



## Takoma Park City Council Meeting – May 9, 2018 Agenda Item 6

### **Work Session**

Discussion of Resolution Setting Policy Regarding Level of City's General Fund Unassigned Fund Balance

### **Recommended Council Action**

Discuss draft resolution.

### **Context with Key Issues**

Over the past several years, the Council has expressed a desire to have a formal policy on appropriate reserve levels in place, and recently included among its priorities adoption of such a policy. This proposed Resolution would establish the Council's policy regarding the appropriate level of the General Fund Unassigned Fund Balance moving forward.

In October 2017, Finance Director Susan Cheung presented research on best practices for setting a minimum General Fund Unassigned Fund Balance and on the levels of such fund balances in several municipalities in Maryland. The recommended standard of the Government Finance Officers Association (GFOA) is a minimum of two months of General Fund operating expenditures, while recognizing that there may be different levels of risk that should be taken into consideration with different jurisdictions.

In reviewing Takoma Park's financial situation, the City has a higher level of financial risk than many other governmental entities because it is a small jurisdiction and is one that is heavily dependent on interjurisdictional revenue, primarily from Montgomery County and the State of Maryland. If there is a general economic downturn, interjurisdictional revenues can, and have been, cut. To reduce these risks, we have established the Equipment Replacement Reserve and Facilities Reserve so that we are able to replace or maintain our capital equipment and infrastructure when revenues are lower and/or the cost of replacing equipment or maintaining facilities is higher. The City has also had a practice for over ten years to ensure that the General Fund Unassigned Fund Balance has a minimum level of \$3,000,000 to cover the month to month fluctuations of the cost of City operations.

Finance Director Susan Cheung recommends that the appropriate level of the General Fund Unassigned Fund Balance be a minimum of the amount representing two months (or 17%) of the City's General Fund revenue, as opposed to the expenditure amount. Historically, the revenue amount does not fluctuate as much as the expenditure level and it better reflects the changing costs of City operations. For FY19, 17% of the General Fund revenue is \$4.25 million, while the same percentage of the General Fund expenditure amount is \$5.4 million.

The General Fund Unassigned Reserve in the Proposed Budget for FY19 is \$2.6 million. However, for FY19 there is a separate Bond Reserve that was established to protect the funds needed to pay for

the Library and major transportation projects. The amount in the Bond Reserve for FY19 is \$5.625 million. With this amount and the timing of planned expenditures, the City Manager and the Finance Director are comfortable with the lower amount of the FY19 General Fund Unassigned Reserve for this year only.

The draft Resolution to be considered would set the minimum amount of the General Fund Unassigned Fund Balance to be 17% of the City's General Fund revenue amount for budgeting purposes. If the Council were to approve a budget with a lower amount, a determination would need to be made that there are special circumstances to justify budgeting the lower amount. Such circumstances could include the existence of other funds, an emergency situation or other reason that the Council deems acceptable. The final determination of the level of the General Fund Unassigned Reserve rests with the Council through the adoption of the tax rate and the budget.

**Council Priority**

Fiscally Sustainable Government

**Environmental Impact of Action**

Not applicable.

**Fiscal Impact of Action**

This action would establish a policy to protect the financial reserves of the City and reduce risks to taxpayer funds. Insufficient reserve funds may mean that payments toward obligations, responses to emergency situations, or other provisions of services may be delayed or not take place, resulting in penalties or other unanticipated expenses or problems.

**Racial Equity Impact**

Reduction of risk to City and taxpayer funds by adequate reserve fund budgeting allows for appropriate use of taxpayer funds and continuation of services to residents of Takoma Park, 57% of whom are people of color.

**Attachments and Links**

Draft Resolution

Introduced by:

**CITY OF TAKOMA PARK, MARYLAND**

**Resolution No. 2018-XX**

**Resolution Setting Policy Regarding Level of City's General Fund  
Unassigned Fund Balance**

WHEREAS, the City Council's Goal of Fiscally Sustainable Government calls for the adoption of a policy on appropriate reserve levels; and

WHEREAS, the City's Finance Director researched the Government Finance Officers Association (GFOA) recommended standards, other best practices, and the practices of other Maryland municipalities regarding General Fund Unassigned Fund Balance; and

WHEREAS, it is recommended that, in adopting the City's budget for an upcoming fiscal year, the minimum Takoma Park General Fund Unassigned Fund Balance for the end of the upcoming fiscal year should be equal to two months (17%) of the budgeted General Fund revenue amount; and

WHEREAS, it is recognized that there may be special emergency or financial situations where a lower amount of the General Fund Unassigned Fund Balance is appropriate while still protecting the finances of the City of Takoma Park; and

WHEREAS, if the Council votes to approve a budget with a level of the General Fund Unassigned Fund Balance that is less than two months of the General Fund revenue amount, a statement will be made identifying the special situation that applies.

NOW, THEREFORE BE IT RESOLVED that the City Council of the City of Takoma Park, sets the minimum General Fund Unassigned Fund Balance to be equal to two months (17%) of the General Fund revenue amount unless a statement is provided identifying the special situation that justifies a lower amount.

Adopted this 9<sup>th</sup> day of May, 2018