

Department of Administration



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TO: Tony T. Yarber  
Mayor

CC: Gus McCoy  
Chief Administrative Officer

Robbi Jones  
Kipling Jones & Co.

FROM: Michelle Battee-Day  
Director of Administration

DATE: May 2, 2016

SUBJECT: Fund Balance

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Based on an ordinance approved by the city council, the requirement for the unreserved fund balance in the general fund is 7.5% of the adopted revenue. The FY15 adopted revenue budget was \$122,378,560 of which 7.5% (\$9,178,392) should be set aside as fund balance.

At the end of FY14 the available fund balance was \$16,168,423. This amount was, therefore, the beginning fund balance for FY15. From this amount, the funds which represent the 7.5% of the adopted budget (\$9,178,392 as referenced above) were carved out as FY15 fund balance.

The remaining funds, \$6,990,031, were to be used to balance the budget at FYE15. Unfortunately, at FY15 year end, the City needed \$11,177,398 to close out the budget creating a deficit of \$4,187,367.

The calculations are as follows:

Available Fund Balance @ beginning FY15	\$16,168,423
7.5% of Adopted Revenue	<u>- \$ 9,178,392</u>
Amount available to close out FY15	\$ 6,990,031
Amount used to close out FY15	<u>- \$ 11,177,398</u>
	<u><u>( \$ 4,187,367 )</u></u>

Listed below are the items that triggered a draw on the fund balance account:

1. Debt Service	\$1,564,431
2. Insurance	\$ 982,357
3. Miscellaneous adjustments throughout departments	\$ 899,048
4. Zoo (accreditation)	\$ 240,500
5. Jatran Facility Overrun	\$ 200,000
6. DPW Dump Truck	\$ 116,500
7. Americorp	\$ 79,400
8. PEG	\$ 27,751
9. Community Center donation (Stamps)	\$ 20,000
10. Part-Time position (Stokes)	\$ 15,000
11. Vehicle Pool	\$ 4,380
	<u>\$ 4,187,367</u>

Robbi and I have consulted with bond counsel and have been advised that the State does not have a minimum requirement for unreserved fund balance in the general fund. Also, the Mississippi Municipal Laws Annotated, Chapter 35, Municipal Budget, Section 21-35-22, Municipal Reserve Fund does not specify a minimum requirement. It appears that the 5% requirement originated from a best practice recommendation by the Government Finance Officers Association.

**Recommendation:**

I recommend lowering the fund balance requirement to 3%, which is approximately \$3,671,356. There is a precedent for council having lowered the fund balance requirement in the past.

The City's fund balance currently exceeds this amount, however, given the funding gaps that we will need to fill for FY16 (i.e. insurance), I think it would be prudent to establish a minimum requirement that allows us to fund these items and continue the process of rebuilding our City's fiscal strength.

Should the city choose to not lower the fund balance requirement, we will receive a negative finding on the FY15 audit. Although, lowering the requirement is not the ideal choice it does serve as a mechanism to avoid the negative finding. Unfortunately, we were not informed of this potential mitigating action until our audit firm returned to the City on Thursday, April 28, 2016.

It should be noted that rating agencies will question the reduction in the minimum requirement; however, as mentioned above, this is a less drastic item than a negative finding on the audit.

If you are in agreement with introducing this as an emergency item, I will have the agenda order ready by mid day tomorrow.

I am in the process of reviewing data to determine where we are for FY16.