

ORDINANCE NO. 2024-168

To amend and reordain City Code §§ 12-241, concerning definitions for fund balances, 12-242, concerning the disposition of calculated general fund surplus and reporting, 12-261, concerning the “Rainy day” fund, 12-262, concerning the unassigned fund balance, 12-263, concerning the Budget and Revenue Stabilization Contingency Reserve, and 12-265, concerning special purpose reserves, for the purpose of changing the minimum percentages for the maintenance of the “rainy day” fund and the unassigned fund balance, modifying the reporting requirements for the general fund balance, modifying the date by which assignments of special purpose reserves must be made, and changing the name of the “rainy day” fund to the “Downturn Reserve Fund” and the “Budget and Revenue Stabilization Contingency Reserve” to the “Contingency Reserve.”

Patrons – Mayor Stoney, Ms. Newbille, Ms. Robertson and Ms. Lambert

Approved as to form and legality
by the City Attorney

PUBLIC HEARING: JUNE 24 2024 AT 6 P.M.

THE CITY OF RICHMOND HEREBY ORDAINS:

§ 1. That sections 12-241, 12-242, 12-261, 12-262, 12-263, and 12-265 are hereby amended and reordained as follows:

Sec. 12-241. Definitions.

AYES: 7 NOES: 0 ABSTAIN: _____

ADOPTED: JUN 24 2024 REJECTED: _____ STRICKEN: _____

(a) The following words, terms, and phrases, when used in this division, have the meanings ascribed to them in this subsection, except where the context clearly indicates a different meaning:

Calculated general fund surplus means the general fund balance less all of the following:

(1) The amount of any committed fund balance other than the [~~Budget and Revenue Stabilization~~] Contingency Reserve, non-spendable fund balance, or restricted fund balance.

(2) Any encumbered amount properly reported within a committed fund balance, non-spendable fund balance, or restricted fund balance.

(3) The amount of the unassigned fund balance as reported in the City's comprehensive annual financial report for the immediately preceding fiscal year.

(4) The amount of the [~~Budget and Revenue Stabilization~~] Contingency Reserve as reported in the City's comprehensive annual financial report for the immediately preceding fiscal year.

(5) Any amounts due to or due from the School Board of the City of Richmond, Virginia.

General fund balance means, for a fiscal year, the net position of the general fund calculated as of June 30 in accordance with generally accepted accounting principles.

Special purpose reserve means an assigned fund balance or a committed fund balance for which this article does not expressly provide and that does not exist as of the date on which the ordinance initially establishing this article becomes effective.

(b) The terms “assigned fund balance,” “committed fund balance,” “non-spendable fund balance,” “restricted fund balance,” and “unassigned fund balance” have the meanings ascribed to them by Governmental Accounting Standards Board Statement No. 54.

Sec. 12-242. Disposition of calculated general fund surplus; reporting.

(a) It is the policy of the City that each years calculated general fund surplus be allocated as follows:

(1) Fifty percent to the [~~rainy day fund~~] Downturn Reserve Fund,^[2] with the exact allocation between the [~~Budget and Revenue Stabilization~~] Contingency Reserve and the unassigned fund balance determined by the Mayor in the Mayor’s discretion.

(2) Forty percent to the Capital Maintenance Reserve.

(3) Ten percent to special purpose reserves as determined pursuant to Section 12-265.

(b) No later than [~~September~~] November 15 of each year, the Mayor shall furnish the City Council with a report on the estimated general fund balance. The report must include all of the following:

(1) The amount of the unaudited general fund balance from the fiscal year ending on the June 30 immediately preceding the date on which this report is due.

(2) The unaudited calculated general fund surplus from the fiscal year ending on the June 30 immediately preceding the date on which this report is due.

(3) The Mayor's proposals, if any, for the creation of any special purpose reserves pursuant to Section 12-265.

Sec. 12-261. [~~“Rainy day” fund~~] Downturn Reserve Fund.

