

MEMORANDUM

TO: Beverly R. Cameron, City Manager
FROM: Mark Whitley, Assistant City Manager
RE: Establishment of a Fund Balance Reserve – Regional Detention Stabilization Reserve
DATE: May 3, 2016

ISSUE

Shall City Council amend financial policies and create an assignment on the balance sheet for stabilizing the costs associated with the Rappahannock Regional Jail and the Rappahannock Juvenile Center?

RECOMMENDATION

This item is submitted as a transmittal item for City Council consideration. The attached resolution only requires one reading and will be submitted to City Council for action at the May 24, 2016 meeting.

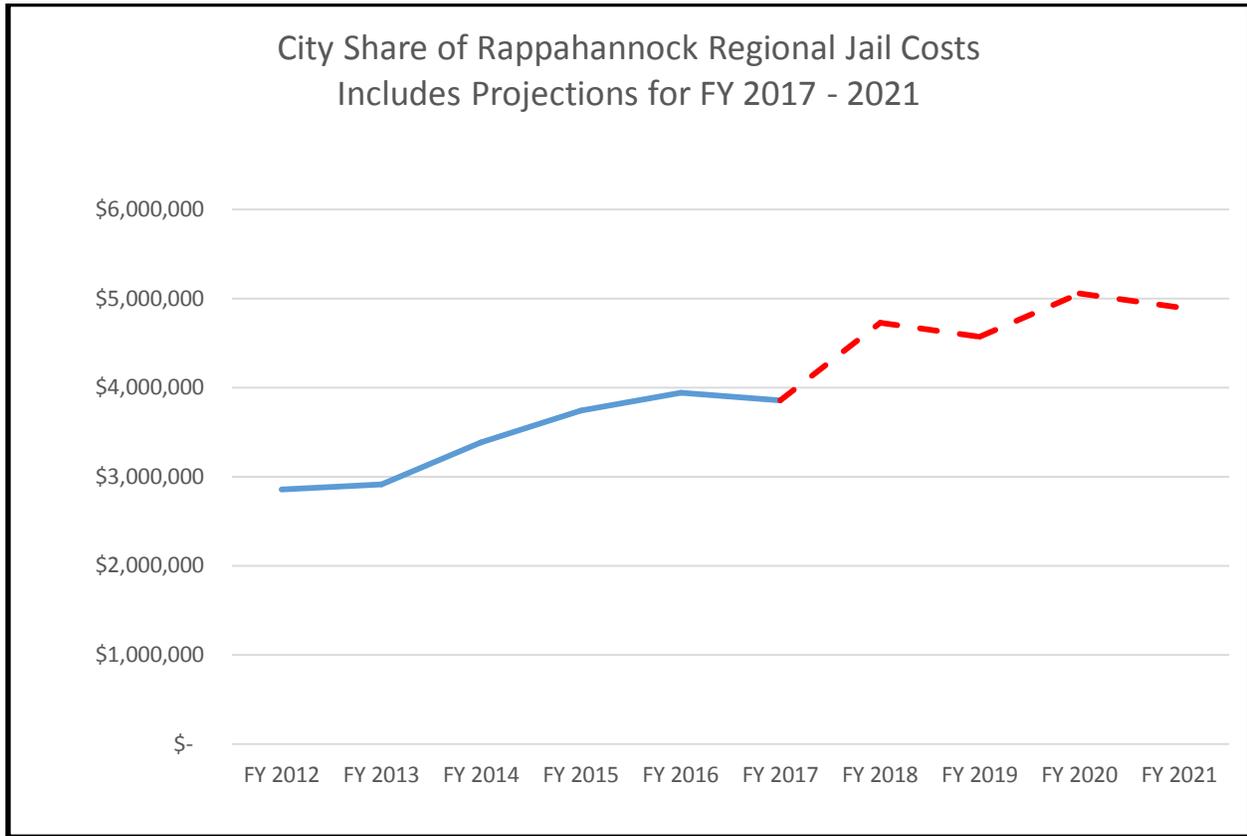
BACKGROUND

The City Council this spring is considering two key recommendations to assist the long-term financial outlook of the City: establishment of an OPEB Trust and establishment of a Regional Detention Stabilization Reserve.

