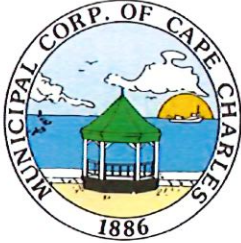


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|---|---|-------------------------------|
|  | Agenda Title: New Business | Agenda Date: |
| | | May 21, 2026 |
| | Subject/Proposal/Request: | |
| | Contingency Reserve – Attached to General Fund Staff Memo of November 19, 2020 – UPDATED Information | |
| Town of Cape Charles | Attachments: | For Council: |
| | November 19, 2020, Staff Memo from John Hozey, former Town Manager, to Town Council, and Resolution 20201119D | Action: X Information: |
| | Staff Contact(s): | Reviewed by: |
| | Marion Sofield, Treasurer | Rick Keuroglian, Town Manager |

Background

The Town of Cape Charles previously considered and approved the establishment of an assigned Contingency Reserve equal to 10% of general operating expenses.

Item Specifics


Please refer to the Staff Memo dated November 19, 2020, and adopted Resolution 20201119D. The Staff Memo provided the basis for Town Council’s decision to establish the Contingency Reserve.

For the sake of transparency, and to ensure the most current information is available for planning purposes, please note that on April 15, 2026, the Town elected to cancel the renewal of the \$500,000 line of credit referenced in the November 19, 2020, Staff Memo. The decision included opting not to pay the \$250 renewal fee, as more favorable financial terms have since been identified through other facilities and funding vehicles.

As a result, the \$500,000 line of credit is not currently available. However, the Town may reapply for a similar facility in the future if needed.

Recommendations

There are no recommendations currently. This communication is provided to support the FY 2027 budget development process by updating previously distributed information and clarifying the context behind certain Town financial policies.

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|  <p>TOWN OF CAPE CHARLES</p> | AGENDA TITLE: Establishment of Contingency Reserve – Resolution 20201119D | | AGENDA DATE November 19, 2020 |
| | SUBJECT/PROPOSAL/REQUEST: Establishing a contingency reserve as an assigned portion of the town's general fund balance | | ITEM NUMBER: 7B.ii |
| | ATTACHMENTS: Resolution 20201119D | | FOR COUNCIL: Action (X) Information () |
| | STAFF CONTACT (s): John Hozey, Town Manager | REVIEWED BY: John Hozey, Town Manager | |

BACKGROUND:

As witnessed during the Covid-19 pandemic, we can sometimes experience significant volatility in our revenue as events beyond our control can create severe, unanticipated shortfalls. Other events, such as natural disasters, or unique opportunities that arise without notice, can create the need for unbudgeted expenditures. While the Town does maintain a line of credit (\$500,000) that might be used to address such contingencies; adding to our liabilities and incurring interest charges at a time of fiscal stress should probably be considered a last resort.

ITEM SPECIFICS:

Assigned fund balances are the preferred mechanism to address contingencies needs. But again, there is currently no requirement for the Town to maintain any general fund balance, for this or any other purpose. So, it is recommended that in addition to the GOR discussed in the previous item, we also establish a Contingency Reserve, similar to the Rainy-Day Fund previously discussed by the Council (January 2020).

The appropriate amount for a Contingency Reserve is also unique to the municipality. Often it is driven more by what is available, then adjusted over time as more resources become available and the need better defined. Maintaining a Contingency Reserve equivalent to 10% of operating expenses is a worthy goal. This would constitute an assigned reserve that would be used/managed/maintained by a prescribed set of procedures as outlined in this resolution.

RECOMMENDATION:

Staff recommends approval of this resolution.

RESOLUTION 20201119D

ESTABLISHING A CONTINGENCY RESERVE AS AN ASSIGNED 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 has at times experienced unanticipated revenue shortfalls and/or unplanned needs or emergencies requiring unbudgeted expenditures; and

WHEREAS, the Town Council recognizes the prudence of maintaining an assigned cash reserve to ensure there are sufficient resources on hand to compensate for unanticipated revenue shortfalls or to handle urgent unbudgeted expenditures of the Town; and

WHEREAS, the Town Council desires to formally assign funds to a Contingency Reserve (CR) with the intent for it to be maintained as an assigned general fund balance for use as needed to address important unbudgeted impacts to 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 Contingency Reserve (CR) to provide the Town with the flexibility to address unbudgeted or unanticipated requirements as outlined herein:

1. The CR should be adjusted with each budget cycle with the intent to create a reserve equal to ten percent (10%) of the upcoming fiscal year's general operating expenses (less external grants or pass through funds)
2. The Town Council may appropriate up to fifty percent (50%) of the available CR balance as part of the annual budget so that it is readily available for use under the following circumstances:
 - a. At the discretion of the Town Manager for necessary unbudgeted expenses associated with an Emergency as certified by the Mayor; all such expenditures will be reported to the Town Council as soon as practicable
 - b. At the discretion of the Town Manager to offset an overall budgeted general operating revenue shortfall of greater than one percent (1%); all such transfers will be reported to the Town Council as soon as practicable
3. The Town Council may appropriate up to fifty percent (50%) of the available CR balance, less funds that may be known or anticipated for use in 2 above, for an unforeseen and immediate opportunity that the Town Council determines to be in the best interest of the Town
4. Appropriation of funds greater than fifty percent (50%) of what was projected to be available within the current fiscal year, may only occur with the concurrence of a super majority of the Town Council

5. All expenditures that cause the CR balance to fall below an amount of \$250,000 will be accompanied with a plan to replenish such funds to at least this level within three years
6. The CR will be designated as an assigned portion of the general fund balance

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