**Budget Questions and Requests for Information**

**2018-19 Recommended Budget**

**Question #8**

**QUESTION:** What is the impact of the American Legion purchase on the general Fund?

**RESPONDENT:** Kenneth C. Pennoyer, Business Management Director

**Response:** The first payment for the American Legion property ($3.6 million) was paid using the fund balance in excess of the 22% target level. At the end of FY16 fund balance was at 28.4%. Based on our calculations, $3,583,033 was the dollar difference between the actual fund balance (28.4%) and the target fund balance (22%). A planned spend-down of $3.6 million, for the first American Legion payment, should have put us at target at the end of FY17, assuming that the rest of the budget was balanced. Unfortunately, some revenues, including permits and charges for services fell short in FY17 and we did not achieve the projected budgetary savings, resulting in a fund balance of 20.0% at the end of FY17.

The practice of using fund balance in excess of target for one-time capital expenditures or OPEB prefunding contributions began in FY14. Uses of fund balance in excess of target are shown in the following table:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **FY14** | **FY15** | **FY16** |
| Fund Balance Over Target | $ 1,166,434 | $ 1,128,698 | $ 3,583,033 |
| **Use of Fund Balance:** |  |  |  |
| OPEB Pre-funding | 558,000 | 500,000 |  |
| Rogers Road Project | 558,000 | 500,000 |  |
| American Legion Property |  |  | $3,600,000 |

Had the Town not bought the American Legion property, the $3.6 million may have been used in a manner similar to previous years. That is, a portion might have gone to fund capital projects such as Rogers Road and a portion would have gone to OPEB pre-funding. However, this is speculation, Council could have made a different decision regarding the $3.6 million.

In FY17 the Town began making OPEB prefunding contributions directly from the operating budget rather than from fund balance over target. Had the American Legion property not been purchased this contribution of $525,000 may have been paid from fund balance, making an additional $525,000 available in the General Fund.

The second and third payments for the property ($4.3 million total) have been financed using Parks and Recreation Facilities G.O. Bonds. This does not impact the General Fund directly, but it does use a source of financing that may have been used for other projects. To the extent that the repayment of these bonds uses capacity in the Debt Management Fund, theoretically it displaces $4.3 million of other projects that will need to wait until additional borrowing capacity is created.