The staff recommends establishing the Regional Detention Stabilization Reserve to smooth the year-to-year fluctuation in the City's costs for the Regional Jail and the Rappahannock Juvenile Center. The City is facing increased costs for both in FY 2018, and setting aside some of the Unassigned General Fund Balance for this purpose will help future budget cycles deal with these cost fluctuations.

The City's participation in the regional jail and the regional juvenile center represents an essential function of local government and is a major cost center in the City budget. The FY 2017 budget includes a total of approximately \$4.3 million for both facilities, which is approximately 4.76% of the total General Fund budget.

The Regional Jail in particular includes major increases in costs for the facility, due in part to the loss of federal immigration detainees and in part to the cost of capital renovations at the jail facility. Based upon the five-year forecast provided by the Rappahannock Regional Jail, the impact of future jail costs may be seen in the following chart.



It should be noted that the future costs may vary depending upon the City’s share of future usage of the facility in comparison to the other member jurisdictions (Stafford, Spotsylvania, and King George).

Policy Proposal

The attached resolution will create a Regional Detention Stabilization Reserve for the use of City Council in balancing future budgets.

The first step in the establishment of the reserve is the assignment of Unassigned General Fund Balance to the purpose of creating the Reserve. The City Manager’s Recommended Budget suggested a level of \$1.25 million as an initial contribution.

These funds will remain with the City and City Council will retain authority over these resources. The staff suggests that a policy governing the use of the proposed Regional Detention Stabilization Reserve may help guide future Councils in balancing future budgets.

The attached resolution proposes an amendment to the current Financial Policies of the City that would govern the use of the Reserve. The policy proposal is as follows:

- 1) The City Council will not use the Regional Detention Stabilization Reserve (“the Reserve”) if the annual increase is less than 5% of the current year contribution.
- 2) If the increase is greater than 5% but less than 10%, then the Reserve may be used for up to ½ the proposed increase.
- 3) If the increase is greater than 10%, the Reserve may be used as follows:
 - a. For ½ the proposed increase, up to 110% of the current year contribution.
 - b. For all of remaining increase above 110% of the current year contribution.
- 4) The City’s minimum level for the Reserve shall be \$750,000.
 - a. If the Reserve falls under \$750,000, the City Council will adopt a plan to restore that level of funding to the Reserve within three fiscal years.
 - b. If the Reserve falls under \$750,000, the City Council will not use more than \$100,000 of the remaining Reserve prior to the adoption of a plan to restore the Reserve within the next three years.
- 5) Should the City’s contributions decrease in a given year, then the City will contribute at least one-half of the amount of the decrease to the Reserve unless the Reserve is at least \$2,000,000.
- 6) City Council may add funding to the Reserve at any time, regardless of the reserve level, and may evaluate and change the target levels and reserve levels in this policy at any time.
- 7) The City Council may use the Reserve for mid-year appropriation amendments at any time, regardless of the amount of the increase, provided the targeted minimum level of funding is in place.
- 8) For the purposes of this policy, contributions to the Rappahannock Regional Jail and the Rappahannock Juvenile Center will be considered combined, and a decrease in funding for one will offset increases in funding for the other facility. The Regional Detention Stabilization Reserve may be used for offsetting an increase in either facility in accordance with this policy.

FISCAL IMPACT

The attached resolution will assign \$1,250,000 of the General Fund Unassigned Fund Balance for the purpose of setting aside these funds in a Regional Detention Stabilization Reserve for future use. Expenditures from the reserve are not authorized until budgeted and appropriated in future budgets. The overall fund balance in the General Fund is unchanged, but the “Unassigned” portion of the fund balance will be reduced by \$1.25 million.

The current City budget, as amended, includes the budgeted use of \$5,796,031 in fund balance in the General Fund. The transfer from the capital commitment is \$3,007,000, and there is an additional \$619,826 of encumbrances. The remaining \$2,169,285 represents a variety of other one-time expenditures.

