

CITY OF RICHMOND

WHITE PAPER: IMPACT OF PROPOSED REVISIONS TO FUND BALANCE POLICIES – ORDINANCE 2019-208

BACKGROUND:

The City of Richmond has a series of policies related to fund balances, which were last updated in December 2017 through Ordinance 2017-215. These policies establish prudent fund balance reserves to meet unforeseen future financial challenges.

The most significant changes provided by Ordinance 2017-215 include the establishment of two categories of Rainy Day funds with applicable targeted percentages of the annual general fund budget. Per policy, the Unassigned fund balance is to equal at least 13.67% of the subsequent year's general fund budget, and the goal for the Revenue Stabilization Contingency Reserve is to be 3.00% of the subsequent year's budget. Ordinance 2017-215 added specific language to City Code Section 12-262 for the Unassigned fund balance, and to Section 12-263 for the Revenue Stabilization Contingency Reserve.

Ordinance 2019-208 was introduced on July 22, 2019 without input from the City Administration, and will be considered by City Council's Finance and Economic Development Committee and then the full City Council in September. The ordinance would add new requirements for appropriations from the Budget Stabilization Contingency Reserve. Those two categories are reported differently in the City's Comprehensive Annual Financial Report (CAFR), as the Budget and Revenue Stabilization Contingency Reserve is identified as committed fund balance, separate from Unassigned fund balance. When credit rating agencies compare the available fund balances across all local governments, the Unassigned fund balance is consistently used as a benchmark to assess reserves that would be readily available during an unanticipated economic downturn or other unforeseen financial event.

The City's fund balance policies currently state that appropriations should only be made from the Unassigned fund balance "after all other reserves or contingency funds have been exhausted." Ordinance 2019-208 would appear to add a new requirement that appropriations only be made from the Revenue and Stabilization Contingency Reserve when events "cause a reduction in revenue of at least one-half of one percent over the then current fiscal year's budgeted general fund revenues or an increase in expenditures of at least one-half of one percent over the then-current fiscal year's budgeted general fund operating expenses, either or both." This policy change would seem to prevent the appropriation from the Revenue and Stabilization Contingency Reserve in an amount of less than one-half of one percent of the current year's general fund revenues or expenditures.

Using the FY2020 Adopted budget as an example, the amendment provided by this ordinance would seem to prevent the use of the Revenue and Stabilization Contingency Reserve for any amount less than approximately \$3.73 million in the current fiscal year. The City Administration believes it would be more prudent to appropriate from the Revenue and Stabilization Contingency Reserve for needed amounts less than \$3.73 million.

The Director of Finance has conferred with the City's Financial Advisors, and both parties agree that this ordinance could be viewed negatively by the credit rating agencies. The ordinance would create new limitations on the use of the Revenue and Stabilization Contingency Reserve, which would also appear to prevent the appropriation of Unassigned fund balance to meet unforeseen future financial challenges for amounts less than \$3.73 million.

RECOMMENDATIONS:

Based on discussion with the City's financial advisors (Davenport & Company) as well as representatives from the Finance and Budget departments, staff recommends that the ordinance be withdrawn if the intent of the patron is to establish new requirements for appropriations from the Revenue and Stabilization Contingency Reserve.

If the intent of the patron is to bring more attention to the current language stipulating that appropriations from the Unassigned fund balance only occur in the event of a one-half percent revenue reduction or a one-half percent of budgeted expenses, then the City Administration recommends that the ordinance be amended to keep the text currently in City Code Section 12-263(b) intact, while moving it to Section 12-262.

ATTACHMENTS:

Ordinances 2019-208 and 2017-215