

Legislation Text

File #: 21-0191, Version: 1

Summary

To: Finance Board
From: Stefan Massol
Date: 7/15/2021

Subject:

Discussion of Acceptable Reserve Spending

Summary:

Finance Board will discuss the concept of reserve spending as it relates to capital purchases and improvements.

Background/Problem Discussion: Goal D.4 of the Strategic Plan calls for “a strong, stable, and diverse financial position that is transparently communicated to the community”. To properly measure and achieve this goal, objective D.4.1.1 requests that the Finance Board “develop a definition of deficit for purposes of the strategic plan and acceptable reserve spending such as treatment of non-operating transfers, capital purchases, and improvements”.

Operating Costs:

Historically, the Town has refrained from the spending of reserves in the operating budget. Unforeseen operational costs resulting from major events such as Hurricane Irma or more recently the COVID-19 pandemic are the exception, and these costs are largely offset by state and federal grant funds, though the funding generally takes many months to actually replenish those reserves.

Non-Operating Transfers:

There are a limited number of non-operating transfers still included in the annual budget. There is an annual transfer to the Capital Equipment Replacement Fund from various departments in the General Fund, which is used to fund future capital equipment purchases for items such as vehicles, heavy equipment, and IT equipment. In the past, this was also how the Town saved for future HVAC purchases however after partnering with ABM the Town is no longer setting aside funds for future replacement of the HVAC system.

Operating Transfers (Admin Fees)

Additionally there are transfers from the Water Fund and Solid Waste Fund to the General Fund, intended to reimburse administrative expenses paid by the General Fund for services such as management, utilities, information technology, utility billing, human resources, and insurance. Currently these revenues are used to offset the operating costs of the General Fund.

Capital Purchases and Improvements:

Currently the Town does not use the Capital Improvement Plan to budget for major facility maintenance and improvement costs, though there are large expenses on the horizon. Some items that are of moderate cost should happen on a frequent schedule of 3 to 5 years, such as exterior painting, while many other larger expenses are infrequent in nature such as replacement of doors, windows, roof, electrical panel and the generator.

When larger facility expenses arrive the Town has historically either used reserves for that purchase, or more recently with ABM entered into a capital lease. The benefits of the lease approach is that it provides a stable annualized budgetary cost as well as a guarantee of energy savings as a partial offset.

Financial Implications: Below is an overview of the transfers included in the FY 2019-20 annual budget.

Transfer (From)	General Fund	Local Option Gas Tax Fund	Water Fund	Solid Waste Fund	Total of Funds
	\$135,800	\$168,189	\$364,050	\$209,600	\$877,639
Transfer (To)					
General Fund			\$364,050	\$209,600	\$573,650
Capital Projects Fund		\$48,000			\$48,000
Capital Equipment Fund	\$135,800	\$120,189			\$255,989
Total of Funds	\$135,800	\$168,189	\$364,050	\$209,600	\$877,639

Recommendation: Finance Board will be recommending a definition of deficit for purposes of the strategic plan and acceptable reserve spending, such as treatment of non-operating transfers, capital purchases and improvements.