



TO: Members of the Finance Committee, Jon Jennings, City Manager;  
FROM: Brendan T. O'Connell, Director of Finance  
DATE: March 22, 2018  
RE: City of Portland – Fund Balance Status Report and Recommended Usage

### **Executive Summary**

As part of the FY19 Capital Improvement Plan the City Manager is recommending usage of approximately \$3M of surplus unassigned fund balance to remain in compliance with the City of Portland Fund Balance Policy, to help address the backlog of capital maintenance in the City, and to ease the tax burden within the FY19 operating budget and beyond. This usage of surplus fund balance will keep the City in compliance with the City Fund Balance Policy goal of 12.5% of expenditures. The recommended usage of fund balance will also give the City and the School Department the flexibility to complete \$2M of critical capital improvement projects in FY19 without adding any debt service to the operating budget or tax levy. Finally, the recommended usage of unassigned fund balance will take a tremendous burden out of the FY19 operating budget, by eliminating \$1M of expenditure related to the City wide revaluation.

### **Additional Background**

Chapter 2 of the City Code *Administration* notes that it is the duty of the Finance Director to act to promote, secure and preserve the financial and property interests of the City. Among these required duties are keeping the books and records of the City including financial condition, transmitting financial statements to the City Manager, and exercising general supervision over all officers of the City regarding the proper management of the fiscal concerns of their respective offices. Several fiscal policies have been developed and implemented by the Finance Director to assist in the compliance of those duties as outlined in City Code. The Fund Balance Policy is one of the most important of those policies. Our Fund Balance policy notes "It is the goal of the City to achieve and maintain an unassigned General Fund balance equal to 12.5% of expenditures." At the end of FY16, the City had approximately \$36.6M of unassigned fund balance, or approximately 12.7% of expenditures.

Based on FY17 results, combined with expenditure projections for the coming fiscal year, it is anticipated that an unassigned fund balance of \$38.3M will be required to maintain our 12.5% fund balance policy in the coming fiscal year. As of June 30, 2017 the unassigned fund balance is at \$41.4M, leaving the City with just under a \$3M surplus above the recommended 12.5% threshold. The City Manager has recommended usage of this surplus fund balance for two purposes. First, to fund \$2M of capital improvement projects which would have otherwise been funded with general obligation bonds (and thus triggering 20 years of debt service payments in the operating budget going forward, an estimated savings of approximately \$150,000 per year). Of these projects, \$1M would be City projects and \$1M would be School

Department projects, or a savings of \$75,000 in each. Second, the City Manager is recommending to use approximately \$1.05M of surplus fund balance to pay for one time expenditures related to the required City wide revaluation. If this expenditure is not funded with via usage of excess fund balance, the City would be required to add this amount to the FY19 operating budget, which would increase the tax levy by \$0.14.

