



Finance Department
Keith Sawdon, Finance Director

From: Keith Sawdon, Finance Director
To: Members of City Council and Mayor Barnett
Date: September 29, 2015
Re: Fire Station Funding

At your September 28th meeting you asked for possible funding sources for the additional \$5 million needed to fund the Fire Station reconstruction program.

It maybe helpful to recall the funding sources that provided the funding for the \$6.8 million estimate provided by CHMP. The Facilities Fund provided \$2.2 million from its fund balance which represented depreciation recovery, paid by the Fire Fund, to Facilities, related to their fire stations. \$2.3 million is coming from the Capital Improvement Fund which represents the entire available, un-obligated fund balance, that fund had. General Fund is providing the remaining funding needed or \$2.3 million.

As I indicated at your September 28th meeting, my recommendation for the additional \$5 million needed to fund the Fire Fund station renovation program, can be provided from the following sources: \$2 million from the Fire Fund's operating fund balance and \$3 million from General Fund's fund balance.

Fire Fund operating fund balance ended FY2014 with \$4 million. Using \$2 million will leave their fund balance with a 20% coverage of their revenues, which meets the City's Fund Balance Policy as adopted by City Council. In our 7 year financial forecast, the Fire Fund does not rely on fund balance to cover its operating costs.

General Fund is projected to end FY2015 with over \$25 million in fund balance or 125% coverage of its revenue sources, well above the 20% required in the City's Fund Balance Policy. Based on our three budget, we are projecting that General Fund's fund balance will end FY2018 with over \$23 million or 111% coverage of its FY2018 revenue, again well above the 20% minimum required by the City's Fund Balance Policy. If the City Council was to agree with my recommendation to use \$3 million from its General Fund Balance in 2016 we would end 2018 with 97% coverage of our 2018 revenue. This means if General Fund was to have no revenue in FY2018 it could still cover 97% of that lost revenue from its fund balance. Many municipalities would love to have the coverage percentages that we enjoy.

There were also suggestions made that we could reduce expenditures in General Fund to cover the \$3 million needed to provide this funding without reducing fund balance. If that was the direction that City Council wished to move towards, the only logical reduction would be to reduce the transfer General does to Local Roads to support that fund's reconstruction activity. As I indicated at the 28th meeting I wouldn't recommend that action. Just like the need our Fire Stations have for reconstruction, our Local Roads also have that same need. Using money meant for Local Road reconstruction only postpones that need. The need will still exist.

MEMO

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The funds held in the General Fund's fund balance are currently earning about .25% while CPI is at about 2.5% and, as we have seen, construction costs are raising even faster than CPI (maybe 5%). It seems prudent to me to use fund balance to invest in our infrastructure than to leave it invested in interest rates that are not keeping pace with construction inflation especially with revenue coverage levels that exceed 90%. \$3 million earning at a rate of .25% the General Fund will receive \$7,500. With construction costs increasing at 5% or \$150,000 year on that same \$3 million, it again is logical to invest in our Fire Stations than leave it in the bank.

As a City, we have only used fund balance for one time purchases such as road improvements. Investing in our self is the proper way to use fund balance.