COLERAIN
TOWNSHIP ~ OHIO

Special Meeting of the Board of Trustees - February 14

1. **Opening of Meeting** 6PM
2. **New Business**

   <u>Administration</u>

   a. Discussion: Capital Reserve
3. **Executive Session** – if needed
4. **Adjournment**

ADMINISTRATION

Department:	Administration
Department Director:	Jeff Weckbach, Township Administrator
Strategic Plan Goal:	Strategic Goal #3: Manage the Township's Finances Responsibly While Improving Financial Policies and Processes

Discussion: Capital Reserve

No action is requested of the Board.

Rationale:

The purpose of this agenda item is to discuss best practices in funding capital purchases and to develop a plan for capital spending.

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MEMORANDUM

To: Board of Trustees

CC:

From: Jeff Weckbach, Township Administrator

Subject: Capital Reserve

Date: February 8, 2023

BACKGROUND

Over the past several years, Colerain Township departments have identified critical capital needs essential to their operations. Many of the buildings owned and operated by the Township are reaching a replacement stage in their lifespan and were recently comprehensively evaluated as part of the Facility Master Plan.

Findings of the Facility Master Plan state that given the age of the Township facilities, many of the key mechanical, electrical, and plumbing systems are starting to fail and will require a significant investment in order to maintain operations. In addition, staffing has grown over the past few decades in all Township Departments. Because of this, many facilities, such as the Police Department, have exceeded their usable space and will likely need a new facility within the next several years.

In 2021, the Township passed several resolutions to create various Tax Increment Financing (TIF) Districts and to adopt a preliminary plan for the use of these dollars in 2022. Most of these TIFs will not start to yield a high level of revenue for at least 4-8 years. The plan adopted by the Board will be evaluated with each annual budget and will be modified to address current needs and may be used to pay off debt early.

In 2022, the Board of Township Trustees made the decision to issue bonds to fund the replacement of two Fire Stations. In that discussion, the Board indicated a strong desire to avoid the issuance of debt for future large scale capital projects. In order to meet this request, staff has evaluated internal financial plans to develop the following financial strategy for future capital needs.

PROPOSAL

On the Five-Year Forecast, the Township should create an additional line below the self-insurance fund that is titled “Capital Reserve Fund”. This fund would only exist on paper and within the five-year forecast. This will allow for maximum flexibility in the use of these dollars. In addition, creating a new fund would require approval by the State Auditor’s Office and may not automatically occur. Further, if a situation arose where those dollars were needed to support operating needs (such as a stop gap to get

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through a failed levy) the Township would only be able to access those dollars by closing the fund which would require approval by the Hamilton County Court of Common Pleas.

To seed the Capital Reserve, staff will evaluate year-end spending in the General Fund against the projected year-end spending contemplated with the five-year forecast adopted with temporary appropriations. Then, with the adoption of permanent appropriations, the Township will update year-end projections for the General Fund. An inert variable will be placed on the account to reduce the General Fund to equal the amount projected at temporary appropriations. An equal, positive figure will be placed in the Capital Reserve Fund. The below example demonstrates how this would work using the 2022 Year End Balances:

- $7,244,572: Projected General Fund Balance at Year End 2022, per temporary appropriations
- $8,420,205: Actual General Fund Balance at Year End 2022
- $1,175,633: Variance from Projected to Actual
- -$1,175,633: Inert Value on Five Year Forecast to reduce the General Fund Reserve
- $1,175,633: Capital Reserve Amount

Given the long-term stability of the General Fund, this approach would allow the Township to start to "hold" dollars aside for future projects, such as a new police station or other Facility Master Plan projects. Looking at recent changes in the General Fund that will occur in 2023, the Township should have an additional $1.3M in the capital reserve that will be added with the 2024 budget. This is due to the notice of award of approximately $1.3M in grants for the Colerain Avenue Streetscape project. If the Township's strategy to leverage grants in future years works, then this reserve could quickly grow by an additional $2.5M.

As part of this proposal, the Township should schedule an annual Capital Reserve Review Work Session in the fall of each year as part of the budget process. At this meeting, Departments will be provided an opportunity to make present to the Trustees a request for use of the dollars in the Capital Reserve for major projects. The Board can then decide which projects should be funded and at what dollar amount.

This proposal does not contemplate the use of TIFs to offset spending for capital and preserves the long term flexibility of the use of those TIF funds.

Of note, the Township will need to continue to evaluate the balance of the General Fund to ensure that the final balance at the end of the Five-Year Forecast is in compliance with the approved fund balance policy. If it is not, then the Township will need to evaluate and modify the amount that is "deposited" into the capital reserve for that year.