

 <p>TOWN OF CAPE CHARLES</p>	<b>AGENDA TITLE:</b> Establishment of Debt Service and Capital Improvement Funds – Resolution 20201119E		<b>AGENDA DATE</b> November 19, 2020
	<b>SUBJECT/PROPOSAL/REQUEST:</b> Establishing a debt service fund and capital improvement fund as part of the town's general government accounting system		<b>ITEM NUMBER:</b> 7B.iii
	<b>ATTACHMENTS:</b> Resolution 20201119E		<b>FOR COUNCIL:</b> Action (X) Information ( )
	<b>STAFF CONTACT (s):</b> John Hozey, Town Manager	<b>REVIEWED BY:</b> John Hozey, Town Manager	

**BACKGROUND:**

General Governmental budgets can generally be divided into the following spending categories:

- General Operations
- Debt Service
- Capital Expenditures

It is very common to combine all three of these categories into one General Fund for accounting purposes. This is appropriate because all three categories are typically funded by the same general revenues (predominately taxes). However, while this can prove to be an efficient accounting technique, it can make strategic planning very difficult.

**ITEM SPECIFICS:**

When all this spending is lumped together, it can be hard to see patterns or trends, as one category can obscure the others. This lack of transparency makes it harder for public officials (and the public at large) to monitor desired fiscal or policy goals. To address this problem, separate accounting funds can be set up for each of these categories:

- General Operating Fund
- Debt Service Fund
- Capital Improvement Fund

When each of these functions are accounted for separately, specific rules, procedures, and/or goals can be put in place for each. The General Operating Fund would function just as the General Fund does now, except that it would exclude all revenues and expenditures associated with Debt Service and Capital Improvements.

By setting up a Debt Service Fund and/or Capital Improvement Fund, the organization can precisely track how much of its resources are dedicated to, and used for, each purpose. It enables strategic budgeting so that an organization can live within its means while achieving a set of prioritized goals.

The Debt Service Fund or Capital Improvement Fund would be funded with a pre-determined percentage of the General Core Revenues. *Core Revenue* is defined as all general revenues, less all pass-through funds, all grant revenue, transfers from reserves, and all proceeds associated with any kind of debt.

**RECOMMENDATION:**

Staff recommends approval of this resolution.

## RESOLUTION 20201119E

### ESTABLISHING A DEBT SERVICE FUND AND CAPITAL IMPROVEMENT FUND AS PART OF THE TOWN'S GENERAL GOVERNMENT ACCOUNTING SYSTEM

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

**WHEREAS**, the Town of Cape Charles has historically utilized one General Fund to account for all general government operational revenues and expenses; and

**WHEREAS**, combining all government activities into one fund can lack transparency, where one function could potentially obscure the solvency of others; and

**WHEREAS**, the Town Council wishes to segregate accounting for debt service and capital improvements, to better track these functions individually and to provide a more accurate presentation of the fiscal health for a remaining general operations fund; and

**WHEREAS**, a debt service fund and a capital improvement fund would be funded by a pre-determined percentage of general core operating revenues; general core operating revenues being defined as all general government revenues, less pass through funds, grant revenue, transfers from reserves, or proceeds associated with debt; and

**NOW, THEREFORE, BE IT RESOLVED**, that the Town Council of the Town of Cape Charles hereby establishes a new general government fund accounting structure as specified herein:

1. A **Debt Service Fund (DSF)** operating under the following parameters:
  - a. DSF will service all debt payments of the Town
  - b. DSF will be funded with an internal transfer each fiscal year of up to eight percent (8%) of general core operating revenues
  - c. Commitments to transfer greater than eight percent (8%) of general core operating revenues may only occur upon a super majority approval of the Town Council
  - d. New revenue sources may be developed and dedicated to this fund in addition to the allocation outlined in 1.b. above
  
2. A **Capital Improvement Fund (CIF)** operating under the following parameters:
  - a. CIF will receive all external revenues associated with capital projects and account for all expenditures associated with the Town's capital projects
  - b. CIF will be funded with an internal transfer each fiscal year of a minimum of six percent (6%) of general core operating revenues
  - c. New revenue sources may be developed and dedicated to this fund in addition to the allocation outlined in 2.b. above
  
3. A **General Operating Fund (GOF)** operating under the following parameters:
  - a. GOF will account for all general government revenues and expenditures not associated with the DSF or CIF

**BE IT FURTHER RESOLVED**, that the Town's existing proprietary funds remain unaffected and in force.

This resolution shall become effective upon approval.

Adopted by the Town Council of Cape Charles on this 19<sup>th</sup> day of November 2020

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Mayor

ATTEST: \_\_\_\_\_

Clerk of the Council