

DOES THE CITY HAVE \$103 MILLION IN “RAINY DAY” FUNDS IT COULD USE FOR OTHER PURPOSES?

- The City does not have \$103 million in “rainy day funds” that it could transfer to the general fund and use for other purposes. The City has a general fund reserve of \$10.7 million.
- Except for the general fund reserve (\$10.7 million), the City cannot use any of the funds for purposes other than those for which they were set up and collected or received.
- For some funds these restrictions are imposed both by sound accounting practices and by statute – for example, the restrictions on the use of Act 51 funds for construction or maintenance of major and local streets, on the use of Community Development Block Grant funds, or on the use of capital project funds funded through water and sanitary sewer rates.
- For other funds the restrictions are imposed both by sound accounting practices and by millages approved by the voters and included in the City Charter – for example, the restrictions on use of the millages for Park Maintenance and Capital Improvements, for Public Transit, for Street Reconstruction or for Land Acquisition (parks and open space).
- Any improper use of such funds creates a risk to the City of possible legal action or other negative consequences.
- For example, some customers might seek a refund of water and sewer rates collected and used for non-water or non-sewer purposes.
- Any improper use of such funds also could pose a risk for bonds issued to fund water and sewer improvements, which are paid for through water and sewer rates that are collected, and could result in higher rates for future bonds.
- The amount of the general fund reserve is within the 8% to 12% range set both by Council resolution and sound accounting practices.
- The general fund reserve is necessary to deal with cash flow, possible unexpected one-time expenditures, or if there is an unpredicted downturn in the economy that adversely impacts the revenues predicted in the budget.

Following is a more complete discussion and explanation.

The \$103 million refers to two groups of funds, one totaling about \$60 million and one totaling about \$43 million.

The first group, totaling about \$60 million, is a collection of the net current assets for a group of enterprise funds, including the water system fund, the sanitary sewer system fund, the stormwater system fund and the solid waste fund. The net current assets are the net of current assets (cash and inventory), plus long-term assets (equipment, plant and land), offset by liabilities. Use of these funds, which are not part of the general

fund, is restricted by law or by charter to the purposes for which the funds were established and collected.

These funds include set aside for capital purposes – approximately \$14 million for water and \$31 million for sanitary sewer - which have been built up for use on capital projects, using a portion of the rates charged for water and sewer, respectively.

By law, water, sewer and stormwater rates must be used to cover the costs of the systems, including operations and capital improvements to the systems. Use of the funds for other purposes would be a violation of law and of applicable accounting practices. Such co-mingling of funds generally is not allowed in any business. Even if the legal and accounting restrictions were ignored, and the funds were used for other purposes, the City would then need to increase its water, sewer and stormwater rates to replenish the capital funds to be able to continue to perform repairs and make replacements of system lines and other facilities, as well as necessary upgrades or other improvements at the treatment plants.

Any improper use of such funds exposes the City to possible legal action, including possibly an action for refund of water and sewer rates collected and used for non-water or sewer purposes. Such use also could pose a risk for bonds issued to fund water and sewer improvements, which are paid for through water and sewer rates that are collected.

The second group, totaling about \$43 million, includes approximately \$10.7 million as general fund reserve, with the remainder consisting of special revenue funds.

The \$10.7 million general fund reserve is consistent with sound accounting practices and falls within the target range of 8% - 12% of the budget. These funds are used for two primary purposes:

- Because revenues do not come in on a regular basis throughout the fiscal year and the City's revenue stream does not match its stream of expenditures, this fund is used when needed to deal with cash flow issues to cover expenditures.
- The funds are also available for use for unexpected one-time expenditures, or if needed because of an unpredicted downturn in the economy that adversely impacts the revenues predicted in the budget.

The depletion of this fund for other purposes would not be a sound financial practice. This could risk having to borrow funds for cash flow purposes, incurring borrowing costs and could result in higher costs to borrow funds if needed. A decision not to maintain an appropriate reserve amount would risk a lower rating for future bonds the City might need to issue, which would increase the City's costs.

The special revenue funds include the Act 51 funds (revenue from the State weight and gas tax, totaling approximately \$11 million and divided between major and local street funds), Community Development Block Grant funds, Metro Expansion funds, and various millage funds, including the street reconstruction fund, the public transit millage funds that go to fund the AATA, and the open space and park acquisition millage (approximately \$15 million). All of these funds are restricted either by law or by the charter provision that authorized the millage.

Again, statutory restrictions, millage restrictions and sound accounting practices do not allow these funds to be used for other purposes. The same costs and risks outlined above for the other group of funds also would be triggered by any improper use of the funds in this group.