

## **RESOLUTION REQUESTING ESTABLISHMENT OF UNRESTRICTED RESERVE FUND**

**Councilor Gentile supports the following Resolution.**

Councilor Gentile requesting that the Mayor establish an unrestricted reserve fund of \$ 25M. The source of these funds would be:

1. The \$10,000,000 proposed for the Lincoln Eliot building project.
2. \$7,800,000 from the property tax overlay account.
3. The \$1,500,000 proposed for the Rainy Day Stabilization Fund.
4. \$5,000,000 from unallocated FY 2022 free cash and any other source of cash the Mayor identifies.

The purpose of this fund would be to generate no less than \$ 750,000 annually to be used to support the operating budget of the city while strengthening the reserve position of the city as recently recommended by our rating agency Moody's Investor Services.

THEREFORE, Councilor Gentile requests the establishment of an unrestricted reserve fund to support the city operating budget.

May 30, 2023

Colleagues,

Backup information for Councilor Gentile's budget resolution that establishes an unrestricted reserve fund of \$25M outlined in the resolution.

- This proposal is in no way intended to derail or delay the Lincoln Eliot School Building project. The intention is to suggest one alternative to the Mayor's financing plan
- Currently the administration is planning to appropriate \$20M for the project in FY 2024 by combining the already requested \$10M in free cash with a \$10M bond.
- I am suggesting that rather than using \$10M of free cash now that we bond \$20M in January and use the \$10M in free cash to establish the reserve fund. If you combine the \$10M with the other sources of cash outlined in the resolution, a fund of \$25M invested in one year T-Bills with a current rate of 5.12% (please see Treasurer Mendes email) would generate investment income of \$1,280,000 over the next year.
- Establishing this unrestricted fund would allow this investment income to be used to support our operating budget as recommended by the Mayor.
- The CFO has estimated that debt service to cover \$10,000,000 in bonding to be \$600,000 annually.
- The stated goal of the resolution is to use the interest from the reserve fund to support the operating budget, but it does not prohibit using both interest and principal if needed.
- This is not a 30 year plan because no one can guarantee future interest rates. The use of the fund would be evaluated on an annual basis at budget time to determine the best use of the fund, both principal and interest, based on the interest rate environment at the time. As an example, the administration is planning to bond \$25M for Lincoln Elliot in January 2025. If interest rates at that time suggest that we should bond \$15M and combine it with \$10M in cash from the fund the city will have the option to do so.