

 TOWN OF CAPE CHARLES	AGENDA TITLE: General Operating Reserve – Resolution 20201119C		AGENDA DATE November 19, 2020
	SUBJECT/PROPOSAL/REQUEST: Establishing a general operating reserve as a committed portion of the town’s general fund balance		ITEM NUMBER: 7B.i.
	ATTACHMENTS: Resolution 20201119C		FOR COUNCIL: Action (X) Information ()
	STAFF CONTACT (s): John Hozey, Town Manager	REVIEWED BY: John Hozey, Town Manager	

BACKGROUND:

Revenues throughout a fiscal year do not always come in precisely when they are needed. For example, property taxes aren't received until late in the calendar year. Other revenue sources (like meals and transient occupancy taxes) typically arrive late summer-early fall. It is not uncommon, therefore, for us to have a negative cash flow in some portions of the fiscal year. This simply means that more money is being paid out than is coming in. Fund balance accumulations from prior years have typically been used to finance these expenditures. Then as revenues come in, these funds are restored to the fund balance. Thus, cash flow needs dictate a need for a fund balance, or a committed reserve dedicated to preserving cash flow and liquidity needs of the Town.

ITEM SPECIFICS:

There is currently no requirement to maintain any fund balance in Cape Charles, nor is there any dedicated cash flow reserve. It is therefore recommended that we establish a General Operating Reserve (GOR) for this purpose. Note that once established, this committed reserve cannot be appropriated for any other specific use, but must always remain available to meet cash flow requirements of the Town.

There are many theories and practices regarding how much should be dedicated to this function. Most theoretical approaches say there should be between one month (8.3%) to three months (25%) of the general operating budget held in reserve. However, research has indicated that most smaller municipalities (between 500 to 2500 in population) typically maintain closer to 30-40% as a reserve. Generally speaking, the smaller the community, the greater the percentage.

The takeaway is that there is not one “right” amount for all. Each municipality must evaluate their unique situation and set a prudent amount based on their circumstance. The information above was meant to provide a general idea of typical ranges.

RECOMMENDATION:

Assuming other reserves are also established (i.e. Contingency Reserve, see next item), staff is comfortable recommending a GOR equivalent to 20% of operating expenses. Therefore, staff recommends approval of this resolution.

RESOLUTION 20201119C

**ESTABLISHING A GENERAL OPERATING RESERVE AS A COMMITTED
PORTION OF THE TOWN'S GENERAL FUND BALANCE**

WHEREAS, the Town of Cape Charles uses fund accounting to manage its financial affairs; and

WHEREAS, the Town of Cape Charles does not always receive sufficient anticipated revenues in time to cover needed planned expenditures; and

WHEREAS, the Town Council recognizes the necessity of maintaining a committed cash reserve to ensure there are always sufficient funds on hand to meet the cash flow and liquidity needs of the Town; and

WHEREAS, the Town Council desires to formally commit funds to a General Operating Reserve (GOR) with the intent for it to remain as a committed general fund balance in perpetuity to meet the cash flow and liquidity needs of the Town; and

WHEREAS, the Town Council hereby establishes that all fund balance designations be made through the passage of a resolution; and

NOW, THEREFORE, BE IT RESOLVED, that the Town Council of the Town of Cape Charles hereby establishes a General Operating Reserve (GOR) to maintain the cash flow and liquidity needs of the Town as specified herein:

1. The GOR will be adjusted with each budget cycle to equal twenty percent (20%) of the upcoming fiscal year's general operating expenses (less external grants or pass through funds)
2. The GOR will be designated as a committed portion of the general fund balance
3. The GOR may only be decreased or appropriated for another purpose upon approval of a super majority of the Town Council

This resolution shall become effective upon approval.

Adopted by the Town Council of Cape Charles on this 19th day of November 2020

Mayor

ATTEST: _____
Clerk of the Council