The [~~“rainy day” fund~~] Downturn Reserve Fund consists of the [~~Budget and Revenue Stabilization~~] Contingency Reserve and the unassigned fund balance. It is the goal of the City that the total of the [~~“rainy day” fund~~] Downturn Reserve Fund be equal to at least [~~16.67~~] 20 percent of budgeted general fund operating expenses for the latest fiscal year for which the City Council has adopted a general fund budget.

Sec. 12-262. Unassigned fund balance.

(a) [~~It is the goal of the City that the unassigned fund balance be equal to at least 13.67 percent of budgeted general fund operating expenses for the latest fiscal year for which the City Council has adopted a general fund budget.~~

(~~b~~) It is the policy of the City that appropriations be made from the unassigned fund balance (i) only in the event of unusual, unanticipated, and seemingly insurmountable hardship and (ii) only after all other reserves or contingency funds have been exhausted.

[~~(e)~~] (b) If funds are expended from the unassigned fund balance to cover appropriations, the Mayor shall submit to the City Council, within 90 days after the date on which such funds were expended, a plan to restore the amount of the unassigned fund balance so expended within three years after the date on which such funds were expended.

Sec. 12-263. [~~Budget and Revenue Stabilization~~] Contingency Reserve.

(a) There is created a [~~Budget and Revenue Stabilization~~] Contingency Reserve. [~~It is the goal of the City that the Budget and Revenue Stabilization Contingency Reserve be equal to three percent of budgeted general fund operating expenses for the latest fiscal year for which the City Council has adopted a general fund budget.~~

(~~b~~) It is the policy of the City that appropriations be made from the [~~Budget and Revenue Stabilization~~] Contingency Reserve only when catastrophic, unforeseen, or unavoidable events cause a reduction in revenue or an increase in expenditures, either or both.

(~~e~~) (~~b~~) If funds are expended from the [~~Budget and Revenue Stabilization~~] Contingency Reserve to cover appropriations, the Mayor shall submit to the City Council, within 90 days after the date on which such funds were expended, a plan to restore the amount of the unassigned fund balance so expended within three years after the date on which such funds were expended.

Sec. 12-265. Special purpose reserves.

Assignments for a special purpose reserve must be only for one-time, non-recurring purposes and may not be for an installment or phase of a multi-installment or multi-phase project. No such assignments may be made other than in accordance with this section. The City Council may, by resolution adopted no later than [~~November 1~~] December 15, make an assignment of all or any part of the portion of the calculated general fund surplus for the preceding fiscal year allocated for special purpose reserves pursuant to Section 12-242. If, by [~~November 1~~] December 15, the Council makes no such assignment or does not make such an assignment of all of the

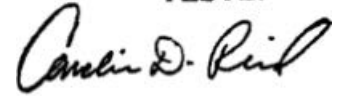
portion of the calculated general fund surplus for the preceding fiscal year allocated for special purpose reserves pursuant to Section 12-242, the Mayor, in the Mayor's discretion, may make such an assignment in a writing to the City Council.

§ 2. This ordinance shall be in force and effect upon adoption.

APPROVED AS TO FORM:

CITY ATTORNEY'S OFFICE

A TRUE COPY:
TESTE:



City Clerk



City of Richmond

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2nd Floor of City Hall
Richmond, VA 23219
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Master

File Number: Admin-2024-0544

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Subject:	Final Action:	
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Enactment Date:

Attachments: Admin-2024-0544 Budget - Surplus Rainy Day - AATF, Richmond Fund Balance Memorandum 2024.05.29 FINAL_

Enactment Number:

Contact:

Introduction Date:

Drafter:

Effective Date:

Related Files:

Approval History

Version	Seq #	Action Date	Approver	Action	Due Date
1	1	5/29/2024	Sheila White	Approve	5/31/2024
1	2	5/29/2024	Meghan Brown	Approve	5/31/2024
1	3	5/29/2024	Sabrina Joy-Hogg	Approve	5/31/2024
1	4	5/30/2024	Jeff Gray	Approve	5/31/2024
1	5	5/30/2024	Lincoln Saunders	Approve	6/3/2024
1	6	6/3/2024	Mayor Stoney	Approve	6/4/2024

History of Legislative File

Version:	Acting Body:	Date:	Action:	Sent To:	Due Date:	Return Date:	Result:

