

ORANGE COUNTY
BOARD OF COMMISSIONERS

ACTION AGENDA ITEM ABSTRACT

Meeting Date: January 22, 2009

Action Agenda
Item No. 6-C

SUBJECT: Capital Project Funding

DEPARTMENT: Finance

PUBLIC HEARING: (Y/N)

No

ATTACHMENT(S):

INFORMATION CONTACT:

Gary Humphreys, 245-2453

PURPOSE: To approve a plan addressing additional funding needs related to the School and County Capital Project Funds by appropriating fund balance of \$3.5 million in FY 2008-09 and \$2.4 million in FY 2009-10.

BACKGROUND: As previously discussed with the Board at work sessions on October 28 and November 18, 2008, in preparation for year end reconciliation, a review of the School and County capital project funds revealed a difference in budgeted and actual revenues. In general, the differences in budgeted and actual revenues exist because:

1. Differences existing prior to the transition from the financial legacy system to MUNIS business system in 2003 were never corrected;
2. Proceeds from past debt financings were set aside in an unallocated account or line item instead of being allocated to specific projects;
3. Grant monies were budgeted and not awarded/received;
4. Total expenditures exceeded the project budget by varying amounts;
5. Specific projects were budgeted but monies were never transferred from the General Fund; or
6. Bond monies to be issued are already budgeted but the revenue is not yet received.

Based on staff's internal analysis, unallocated revenues within the capital project funds can be transferred to projects where there are shortfalls. This will leave a revenue shortfall of \$5.9 million. The following chart summarizes the funds available and net shortfall by capital fund.

Source of Funds	School Capital Project Fund	County Capital Project Fund
Additional Funds Needed	\$8,430,000	\$9,291,944
Unallocated Alternative Financing	\$1,347,000	
Unallocated Bonds	907,000	
School Capital Reserve Funds	580,000	
From Closed Projects	455,000	
Interest Earnings		\$ 875,000
Revenue Available within Projects		2,136,255
Total Funds Available by Fund	\$3,289,000	\$3,011,255
Grand Total Funds Available		\$6,280,689
Park Bonds to be issued to complete project funding		5,500,000
Net Shortfall	\$5,141,000	\$780,689
	Total Both Funds	\$5,921,689

Staff Proposal for Covering Remaining Shortfall

As stated earlier, \$5.9 million in additional capital funding is needed to cover the shortfall. Based on current year cash flow needs, at least \$3.5 million of the shortfall is needed in the current fiscal year. The remaining \$2.4 million will be needed in FY 2009-10.

Staff's analysis shows the majority of the remaining shortfalls resulted from differences between the pay-as-you-go funds budgeted for projects in the two capital project funds and the amount of money transferred to the two capital projects funds from the General Fund. Most of these differences existed when the conversion to MUNIS was made. This means they occurred prior to the end of fiscal year 2003 over one or more fiscal years. If those additional amounts of pay-as-you-go revenue had been transferred from the General Fund, the fund balance would be less than it currently stands.

Staff recommends the Board approve a two-year funding plan to replenish the shortfall by appropriating General Fund available fund balance.

The County's General Fund undesignated fund balance at the end of FY 2007-08 is 13.9% of expenditures or \$23.8 million. If this plan is implemented, based on conservative projections, the projected available fund balance at the end of FY 2008-09 could be approximately 12% of expenditures or \$21.85 million. The appropriation of \$2.4 million in FY 2009-10 would decrease the available fund balance to 11.1% or \$21.64 million. While this percentage amount is higher than the Local Government Commission recommendation of a minimum 8 percent of expenditures, it is below staff's recommended target of 15 percent of expenditures.

Staff will bring budget amendments to the Board to implement the recommended action if approved by the Board. Additionally, budget amendments will be brought to the Board in those cases where project expenditures have exceeded the project budgets and where appropriation of other identified sources, such as the transfer of the remaining School Capital Reserve Funds, is necessary.

As best practice, local governments should only appropriate fund balance for non-recurring purposes such as capital. While it is preferable to be able to achieve the fund balance goal in order to meet needs in time of fiscal stress, the use of the fund balance to meet non-recurring priorities is understandable. It would be prudent to not let the fund balance fall below 11% in order to provide for cash flow as well as maintaining the County's excellent bond rating. Once funding the shortfall is completed, it is recommended that steps be taken to rebuild the fund balance of the General Fund.

FINANCIAL IMPACT: The financial impact of the recommended action is the projected reduction of the fund balance of the General Fund to as low as 11.1% of projected FY 2009-10 expenditures.

RECOMMENDATION(S): The County Manager recommends the Board approve the two year funding plan which includes 1) Appropriating \$3.5 million from the fund balance of the General Fund for transfer to the School Capital Project Fund and County Capital Project Fund; 2) Include the remaining appropriation of \$2.4 million from the fund balance of the General Fund needed to complete the correction of the shortfall in the Fiscal Year 2009-10 budget; and 3) Direct staff to take those actions necessary to reallocate available funding to correct the project shortfalls and to bring back to the Board the budget amendments necessary to implement this plan.