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To: [Gitta Ungvari](#)
Cc: [Laurel Prevetti](#); [Rick Tinsley](#); [Maria Ristow](#); [Rob Rennie](#)
Subject: Excess liquidity available to be reprogrammed
Date: Wednesday, February 15, 2023 9:45:27 AM
Attachments: [Excess liquidity \(2\).pdf](#)

[EXTERNAL SENDER]

Hi Gitta,

I have been reflecting on the FC meeting and I recommend that the Staff provide more clarity to the Town Council on two questions - 1) how much of the ARPA money is currently available, meaning unspent vs programmed to be spent; and 2) what is FY 23's most likely range of operating surplus (revenues in excess of expenditures).

I have attached a couple of pages from the FC package where I have provided my view. Let me lay out my thinking:

1. ARPA Funds

The Staff memo points out that there are \$2,065,302 ARPA funds available in the GF reserve as of year end FY 22. Additionally the Town received the second ARPA payment of \$3,614,872 in July, 2022 and recorded the grant as revenue in FY 23. The schedule of Special Revenue Funds - ARPA on page 23 of item #5 shows those funds are still available and unspent as of the end of Q2 FY 23. Therefore \$5,680,174 is available.

I understand that because the TC passed a resolution which programmed the expenditure of ARPA funds in FY 23, the Staff views these "programmed" expenditures as "spent". Applying these future programmed expenditures totaling \$681,428 to the current funds available of \$5,680,174, leaves a balance of \$4,998,746. This amount is available to the TC to reprogram to new and better uses if the TC should so decide.

Since the updated forecast now reflects a surplus of \$1,238,174 (more on this below) there is no need to program \$1,645,281 as "balancing revenue and operating expenses" for FY 23. Additionally the \$2,900,000 for capital expenditures is a pool of funds that has not been allocated to any specific capital project and should be freely available for redeployment if the TC so decides. It should be pointed out that as of June 30, 2022 the Town had approximately \$33 reserved for capital projects in total government funds. Of this \$33m, only \$8m is restricted in its use, leaving \$25m unrestricted. The \$2.9m would be in addition to the unrestricted amount.

2. FY 23 probable operating surplus including mid-year adjustments

The schedule on page 28 of item #5 shows in the far right column an estimate for FY 23 which reflects all proposed mid-year adjustments. The FY 23 net change to the General Fund is projected to be a decrease of (\$1,230,268). This net change is comprised of the FY 23

operating surplus, plus transfers in, less transfers out from the General Fund balance. Fund transfers are not an element of the current year's operating surplus but do impact the change in fund balance. Our interest is only the current year surplus for this analysis.

We need to expand the net change number into the component pieces to determine the estimated operating surplus for FY 23. I have shown my calculations on the attached which computes \$1,238,174 as the operating surplus. By comparison, in FY 22 the General Fund had an operating surplus of \$3,290,895.

It is very important to understand that no ARPA revenue nor expenses are included in the projected \$1,238,174 operating surplus for FY 23. That is because the ARPA money is accounted for in a separate special revenue fund. Therefore to arrive at a total liquidity available to the Town Council for reprogramming you need to add the funds available from both the General Fund's operating surplus and the ARPA funds. That number is \$6,236,920. This is why I made the comment during the FC advising the Town Council that there is significant amount of funds available for programming in FY 23. I stand by that recommendation.

While I appreciate how the Staff has arrived at their estimate, it is important to realize there is a level of conservatism baked into these estimates. While that is a reasonable approach, without having an idea of the degree of conservatism, it is difficult to judge the probability associated with actual having a \$1,238,174 operating surplus or even a greater surplus.

In doing a line item by line item review of both revenues and expenditures, taken as a whole, I conclude it is highly likely total tax revenues will be \$1,000,000 greater than the estimate, operating expenses primarily driven by vacancies and other savings will be \$500,000 less and interest income through better cash management of the Town's \$10m in demand deposits and reinvestment of low yield maturing securities could possibly be \$200k higher.