Text of Legislative File Admin-2024-0544

O&R REQUEST

DATE: Thursday, May 9, 2024

TO: The Honorable Members of City Council

THROUGH: The Honorable Levar M. Stoney, Mayor

THROUGH: J. E. Lincoln Saunders, Chief Administrative Officer

THROUGH: Sabrina Joy-Hogg, Deputy Chief Administrative Officer - Finance and Administration Portfolio

THROUGH: Meghan Brown, Interim Director of Budget and Strategic Planning

FROM: Sheila White, Director of Finance

RE: Increasing Downturn Reserve Fund Allocation Requirements of Surplus

ORD. OR RES. No.

PURPOSE: To amend and reordain City Code §§ Sec. 12-241. - Definitions., Sec. 12-242. - Disposition of calculated general fund surplus; reporting., 12-261. - "Rainy day" fund., 12-262. - Unassigned fund balance., 12-263. - Budget and Revenue Stabilization Contingency Reserve., and 12-265. - Special purpose reserves. for the purpose of increasing rainy day (to be renamed the Downturn Reserve) fund allocation requirements and amending the timing of associated surplus processes.

BACKGROUND:

Under City Code, currently, there exist requirements for the allocation of surplus revenues as a result of the Annual Comprehensive Financial Audit (ACFR). Surplus funds are allocated with 50 percent going to the rainy day fund (a combination of the unassigned fund balance and the Budget and Revenue Stabilization Contingency Reserve) and the remainder being split with 40 percent to the Capital Maintenance Reserve and the remaining 10 percent to special purpose reserves.

This proposed ordinance does not seek to reapportion this existing allocation structure, but rather to rename certain funds, amend targeted funding levels of the combined rainy day fund, the timing of surplus reporting by the Mayor, and the resulting timing of City Council's resolution for allocation of special purpose reserves. This proposed ordinance was developed in collaboration between the Department of Finance, the City's financial advisor Davenport, and City Council to strengthen the financial policies of the City towards the shared goal of an AAA credit rating for the City of Richmond.

This proposed ordinance will make nomenclature changes to following funds:

- “Rainy day” fund becomes the Downturn Reserve Fund
- Budget and Revenue Stabilization Contingency Reserve Fund becomes, simply, the Contingency Reserve Fund

As is, the rainy day fund has a goal of 16.67 percent of budgeted general fund operating expenses for the latest fiscal year for which the City Council has adopted a general fund budget. Individually, the fund goal of the unassigned fund balance and the Budget and Stabilization Contingency Reserve are currently 13.67 and 3 percent of the same denominator, respectively. This request, if adopted, will increase the goal of the newly named Downturn Reserve Fund to 20 percent while removing the individual goals. This increased target will strengthen the financial reserves of the City of Richmond as affirmed by the City’s financial advisor. This is another important step to achieving an AAA credit rating for the City.

This paper additionally proposes amending the timeline for dates associated with the required reporting of the general fund balance as well as the deadline for City Council’s assignment of the special purpose reserve which will enhance the accuracy of the estimate and alleviate the need for City Council to make a rapid decision on where the funds would best benefit the City. It is proposed that the deadline for the report of the estimated general fund balance be moved from September 15 to November 15 for more accurate reporting and that the deadline for City Council assignment of the special purpose reserve via resolution be moved from November 1 to December 15.

Collectively, these changes will strengthen the reserve policies of the City and the Administration recommends passage of this request in a matter that makes them effective July 1, 2024 so that they can be applied to the FY 2024 fund balance.

