



Takoma Park City Council Meeting – May 16, 2018 Agenda Item 1

Voting Session

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

Recommended Council Action

Consider resolution.

Context with Key Issues

In line with Council discussions over the past several years on the desire to have a formal policy on appropriate reserve levels and the current Council Goal of Fiscally Sustainable Government that calls for the adoption of such a policy, this proposed Resolution would set the Council's policy regarding the appropriate level of the General Fund Unassigned Fund Balance.

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.

Over a five year period, the percentage the General Fund Unassigned Fund Balance was to the General Fund Revenue amounts, at the time the budget was first adopted, were as follows:

FY15: 18% (\$3,868,634)
FY16: 14% (\$3,242,001)
FY17: 13% (\$3,000,787)
FY18: 13% (\$3,061,667)
FY19: 10% (\$2,617,372)

At the Work Session of May 9, the Council discussed the proposal to 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. 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.

There was Council discussion regarding the potential need for a phase in period to reach the 17% level and there was the suggestion that the level and resolution be reviewed by the Council every three years. Several amendments to the draft Resolution have been suggested.

Council Priority

Fiscally Sustainable Government

Environmental Impact of Action

Not applicable.

Fiscal Impact of Action

Sets a policy to protect the financial reserves of the City and reduces risks to taxpayer funds. Insufficient reserve funds may mean that payments of 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 Resolutions with Amendments

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; and

WHEREAS, achieving the 17% level under current budget conditions would mean a minimum General Fund Unassigned Fund Balance of approximately \$4,250,000, an increase over the current \$2,600,000 level of about \$1,650,000; and

WHEREAS, increasing the General Fund Unassigned Fund Balance by that amount in a single budget cycle would likely be difficult without either significantly increasing the local property tax rate or substantially reducing spending on City programs and initiatives.-

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 public statement is issuprovided, at the time the budget for a Fiscal Year is approved by the Council, identifying the special situation that justifies a lower amount; and

BE IT FURTHER RESOLVED, that the initial achievement of the 17% level for the General Fund Unassigned Fund Balance may, in the Council's discretion, taking into account potential tax increases and spending cuts, be phased in over a three years period ending in Fiscal Year 2022, without the need to issue the public statement described in the previous clause.-

Adopted this 169th day of May, 2018

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, the City Council recognizes that reaching the targeted 17% may require a short "phase-in" period to help mitigate impacts on the local property tax rate and/or City programs and initiatives; 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 public statement is ~~issuprovided~~, at the time the budget for a Fiscal Year is approved by the Council, identifying the special situation that justifies a lower amount; and

BE IT FURTHER RESOLVED that the Council shall reconsider the appropriate level of the General Fund Unassigned Fund Balance every three years and modify this Resolution as needed.

Adopted this XXth day of May, 2018