The City has a financial policy target for Unassigned General Fund Balance of 12% of prior year revenues, which based upon the FY 2015 audit were \$84,045,364. The City’s Unassigned General Fund Balance at the close of FY 2016 will decline based on currently appropriated uses of balance, plus the proposal to establish an OPEB Trust and the Regional Detention Facility Contribution Reserve. FY 2016 is not yet complete and final financial results will not be

available until later this year. However, for planning purposes only the City's Unassigned balance in the General Fund may be reduced by \$4,000,000 – to about \$17,000,000, or about 20% of the prior year revenue target. The Council may be in a position to assign additional balance for future capital needs or for other considerations as FY 2016 winds down.

Attachment: Resolution

cc: Beverly R. Cameron, City Manager
Clarence A. Robinson, Director of Fiscal Affairs



May 24, 2016
Regular Meeting
Resolution No. 16-__

MOTION:

SECOND:

RE: CREATING A REGIONAL DETENTION FACILITY CONTRIBUTION STABILIZATION RESERVE

ACTION: APPROVED; Ayes: 0; Nays: 0

WHEREAS, the City Council wishes to create a Regional Detention Facility Contribution Stabilization Reserve to alleviate large year to year increases in City contributions to the Rappahannock Regional Jail and the Rappahannock Juvenile Detention Center, and

WHEREAS, in order to do so the City Council wishes to assign \$1.25 million in Unassigned fund balance in the General Fund for this purpose; and

WHEREAS, the City Council also wishes to amend the City's Financial Policies to govern the use of the Reserve;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Fredericksburg that an amount of \$1,250,000 of Unassigned Balance in the General Fund be Assigned for the purpose of creating a Regional Detention Facility Contribution Stabilization Reserve.

BE IT FURTHER RESOLVED, that the City's Financial Policies be amended **by adding the following Policy:**

Policy XIV: Regional Detention Facility Contribution Stabilization Reserve

1. The City Council will not use the Regional Detention Stabilization Reserve ("the Reserve") if the annual increase is less than 5% of the current year contribution.
2. If the increase is greater than 5% but less than 10%, then the Reserve may be used for up to ½ the proposed increase.
3. If the increase is greater than 10%, the Reserve may be used as follows:
 - 3.01 For ½ the proposed increase, up to 110% of the current year contribution.
 - 3.02 For all of the remaining increase above 110% of the current year contribution.
4. The City's minimum level for the Regional Detention Stabilization Reserve shall be \$750,000.
 - 4.01 If the amount of the Reserve falls under \$750,000, the City Council will adopt a plan to restore that level of funding to the Reserve within three fiscal years.
 - 4.02 If the amount of the Reserve falls under \$750,000, the City Council will not use more than \$100,000 of the remaining Reserve prior to the adoption of a plan to restore the Reserve within the next three years.

5. Should the City's contributions decrease in a given year, then the City will contribute at least one-half of the amount of the decrease to the Reserve unless the Stabilization Reserve is at least \$2,000,000.
6. City Council may add funding to the Reserve at any time, regardless of the reserve level, and may evaluate and change the target levels and reserve levels in this policy at any time.
7. The City Council may use the Reserve for mid-year appropriation amendments at any time, regardless of the amount of the increase, provided the targeted minimum level of funding is in place.
8. For the purposes of this policy, contributions to the Rappahannock Regional Jail and the Rappahannock Juvenile Center will be considered combined, and a decrease in funding for one will offset increases in funding for the other facility. The Regional Detention Stabilization Reserve may be used for offsetting an increase in either facility in accordance with this policy.

Votes:

Ayes:

Nays:

Absent from Vote:

Absent from Meeting:

Clerk's Certificate

I, the undersigned, certify that I am Clerk of Council of the City of Fredericksburg, Virginia, and that the foregoing is a true copy of Resolution No. 16- duly adopted at a meeting of the City Council meeting held May 24, 2016 at which a quorum was present and voted.

Tonya B. Lacey, CMC
Clerk of Council