COMMUNITY ENGAGEMENT:

- N/A

STRATEGIC INITIATIVES AND OTHER GOVERNMENTAL:

- N/A

FISCAL IMPACT:

- Will enhance the reserves of the city when surpluses occur
- Will be seen as a positive by credit ratings agencies

DESIRED EFFECTIVE DATE:

- Upon adoption

REQUESTED INTRODUCTION DATE:

- Monday, June 10, 2024 City Council Meeting

CITY COUNCIL PUBLIC HEARING DATE:

- Monday, June 24, 2024 City Council Meeting

REQUESTED AGENDA:

- Consent

RECOMMENDED COUNCIL COMMITTEE:

- Thursday, June 20, 2024 Finance and Economic Development Standing Committee Meeting

AFFECTED AGENCIES:

- City Council
- Department of Budget and Strategic Planning
- Department of Finance

RELATIONSHIP TO EXISTING ORD. OR RES.:

- N/A

ATTACHMENTS:

- N/A

STAFF:

- Jeff Crawford, Program and Operations Manager - Department of Finance (x3056)

MEMORANDUM

TO: Sabrina Joy-Hogg, DCAO of Finance and Administration
Sheila White, Director of Finance
Michael Nguyen, Deputy Director of Finance
Meiling Qu, Debt Portfolio Manager
City of Richmond

FROM: David Rose, Senior Vice President and Manager of Public Finance
Roland Kooch, Jr., Senior Vice President

DATE: May 28, 2024

RE: **City of Richmond Fund Balance Policy – Observations and Professional Recommendations**

CC: Ben Wilson, Vice President, Davenport & Company LLC

Overview

Davenport & Company LLC (“Davenport”), in our capacity as Financial Advisor to the City of Richmond (the “City”), has been asked to provide our professional observations and recommendations with respect to the City’s Fund Balance policy. Over our nearly two dozen year relationship with the City of Richmond as its Financial Advisor, Davenport has provided financial advice with respect to the City’s key debt and fund balance (i.e. financial reserve) policies.

Background – City Fund Balance Policy History

Prior to Davenport’s Involvement with the City:

Prior to Davenport’s engagement as Financial Advisor, the City spent down its Unassigned Fund Balance to very low levels in the mid-1980’s, which resulted in a Credit Rating downgrade(s). As a result of these actions, the City established an Unassigned Fund Balance Policy in 1989 which included a target of 5% of the General Fund Budget. This policy was subsequently amended in 1991 to increase the target to 7%. And, in 2010, the City established a \$2,000,000 Budget/Revenue Stabilization Contingency Reserve.

Davenport Recommendation – 2012 Enhanced Fund Balance Policy:

After our engagement as Financial Advisor, Davenport identified the City's Unassigned Fund Balance levels as an area that needed to be strengthened in order to improve the City's Credit Ratings because the City's Fund Balance levels were consistently on the lower end for highly rated localities. In 2011/2012, Davenport conducted a comprehensive financial policy analysis, in which we delivered several recommendations to strengthen both the City's Debt and Fund Balance Policies in order to support the City's goals in becoming a "AAA" rated city. Specifically, our recommendation with respect to Fund Balance increased the target to 10% of the Total Budget of both the General Fund and Richmond Public Schools. This larger measurement base resulted in the highest levels of Unassigned Fund Balance in the City's history at that time. In addition, the City also increased its Budget/Revenue Stabilization Contingency Reserve target to \$10,000,000 to be funded over time.

Davenport Recommendation – 2017 Enhanced Fund Balance Policy:

In 2017, Davenport again evaluated the City's Unassigned Fund Balance levels in context of "AAA" medians and recommended further strengthening of the City's Fund Balance Policy to foster the City's goals of achieving a "AAA" Credit Rating. Specifically, the revised Fund Balance policy changes included higher percentage targets for Unassigned Fund Balance and strengthening the Budget/Revenue Stabilization Contingency Reserve (collectively referred to as the "Rainy Day Fund" or "Reserves" herein), and the addition of a Capital Maintenance Reserve as follows:

- Unassigned Fund Balance target increased to 13.67% of the General Fund Budget (from 10% of combined General Fund and Richmond Public Schools Budgets).
- Budget/Revenue Stabilization Contingency Reserve increased to 3% of the General Fund Budget (from a fixed \$10,000,000 target)
- Addition of a Capital Maintenance Reserve (which did not exist prior to 2017).

