



# TOWN OF LAUDERDALE-BY-THE-SEA

## ROUNDTABLE ITEM REQUEST FORM

**Town Manager**

Department Submitting Request

**Connie Hoffmann**

Name/Title

**Meeting Date / Time**

- April 28, 2010 / 7:00 PM
- May 26, 2010 / 7:00 PM
- June 9, 2010 / 7:00 PM
- June 23, 2010 / 7:00 PM

**Deadline w/o Backup**

- April 21, 2010 / Noon
- May 19, 2010 / Noon
- June 7, 2010 / Noon
- June 14, 2010 / Noon

**Deadline w/ Backup**

- April 19, 2010 / Noon
- May 17, 2010 / Noon
- June 2, 2010 / Noon
- June 16, 2010 / Noon

**ITEM/ITEMS\*: Budget: Contingencies, Reserves and Fund Balances**

**EXHIBIT: Memorandum dated 6/17/2010 from Town Manager**

**ACTION OR OUTCOME EXPECTED: Policy direction from the Town Commission on reserves.**

June 18, 2010

To: Mayor Roseann Minnet  
Vice Mayor Stuart Dodd  
Commissioner Birute Ann Clotney  
Commissioner Scot Sasser  
Commissioner Chris Vincent

From: Connie Hoffmann, Interim Town Manager 

Re: Contingencies, Reserves and Undesignated Fund Balances

Several members of the Commission have asked me about the Town's cash balances, contingencies, reserves and fund balances. This report will address reserves, contingencies and fund balances in all funds, although there are some balances in the Capital Improvement Fund of which I still do not have a clear explanation. We will begin providing the Commission a quarterly cash and bank balance report in July, after the current quarter ends.

#### **CONTINGENCY ACCOUNTS**

For purposes of definition, contingency funds are funds that have been specifically allocated in the budget for unforeseen expenditures that arise during the course of a fiscal year. In the current fiscal year, the Town budgeted the following contingency amounts in the General Fund.

	<u>Amt. Budgeted</u>	<u>Amt. Remaining</u>
General Fund: Dept 519 General Gov't.	\$118,699	\$103,699
Dept. 539 Public Bldgs.	\$ 10,000	\$ 10,000
Dept. 541 Public Works	\$ 10,000	\$ 10,000

There is a line item in the amount of \$118,699 budgeted in Dept. 519 for "Hurricane/Storm", which is oddly the same amount as budgeted for the General Fund contingency. There have been no expenditures against that account yet this fiscal year, so it appears to function as a contingency account for storm preparation and immediate response expenses.

In the current fiscal year, the Town also budgeted \$341,658 in the General Fund (in Dept. 519 – General Government) in an account called Reserve- Storm water Master Plan/Rate Study. Why this was titled a reserve account, rather than just budgeted in the professional consultant account is unclear to me. A total of \$102,942 was transferred out of that account and moved to the professional consulting account for the Storm water Master Plan, leaving a balance of \$238,716. I proposed on the June 22<sup>nd</sup> regular agenda that we appropriate most of that remaining balance to cover a portion of the payout to the former Town Manager as it is the only budgeted account with

sufficient funds to cover that expense. So that account will be almost depleted if the Commission approves the recommended appropriation.

The Town also budgeted small contingency accounts in the Sewer and Parking Funds, and a larger contingency in the Capital Improvements Fund. The status of those accounts is indicated below:

Sewer Enterprise Fund	\$ 15,000	\$ 15,000
Parking Revenue Improvement Fund	\$ 5,512	\$ 5,512
Capital Improvement Fund	\$259,038	\$228,599

## FUND BALANCES

The following excerpt from the Government Accounting Standards Board's (GASB) website provides a clear explanation of how governments report fund balances.

"Fund balance is required to be reported in two components—reserved and unreserved. When fund balance is *reserved*, it either means that the resources are in a form that cannot be appropriated and spent (such as inventory) or that the resources are legally limited to being used for a particular purpose. (For instance, grant monies from the federal government that may be used only for building schools would be reported as reserved fund balance in the general fund or a broad capital projects fund.) Governments also tend to report the nonexpendable portion of their permanent funds—the resources that can be invested but not spent—as reserved fund balance.

