserves with specific purposes according to the State of Arizona. These reserves carry over annually and the amounts may be budgeted for expenditures that align with the purpose of the funds.

Grants & Donations Fund. The fund balance of the Grants & Donations Fund is restricted to the purposes for which the monies were received. Balances will automatically carryover to the following year.

Capital Improvements Fund. The Capital Improvements Fund accounts for resources used in the construction or acquisition of capital assets and major improvements. The execution of capital projects usually extends beyond a single fiscal year. Because projects accounted for in the Capital Improvements Fund are included in the annual budget and funded through transfers from other funds, the capital plan and the cash flow requirements of the upcoming fiscal year should be evaluated annually to ensure adequate funding is available from upcoming revenue or General Fund unassigned fund balance.

Development Impact Fee Fund. The fund balance of the Grants & Donations Fund is restricted to the purposes for which the monies were received. Balances will automatically carryover to the following year.

Art in Public Places Fund. The fund balance of the Grants & Donations Fund is restricted to the purposes for which the monies were received. Balances will automatically carryover to the following year.

Information Technology Fund. The IT Fund accounts for all activity related to IT, including, but not limited to, equipment, network costs, and software. This fund is an internal service fund which has no revenue beyond internal charges for services to other funds. The IT Fund maintains the following reserves.

1. Equipment Replacement Reserve. The Equipment Replacement Reserve in the Streets Fund will be established based on an annual allocation of equipment costs over the useful life of the asset. This reserve will be used to fund the replacement of such equipment. The Equipment Replacement Reserve is intended to smooth the cost of vehicles and equipment over time by reserving an amount approximately equal to the anticipated future cost of replacement divided by the useful life of the asset. (See General Fund / Equipment Replacement Reserve)

a. Use of the Equipment Replacement Reserve. Use of the Equipment Replacement Reserve shall be part of the annual budget allocation according to the equipment replacement plans for the fiscal year.

2. Budget Carryover Reserve. This reserve is based on budgeted amounts that should be carried over from one fiscal year to the next. Amounts carried over must be legally encumbered and will vary based on the outstanding obligations at the end of the fiscal year. The amounts in the Budget Carryover Reserve shall not be considered

surplus or included in any other reserves or designations. Encumbrances carried forward must be paid within 60 days of the end of the fiscal year. (42 A.R.S. §17108)

Assignment of Fund Balance

The City Manager is authorized to assign fund balances for specific purposes in accordance with the intent of the City Council.

Surpluses and Shortfalls

General Fund

If it is determined that there is a surplus, an amount of fund balance in the General Fund that is more than the established fund balance target, the funds may be appropriated or designated during the annual budget process for items that are one-time costs, including the following:

- 1. Eliminate shortfalls in other funds.** Any General Fund surplus may be transferred to cover shortfalls within other governmental funds. If a governmental fund is running a consistent deficit, the General Fund shall cover the fund balance shortfall, and an analysis of the expenditures and revenues/transfers shall be completed by the Financial Services Department.
- 2. Reduce or avoid of debt.** Any General Fund surplus may be applied to reduce or eliminate short or long-term debt within a governmental fund if there is a demonstrated economic gain to the City. Surplus may also be used to reduce the total amount of a proposed debt issuance through the direct payment for a portion of the total cost being financed.
- 3. One-time capital expenditures.** If a one-time capital expenditure is identified that is not already funded within the annual budget, a surplus may be appropriated to fund the capital expenditure.
- 4. Tax, fee, and/or rate stabilization.** Surplus funds may be used as a temporary measure for stabilization to avoid raising taxes, fees, or rates in governmental funds. If such a use is being considered, an analysis of the long-term impact of the use shall be conducted to ensure that future operations and capital needs continue to be met.

Wastewater Fund

If it is determined that there is a surplus, an amount of net assets in the Wastewater Fund that is more than the established net assets range, the funds may be appropriated or

designated during the annual budget process for items that are one-time costs, including the following:

- 1. Reduce or avoid of debt.** Any Wastewater Fund surplus may be applied to reduce or eliminate short or long-term debt within the Wastewater Fund if there is a demonstrated economic gain to the City. Surplus may also be used to reduce the total amount of a proposed debt issuance through the direct payment for a portion of the total cost being financed.
- 2. One-time capital expenditures.** If a one-time capital expenditure is identified that is not already funded within the annual budget, a surplus may be appropriated to fund the capital expenditure.
- 3. Rate stabilization.** A surplus in the Wastewater Fund may be used as a temporary measure for stabilization to avoid increasing fees or increase them at a lower-than-required rate to meet operating and capital needs. If such a use is being considered, an analysis of the long-term impact of the use shall be conducted to ensure that future operations and capital needs continue to be met.

If a fund is in a shortfall position, in which the fund balance or net assets that support working capital do not meet the target percentage or range for the fund, a plan shall be put in place to replenish the fund balance as quickly as practical.

Effective Date

This policy shall be effective immediately upon approval by the City Council of the City of Sedona and shall remain in effect until amended or rescinded by the City Council.

Appendix A: Links to Best Practices

Links to Government Finance Officers Association (GFOA) Best Practices:

- [Adopting Financial Policies](#)
- [Policies and Procedures Documentation](#)
- [Fund Balance Guidelines for the General Fund](#)
- [Strategies for Establishing Capital Asset Renewal and Replacement Reserve Policies](#)