MEMO

Finance

To: Finance and Personnel

From: Finance Director, William Van Rossum

Date: 02/19/2024

Re: Application of Unassigned 2023 Fund Balance

As we finalize our 2023 financial statement, I would like to highlight the unexpected fund balance increase. The market in 2023 was nothing we have seen in quite some time. The interest rates on savings surpassed the 5% for much of the year. This unexpected surge resulted in the City earning approximately $900,000 more in earned interest revenue than what was initially budgeted for 2023, with no corresponding budgeted expense.

Our discussions on fund balance often center around its relationship to operating expenses. As per our resolution, we aim to maintain a fund balance reserve of at least 15% of operating expenses, while bond rating agencies consider 30% as the ideal level.

With the current estimated unassigned fund balance standing at $5.6 million and total estimated operating expenses at $16.8 million, we are projecting an impressive 34% of operating expenses in fund balance. This exceeds the bond rating agency's ideal level by $624,000.

This unexpected positive economic impact presents several strategic options for the City which include:

1. **Boost Fund Balance:** Allow the surplus to contribute to the fund balance, elevating it to 34% of operating expenses in the 2023 financial statements. Looking ahead to the 2024 budget, assuming all goes as planned, this will position the fund balance at the 30% level with a $5.6 million balance.

2. **Allocate Surplus to a Capital Project**: Target a 30% fund balance from the 2023 statements and apply the surplus of $624,000 over that level to a designated project, such as the Municipal Pool project. This approach reduces the need for borrowing and supports strategic initiatives.

3. **Balanced Approach:** Considering the potential decrease in fund balance percentage in the 2024 budget with increased expenses to $18.8 million, a cautious approach can be splitting the estimated surplus. Allocate half to the project of choice, providing a financial boost, and retain the other half in the fund balance to keep it closer to the 30% ideal state at the end of 2024.

Any of the three options will accomplish something while not impose a strain on the City's financial position.

Staff Recommended Action:

Selecting one of the three options listed above. Taking no action will default to option 1.