

Fund Balance Improvement Plan Update

Beginning with the City's FY 20-21 audited financial statements, the Local Government Commission (LGC) implemented a new requirement that if a municipality's available fund balance (including Debt Service Fund) falls below 25% of its annual audited General Fund expenditures, a formal response addressing the issue and signed by a majority of the governing body must be submitted to the LGC. In FY 20-21, Greensboro's available fund balance was 21.96%. As a result, on May 3, 2022, City Council adopted a new fund balance goal to match the LGC's 25% recommended level and formulated a fund balance plan as part of the City's formal response. It is expected that achievement of the goal will take time and the plan targets five (5) to seven (7) years for the improvement.

Provisions of the City Council adopted resolution for fund balance improvement include:

- Prepare periodic reports of progress toward the fund balance goal and review the "plan" annually
- Appropriations of General Fund fund balance may be made "mid-year" for the following purposes:
 - Immediate health and safety measures needed for Greensboro residents
 - Unforeseen emergencies
 - Opportunities for efficiencies or other circumstances as recommended by the Finance Director (i.e. a requirement that the City incur expenditures prior to reimbursement from a state or federal grant)
- Maintain a "super" majority vote for appropriation of General Fund fund balance (7 of 9 votes needed)
- Utilize a variety of financial strategies to improve the City's General Fund/ Debt Service Fund fund balance performance by approximately \$900,000 to \$2,700,000 annually, including assignment of additional dedicated revenues, permanent reduction in operating expenditures and, if necessary, adjustments to the General Fund property tax

Note: The equivalent of 1 cent of the property tax is approximately \$3,650,000

Fund Balance Results

At the close of FY 21-22, available fund balance (including Debt Service Fund) as a percentage of General Fund expenditures decreased from 21.96% in FY 20-21 to 18.02%. Although General Fund fund balance increased in FY 21-22, a significant portion of fund balance in the Debt Service Fund was used to support increased principal and interest costs, as planned.

These expenditures supported \$90 million of debt associated with the 2016 referendum with reliance solely on fund balance, without additional property tax support for two years. As a result, combined

available fund balance declined from \$65.8 million to \$59.1 million in FY 21-22, or decreased \$6.7 million overall.

Although the levels of available fund balance dropped in FY 21-22, measures for improvement have already been taken. The FY 22-23 budget includes additional property tax support of 1.25 cents for 2016 and 2022 bond referendum principal and interest as well as property revaluation growth remains in the Debt Service Fund to help strengthen the fund balance over time and should provide the most growth impact.

Staff believes that the 25% fund balance goal may be achieved in 5 – 7 years if expenditures assume modest growth and additional annual dedicated support is provided. The FY 23-24 recommended budget will include strategies for consideration to help meet the goal within the targeted timeframe.

On February 7, 2023, City Council re-affirmed the provisions of the fund balance plan to address the FY 2022 audited results and the formal response was prepared and submitted to the LGC on February 10th.

Impact of General Fund Expenditure Growth on Needed Fund Balance Amounts

As General Fund expenditures grow, the City will be required to reserve more funds on hand to meet the 25% policy requirement. At the end of FY21 – 22, the City needed \$82 million in combined fund balance to achieve the 25% goal compared to \$59 million actual on hand, or a difference of \$23 million more. Based on improvements already in place, the combined fund balance estimate for FY 22 – 23 is expected to grow to \$66 - \$73 million and would represent 17.6% - 19.7% of the expected General Fund expenditures for FY 22 -23. Projections will be more fully developed as more data is available.

The following table shows the actual results in FY21 and FY22 compared to the policy target, as well as FY 22 – 23 estimates (excluding ARPA).

Fiscal Year	General Fund Expenditures	Actual / Est. Available Fund Balance	25% Target of General Fund Expenditures	More Fund Balance Needed to Meet Target	Actual / Est. FB Target Achieved
FY 20 – 21	\$299.6 million	\$65.8 million	\$74.9 million	\$9.1 million	21.96%
FY 21 – 22	\$328.2 million	\$59.1 million	\$82.0 million	\$22.9 million	18.02%
FY 22 – 23 Estimated	\$370.0 million - \$372.8 million	\$65.6 - \$72.8. million	\$93.0 million	\$20.2 - \$27.4 million	17.60% 19.68%