The portion of fund balance that is not reserved is fittingly called *unreserved* fund balance. It represents resources that can be used for any purpose of the fund they are reported in. Unreserved fund balance in a debt service fund can be used to repay any outstanding debt. Unreserved fund balance in the general fund can be used for any purpose at all.

Governments may report *designations* of their unreserved fund balance. Although unreserved fund balance is not legally limited to any specific purpose, a government may designate some unreserved fund balance to express its *intention* to use available resources in a particular manner. A designation is not legally binding but does convey a government's plans for using its available resources. Reporting a designation is optional and only about half of governments studied by the GASB did so."

I have attached a copy of the Town's audited Balance Sheet as of September 30, 2009, the end of our last fiscal year. You will see that it reflects both reserved and unreserved fund balances and I will address all of them in this memo.

## **Fund Balances in the General Fund**

The Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments maintain an unreserved fund balance in their general fund of five to fifteen percent of regular general fund operating revenues, or no less than one to two months of regular general fund operating expenditures. However, the GFOA also recognizes that a government's particular situation may require levels of unreserved fund balance in the general fund significantly in excess of these recommended minimum levels.

In practice, fund balance expressed as a percentage of revenue is typically less for larger governments than for smaller governments.

In Florida, most cities also reserve a significant amount to be used in the aftermath of a serious hurricane, in addition to a normal fund balance. These are normally called storm reserves or emergency reserves.

The Town has **\$2,329,648 in the General Fund designated for "emergencies"**. The Finance Director advises these funds are to be utilized for hurricane cleanup and other catastrophic events. This amount is equal to approximately 19% of the current general fund budget amount and exceeds the Town's stated policy of maintaining a 15% reserve for this purpose. It is probably larger than the stated policy because the reserve was not reduced as General Fund revenues have declined in recent years. However, it is not an unreasonable amount given that we are a small coastal town that could experience severe damage in a serious hurricane.

The General Fund ended last fiscal year with an **undesignated fund balance of \$2,189,349**. These are available funds, which have not been designated for any specific use. The budget book says that it is the Town's policy to maintain a reserve of \$1.5 million, or 10% of the General Fund budget, in addition to the aforementioned 15% reserve for emergencies. The undesignated fund balance exceeds the Town's policy of maintaining a \$1.5 million or 10% of the General Fund by a significant amount (\$600,000 or \$900,000, depending on which target you use).

It is prudent financial policy not to use the excess funds in the undesignated fund balance for ongoing operating costs. The Town should limit appropriations from the fund balance to one-time expenditures, such as capital projects, studies, or unusually large expenditures that will not be repeated each year. According to the Finance Director, the Town has not made any appropriations from the undesignated fund balance so far this fiscal year, so the funds are intact.

There is also a **designated vehicle and equipment replacement reserve of \$182,792** in the General Fund that is available to replace vehicles and equipment that were originally purchased using General Fund monies. I have been told that the Town has no vehicle or replacement plan or schedule.

The General Fund also has **\$63,273** designated as "fire assessment" which the Finance Director indicates is intended to be used to **replace fire apparatus**.

I have had several questions about the \$1,650,742 listed on the Balance Sheet in the General Fund for capital assets. It has been explained to me that amount reflects the value of capital assets that the Town acquired in the General Fund in FY 2008/2009. It is not cash that is available for expenditure.

#### **Capital Improvement Fund**

The balance sheet as of September 30, 2009 indicates there was \$1,161,336 in the Capital Improvement Fund designated for "capital assets". The staff believes the \$1.16 million figure reflects projects that were completed last fiscal year being converted to assets on the balance sheet and I am awaiting a call from the Town's auditors to confirm that. The more interesting figure on the balance sheet is the \$1,804,897 listed as an undesignated balance. Town staff has been working to produce an analysis or work papers that will explain the source of the \$1.8 million and I hope to have an explanation of the \$1.8 figure by the Roundtable meeting on Wednesday evening. That information should reveal how much of that money can be rolled forward to help fund capital projects over the next several fiscal years.