



City of CHARLOTTE

MEMORANDUM

TO: Mayor Armitage and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: Unassigned Fund Balance

DATE: July 24, 2020

Not long ago, Mayor Armitage requested that I prepare a historical summary of unassigned General Fund fund balance. I realized after distributing it that I had made errors in calculations which I now wish to correct.

By way of explanation, we can think of fund balance as a savings account. It is desirable to have fund balance to draw on in the event of an emergency and to provide for adequate cash flow. Some fund balance is set aside for specific purposes, such as retiree health care, or is related to inventory that is on the books. The remainder is referred to as unassigned fund balance.

The following table summarizes unassigned fund balance:

Year Ending June 30	General Fund	Airport Fund	O-I Award	Net G.F. Fund Balance	% G.F. Op
2014	\$ 1,375,042	\$ (156,550)		\$ 1,218,492	
2015	\$ 2,330,328	\$ (337,707)		\$ 1,992,621	
2016	\$ 2,528,945	\$ (239,504)		\$ 2,289,441	31.70
2017	\$ 2,294,407	\$ (267,955)		\$ 2,026,452	40.70
2018	\$ 2,542,070	\$ (143,539)	\$ (800,000)	\$ 1,598,531	31.89
2019	\$ 1,955,743	\$ (181,231)	\$ (800,000)	\$ 974,512	18.56
2020 (est.)	\$ 1,159,512	\$ (185,000)		\$ 974,512	17.69
2021 (budget)	\$ 722,641	\$ (182,500)		\$ 540,141	9.53
2021 (proj. w/seq.)	\$ 1,181,380	\$ (182,500)		\$ 998,880	17.62

City Council has never adopted a formal fund balance policy. As a general rule of thumb, it is recommended that a fund balance of 20% be maintained. We have adopted this but applied that standard as 20% of operating expenditures. This takes out of the equation expenditures for capital improvements which can vary widely from year to year.

Some comments are in order to provide some additional context for the data in the table. For audit purposes, the Airport Fund is reported as part of the General Fund. For this report, then, it is important to consider the net General Fund fund balance. This number is reported in the Comprehensive Annual Financial Report (audit) as unassigned fund balance on the government funds balance sheet.

To provide some historical context, the table goes back to the fiscal year that ended June 30, 2014. This was before the City received damages awarded in the Owens-Brockway case. Fund balance climbed in the subsequent year due to receipt of those damages. For audit purposes, these funds were treated as unassigned. In November 2017, voters approved a charter amendment creating a revolving fund special account to which those funds were to be transferred. This was not recognized in the two subsequent audits. For the table, I have shown that as a transfer, however, which is why net fund balance appears to drop so precipitously in the year ended June 30, 2018.

Fund balance dropped again in 2018. There were two primary reasons. First, there was an unanticipated increase in the operating deficit for the airport. Second, and more significantly, the City paid its \$400,000 share of a new fire truck from unassigned fund balance. When the budget was adopted, it was expected that the City would finance this purchase from the revolving fund special account. We held off on that with the expectation that we would still be able to achieve our 20% target. I will return to this point in a moment.

I have estimated that we ended FY 19-20 with the same unassigned fund balance as the previous year. It will be a while before we know for sure. As a check on my estimate, I asked our accountant to provide an estimate of cash-on-hand for June 30, 2019. That amount -- \$1,200,000 -- is about where I would expect us to be if my fund balance estimate is correct. The cash estimate does not reflect some additional revenue that will still be reflected in that fiscal year.

The last two rows of the table provide alternative scenarios. The first is based on the proposed budget which shows fund balance dropping below 10%. As Council recognizes, action needs to be taken to improve on this. I suggested to Council a couple of years ago that an unassigned fund balance of 15% was justifiable during a recession. If we achieved that through budget cuts in the current year, however, it leaves no room for the next fiscal year which could be as bad or worse.

The last row is based reflects the fact that Council has sequestered certain appropriations. If some of them are restored, the fund balance percentage will drop.

There *is* some good news to be found in what is otherwise a discouraging report. First, we submitted an application for CARES Act funding for public safety payroll expenditures. If we were to receive the full amount of our request, it would add

nearly \$344,000 in revenue in the current year. I think it is more likely that applications will exceed the total amount appropriated and we will receive only a portion of that amount. The distribution of funds under this program is scheduled to occur not later than September 18.

The second bit of good news relates to the \$400,000 fire truck purchase. It is still possible to finance some or all of that purchase from the revolving fund, providing another infusion of cash in the current fiscal year. When considering this, Council needs to be mindful that \$365,000 of the \$800,000 fund has been allocated for the parking lot project just completed and another \$185,000 was budgeted for the next fire truck purchase. In addition, these loans will need to be repaid when the City's revenue picture improves with a better economy.

This positive news needs to be tempered with some additional words of caution. The two alternative scenarios at the bottom of the table assume that Council will impose a special assessment to fund public safety pension expenditures. Failure to do so leaves another \$330,000 hole in the budget. Further, relying on one-time revenue sources only works one time. If there are structural deficiencies in the budget unrelated to a projected drop in state revenues, those will still be there next year. That is certainly the case with regard to unfunded pension liability.