In addition, the revised policy included a "Waterfall" allocation of surpluses as follows:

- 50% allocated to the Rainy Day Fund – exact allocation between the Unassigned Fund Balance and Budget/Revenue Stabilization Contingency Reserve determined by the Mayor based on funding progress;
- 40% to the Capital Maintenance Reserve Fund;
- 10% to special purpose reserves at the discretion of City Council. *It is important to note that this reserve should be used for one-time, non-recurring needs only.*

Davenport Recommendation – 2022 Enhanced Fund Balance Policy:

In 2022, Davenport delivered a memorandum that recommended increasing the City's Fund Balance as one of four key factors to be addressed in order to achieve a "AAA" Credit Rating. Although the City has made considerable progress in increasing its Reserves, the existing targets/amounts continue to be on the lower end of comparable "AA" and "AAA" rated localities. As a result, Davenport recommended increasing the Reserves to 20% of the General Fund Budget (comprised of 16.5% Unassigned Fund Balance and 3.5% Budget/Revenue Stabilization Contingency Reserve targets) in order to be in line with "AAA" rated local governments.

Since our 2022 recommendation, the City has continued to add meaningful dollars to its Reserves, which now totals approximately \$169.5 Million. The City’s continued compliance with its Reserve Policy is one of the key factors that has led to Fitch Ratings recent upgrade of the City’s general obligation bond rating to “AAA”. Fitch also cites that “Failure to maintain available reserves above 10% of spending on a sustained basis” could lead to a negative rating action or downgrade.

The other two national Credit Rating Agencies (Standard & Poor’s and Moody’s) view the City’s Reserves with great importance in potentially moving their ratings to the vaunted “AAA” status. Standard & Poor’s has a “Positive Outlook” on the City and indicates that they “could raise the ratings if the City sustains sound fiscal operations and very strong reserves”. Moody’s indicates that “increases and maintenance of reserves at levels commensurate with Aaa-rated issuers” is one of several key factors that could lead to an upgrade.

It is our understanding that the City Administration is proposing an increase in its Fund Balance Policy to 20% in connection with the adoption of the FY 2025 Budget. In addition, the City Administration is proposing to rename the Budget and Revenue Stabilization Contingency Reserve Fund to “Contingency Reserve Fund” and the total of all reserves known as the “Rainy Day Fund” to “Downturn Reserve Fund”. Davenport is in agreement with the change in the policy target, as well as, the change in nomenclature of the City’s Reserves, which will clarify the intended purpose of such reserve funds.

Current Status of the City’s Reserves

Figure 1 below shows the City’s Existing Fund Balance Policy target and Davenport’s Recommended Policy target based on actual FY 2023 Fund Balance amounts in comparison to the FY 2024 Budget.

Figure 1. Fund Balance Reserves Calculation Based on FY 2024 Budget
(FY 2023 Actual Amount)

	A	B	C	D
	Existing Fund Balance Policy			
	Target % of Budget	Target Amount	FY 2023 Actual	FY 2023 Over (Under) Target
1 Unassigned Fund Balance	13.67%	\$130,127,982	\$139,902,611	\$9,774,629
2 Budget/Revenue Stabilization	3.00%	\$28,557,714	\$29,585,710	\$1,027,996
3 Total Rainy Day Fund	16.67%	\$158,685,696	\$169,488,321	\$10,802,625
	Davenport 2022 Recommendation			
	Target % of Budget	Target Amount	FY 2023 Actual	FY 2023 Over (Under) Target
4 Unassigned Fund Balance	16.50%	\$157,067,425	\$139,902,611	(\$17,164,814)
5 Budget/Revenue Stabilization	3.50%	\$33,317,333	\$29,585,710	(\$3,731,623)
6 Total Rainy Day Fund	20.00%	\$190,384,758	\$169,488,321	(\$20,896,437)
FY 2024 General Fund Budget		\$951,923,789		

Figure 2 below shows the City’s Existing Fund Balance Policy target and Davenport’s Recommended Policy target based on actual FY 2023 Fund Balance amounts in comparison to the FY 2025 Budget.