Therefore the most likely range for the operating surplus is \$1,238,174 up to \$2,938,174. Given the degree of conservatism baked into the forecast and mindful that there is only 4 and 1/2 months left in FY 23, I do not see any likelihood that the operating surplus will be less than the up dated estimate. There is far more upside than downside.

As the TC thinks about resource allocation the risks they must clearly understand is 1) the risk of not funding a worthy program because they relied on a too conservative forecast versus 2) the risk of funding a worthy program and not having the funds available.

It is my recommendation that the more acceptable risk to assume is the second risk because the Town has significant General Fund reserves to tap in this event. Far better to fund worthy programs and tap reserves (this is why reserves exist) than to not fund worthy programs and not have necessary services provided to the Town's residents.

In fact, the Town has been operating this way for some time. It is very common for the Town Council to approve an unfunded incremental expenditure by tapping the Capital/Special Project reserve of the General Fund as a funding source. This reserve has historically been used as the "shock absorber" for unfunded new needs. I might point out that there are more appropriate ways to handle this situation, which we have discussed.

Please let me know if you have any questions. I have also copied our two Council Members on

the FC so they can benefit from this analysis. To be clear this is my analysis and has not been shared with entire FC because of the lack of time.

Phil

Council has already allocated all the \$7.2 million proceeds for various priorities as illustrated in the below table. Staff will bring back any residual balance not used for the original purpose after completing the program for Council re-programming reconsideration

AMERICAN RESCUE PLAN ACT (ARPA) SUMMARY WORKSHEET

	FY 2020/21		FY 2021/22			FY 2022/23		GRAND
	ACTUALS		BUDGET ADJ. ESTIMATED	ACTUALS	BAL REMAINING	ESTIMATED	EST. MID-YEAR	
ARPA FUNDS REVENUE RECOGNIZED	\$ 200,911	\$	3,413,961			\$ 3,614,872		\$ 7,229,744
GOV SERVICES (WAIVERS,CUP&ADA,DIRECT GRANTS)	200,911							200,911
REVENUE LOSS -GOV SERVICES (PUBLIC SAFETY)			3,413,961	3,413,961		3,614,872		7,028,833
	\$ 200,911	\$	3,413,961			\$ 3,614,872		\$ 7,229,744
GENERAL FUND ARPA REPLACEMENT REVENUES AVAILABLE	\$ 200,911	\$	3,413,961			\$ 3,614,872		\$ 7,229,744
LESS APPROVED USES TO BE BUDGETED:								
PARKLETS (DOWNTOWN IMPVTS PROJECT)	\$ -	\$	680,000	\$ 466,428	\$ 213,572	\$ 250,000	\$ -	\$ 930,000
RENT WAIVERS	121,255		341,452	341,452	-	283,756		746,463
CUP/ADA FEE WAIVERS	19,656		27,672	27,672	-	27,672		75,000
DESTINATION MARKETING			55,000	55,000	-			55,000
K-RAILS (DOWNTOWN IMPVTS PROJECT)			68,000	88,654	(20,654)			68,000
PROMENADES			80,000	69,855	10,145	120,000	90,628	200,000
DIRECT GRANTS	60,000		50,000	50,000	-			110,000
ENHANCED SENIOR SERVICES			500,000	249,597	250,403			500,000
CAPITAL IMPROVEMENT PROGRAM SUPPORT TRANSFERS						2,900,000	580,000	2,900,000
REQUIRED FOR GF BALANCING OF OPERATING REV_EXP						1,645,281		1,645,281
TOTAL ALLOCATIONS OF GENERAL FUND ARPA REPLACEMENT REVENUES	\$ 200,911	\$	1,802,124	\$ 1,348,659	\$ 453,465	\$ 5,226,709	\$ 670,628	\$ 7,229,744

While the Town already recognized the full first tranche of the ARPA proceeds during FY 2020/21 and FY 2021/22, only \$1,549,570 was utilized during those fiscal years, \$2,065,302 is part of the General Fund balance and tracked by staff to ensure that the proceeds are spent by Council adopted uses.