| CITY OF PORTLAND  |                       |                       |                       |                       |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| UNASSIGNED FUND BALANCE BY FISCAL YEAR                              |                       |                       |                       |                       |                       |
| BUDGETARY BASIS   | 2018                  | 2017                  | 2016                  | 2015                  | 2014                  |
| General Fund Balance  |                       |                       |                       |                       |                       |
| Unassigned  | 41,416,433            | \$ 36,599,104         | \$ 33,642,720         | \$ 34,414,158         | \$ 33,107,652         |
| Assigned  |                       |                       |                       |                       |                       |
| <b>Fund Balance Available</b>                                       | <b>\$ 41,416,433</b>  | <b>\$ 36,599,104</b>  | <b>\$ 33,642,720</b>  | <b>\$ 34,414,158</b>  | <b>\$ 33,107,652</b>  |
| Expenditures (FY19 est, FY14-18 actuals)                            |                       |                       |                       |                       |                       |
| General Fund  | 197,825,155           | \$ 186,271,885        | \$ 178,524,521        | \$ 176,355,473        | \$ 170,809,990        |
| School Department   | 110,507,276           | 103,602,884           | 102,776,657           | 101,592,669           | 98,275,361            |
| Less: Excluded Debt Service <sup>2</sup>                            | (1,464,594)           | (1,754,848)           | (1,812,819)           | (1,848,452)           | (1,885,180)           |
| <b>Total Expenditures</b>   | <b>\$ 306,867,836</b> | <b>\$ 288,119,921</b> | <b>\$ 279,488,359</b> | <b>\$ 276,099,690</b> | <b>\$ 267,200,171</b> |
| <b>Fund Balance Percentage</b>                                      | <b>13.5%</b>          | <b>12.7%</b>          | <b>12.0%</b>          | <b>12.5%</b>          | <b>12.4%</b>          |
| Unassigned Fund Balance   | \$ 41,416,433         | \$ 36,599,104         | \$ 33,642,720         | \$ 34,414,158         | \$ 33,107,652         |
| Fund Balance Policy - 12.5%   | (38,358,479)          | (36,014,990)          | (34,936,045)          | (34,512,461)          | (33,400,021)          |
| <b>Fund Balance to be Expended (Restored) to Comply with Policy</b> | <b>\$ 3,057,954</b>   | <b>\$ 584,114</b>     | <b>\$ (1,293,325)</b> | <b>\$ (98,303)</b>    | <b>\$ (292,369)</b>   |
| Recommended Excess Fund Balance Usage:                              |                       |                       |                       |                       |                       |
| FY19 CIP - City Fund Balance  | (\$1,000,000)         |                       |                       |                       |                       |
| FY19 CIP - PPS Fund Balance   | (\$1,000,000)         |                       |                       |                       |                       |
| FY19 / FY20 Revaluation   | (\$1,055,000)         |                       |                       |                       |                       |
| Subtotal  | (\$3,055,000)         |                       |                       |                       |                       |
| <b>Total Fund Balance after Recommendations</b>                     | <b>\$ 38,361,433</b>  |                       |                       |                       |                       |
| <b>Fund Balance % after Recommendations</b>                         | <b>12.5%</b>          |                       |                       |                       |                       |

Note: 2014 through 2017 represent actual expenditures, 2018 represents estimates

Note 2: The City portion of the unassigned Fund Balance is \$37.6M and the School portion of the unassigned fund balance is \$3.8M

### Maine Revised Statutes on School Fund Balance and Implications for FY18 PPS Funding

Maine State Law, Title 20-A, MRS section 15689-B (6) states that:

“Notwithstanding any other law, general operating fund balances at the end of a school administrative unit's fiscal year must be carried forward to meet the unit's needs in the next year or over a period not to exceed 3 years. Unallocated balances in excess of 3% of the previous fiscal year's school budget must be used to reduce the state and local share of the total allocation for the purpose of computing state subsidy. School boards may carry forward

unallocated balances in excess of 3% of the previous year's school budget and disburse these funds in the next year or over a period not to exceed 3 years. For fiscal years 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14 and 2014-15 only, the carry-forward of a school administrative unit's unallocated balances is not limited to 3% of the previous fiscal year's school budget.”

20-A M.R.S. section 15004 states: “The unexpended balance of all money raised by a school administrative unit, received from the State for general-purpose aid for for other educational programs; from the Federal Government directly or from the Federal Government through the State; from tuition payments made by other units, the State, or by individuals; and other receipts for school purposes shall be carried forward and credited to the unit for educational programs for the ensuing year.”

20-A M.R.S. section 15689-B(5) states: “Notwithstanding any other law, money allocated for school purposes may be expended only for school purposes.”

20-A M.R.S. section 6052 establishes the requirements for the annual audit of School Department funds.

The intent of these laws is to ensure that public funds raised for education, including those provided by the State, are used for that purpose and are subject to independent audit, and additionally that school administrative units do not accumulate fund balances in excess of a reasonable amount without consideration for tax relief. The calculation of amounts that are covered by the 3% unallocated balance limitation would not include School Reserve funds, Adult Education funds, or Food Service funds.

In 2016, the Portland Public School Department established a School Reserve due to the 20-A requirements. A school capital reserve was established and was later appropriated for usage within the capital improvement plan. This action saved the district approximately \$150,000 in annual debt service cost within the next 20 annual operating budgets.

In FY18, the School Department is expected to receive excess revenue from the State of Maine in their educational subsidy of approximately \$1M. Until the fiscal year is complete, it is uncertain as to whether this additional \$1M could potentially conflict with the M.R.S. regarding carry forward balances. At year end, any excess revenues above expenditures would simply flow into general fund balance, and could later be placed into a school capital reserve if necessary. Every \$1M of potential school capital reserve utilized in place of general obligation debt generates approximately \$75,000 in annual budget savings for the next 20 years.