Figure 2. Fund Balance Reserves Calculation Based on FY 2025 Budget
(FY 2023 Actual Amount)

	A	B	C	D
Existing Fund Balance Policy				
	Target % of Budget	Target Amount	FY 2023 per Waterfall	FY 2023 Over (Under) Target
1 Unassigned Fund Balance	13.67%	\$136,958,181	\$139,902,611	\$2,944,430
2 Budget/Revenue Stabilization	3.00%	\$30,056,660	\$29,585,710	(\$470,950)
3 Total Rainy Day Fund	16.67%	\$167,014,841	\$169,488,321	\$2,473,480
Davenport 2022 Recommendation				
	Target % of Budget	Target Amount	FY 2023 per Waterfall	FY 2023 Over (Under) Target
4 Unassigned Fund Balance	16.50%	\$165,311,630	\$139,902,611	(\$25,409,019)
5 Budget/Revenue Stabilization	3.50%	\$35,066,103	\$29,585,710	(\$5,480,393)
6 Total Rainy Day Fund	20.00%	\$200,377,734	\$169,488,321	(\$30,889,413)
FY 2025 General Fund Budget			\$1,001,888,669	

Observations & Recommendations

The Existing Unassigned Fund Balance and Budget/Revenue Stabilization Contingency Reserve targets total to 16.67% or effectively two months operations, which is considered a starting point for “Best Practices” for Fund Balance policies.

Even at the 16.67% existing target level, the City’s Reserves are on the lower end of comparably rated “AA” and higher rated “AAA” localities. Currently, as shown in Figure 1 on the previous page, the City is in compliance with its Existing Fund Balance Policy targets by approximately \$10.8 Million in total based on the FY 2024 Budget. As shown in Figure 2, the City’s Budget has grown in FY 2025 and the City is projected to remain in compliance with its Existing Fund Balance Policy targets by approximately \$2.5 Million.

As indicated in the City’s most recent credit reports published this May, the Credit Rating Agencies view Reserve levels as perhaps the key financial factor that is essential in offsetting liabilities such as debt and pensions. Moreover, they expect that the City will continue to maintain and strengthen its Reserves over time, which is consistent with highly rated local governments. Moody’s cites this expectation as one of the key factors that could result in their upgrade of the City. Conversely, if the City’s reserves are consistently viewed as too low relative to its rating category and peers, then there could be downward pressure on the City’s credit ratings.

As the rating agency criteria have continued to evolve over the past 5-6 years since the City’s Fund Balance Policy was last revised, Davenport’s 2022 recommendation to increase the City’s Fund Balance Policy target to 20% (16.5% to Unassigned Fund Balance/3.5% to Budget/Revenue Stabilization Contingency Reserve) was one of four key factors to be addressed in achieving a “AAA” credit rating. When compared

to the higher 20% Reserve target, the City would be short by approximately \$30.9 million based on the FY 2025 Budget as shown in Figure 2. This increased target, while addressing Moody's comments, would require the City to add to its Fund Balance in the near term. Lastly, the adherence to a healthy reserve policy demonstrates to the Credit Rating Agencies and credit markets that the City has strong fiscal management and financial flexibility.

In addition to higher Fund Balance levels, the Waterfall allocation of surplus includes two key components that are critical to the City's Fund Balance Policy. First, the 50% allocation of surplus helps the City build/maintain the targeted balances in the Unassigned Fund Balance and Budget/Revenue Stabilization Contingency Reserve Funds per the City's Fund Balance Policy. Second, the 40% allocation of surplus to the Capital Maintenance Reserve Fund provides a funding mechanism for pay-as-you-go capital replacement expenditures. Pay-as-you-go funding of capital demonstrates to the Credit Rating Agencies that the City has both the commitment and financial flexibility to fund its infrastructure maintenance and is not deferring these costs. Davenport does not recommend decreasing the Waterfall's 50% allocation toward funding/maintaining the City's Fund Balance targets nor the 40% allocation toward the Capital Maintenance Reserve Fund.

Again, both the Fund Balance Policy targets and the Waterfall are critically important from a Credit Rating Agency perspective. Ensuring that the City has a mechanism to achieve its Fund Balance Policy targets and commit funds to pay-as-you-go capital are key considerations in the evaluation of the City's current "Aa1/AA+/AAA" credit rating and in achieving the coveted "AAA" credit rating from Standard & Poor's and Moody's. Should you have any questions, please do not hesitate to contact us.