The FY 2022/23 budget was adopted prior to the simplified guideline so staff is proposing the following budget adjustments to recognize the revenue and track the Council approved uses.

FY 2022/23 MID-YEAR BUDGET ADJUSTMENT REQUESTS - ARPA RECLASSIFICATION

Fund	Program	Account	American Rescue Plan Act (ARPA) Fund	
111	4301	48219	ARPA - Intergovernmental Revenue	3,614,872
111	5301	48219	ARPA - Intergovernmental Revenue	40,431
111	3201	48219	ARPA - Intergovernmental Revenue	27,672
111	2101	48219	ARPA - Intergovernmental Revenue	120,000
411	411-813-0235	48219	ARPA - Intergovernmental Revenue	250,000
633	5404	48219	ARPA - Intergovernmental Revenue	243,325
241	1241	43217	ARPA - Intergovernmental Revenue	2,310,176
				\$ 6,606,476
241	1241	68219	ARPA - Income Replacement Expense	2,310,176
111	1201	68219	ARPA - Income Replacement Expense	3,581,428
				\$ 5,891,604

Balance 2,065,302
 2nd ARPA 3,614,872
 available 5,680,174
 "Programmed Spend 681,428
 Net Avail 4,998,746

GENERAL FUND FINANCIAL SUMMARIES AND ESTIMATES

The following table is the *Schedule of General Fund Operating Revenues Versus Operating Expenditures* for the second quarter of FY 2022/23 which includes comparison information from the prior year.

The FY 2022/23 Adjusted Budget column includes the adopted budget and items that Council approved during the course of the first two quarters of the fiscal year, such as additional funding for legal services, and miscellaneous carry over grants from prior fiscal year.

The FY 2022/23 Estimated column contains projections of final balances for the current fiscal year based upon staff analysis, the early trends observed through the second quarter in sales tax and property tax projections, and the proposed mid-year adjustments as listed in this report.

The FY 2022/23 Estimated figures also include analysis on potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.

Staff continues to fine tune the detailed analysis of the FY 2022/23 year-end estimated revenue and expenditure numbers and an update will be provided with the presentation of the Proposed Fiscal Year 2023/24 Operating Budget.

The following table illustrates the summary of the General Fund balance status based on current estimates and prior year result.

GENERAL FUND
SUMMARY OF REVENUES AND EXPENDITURES

	FY 2021/22 Actuals	FY 2021/22 Q2	2Q % of FY 2021/22 Actuals	2Q % of FY 2022/23 Adjusted Budget as of 12/31/2022	FY 2022/23 Q2	FY 2022/23 Adjusted Budget	FY 2022/23 Year End Estimates Including Proposed Mid-Year Adjustments
Total Revenues & Transfers In	\$ 54,448,222	\$ 17,978,806	33%	34%	\$ 17,098,505	\$ 50,266,120	\$ 50,546,861
Total Expenditures	51,466,052	21,155,306	41%	40%	21,105,947	52,886,926	51,777,130
Net Increase (Decrease)	\$ 2,982,171				\$ (4,007,441)	\$ (2,620,805)	\$ (1,230,268)
Beginning Fund Balance	23,914,618				26,896,789	26,896,789	26,896,789
Ending Fund Balance	\$ 26,896,789				\$ 22,889,348	\$ 24,275,983	\$ 25,666,521

The table in the following page provides the details of the Revenues and Use of Reserve and Total Expenditures and Reserve Allocations.

opex surp 3,290,895
 Trf. in 4,047,313
 Trf. out (4,358,188)
 Gain 2,151
 net change 2,982,171

FY23
 opex surplus 1,238,174
 Transfer in 538,536
 Transfer out (3,006,978)
 Net change (1,230,268)

What could the surplus
Really be in FY 23?

Cur. estimate	1,238,174
Stronger tax revenues	1,000,000
vacancy savings	500,000
interest income	200,000
	<hr/>
	\$2,938,174
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