

Memorandum



CITY OF DALLAS

Date August 21, 2009

To Members of the Budget, Finance, & Audit Committee:
Jerry R. Allen, Chair; Ann Margolin, Vice Chair; Vonciel Jones Hill; Angela Hunt;
Delia D. Jasso; Ron Natinsky; David A. Neumann

Subject FY 2009-10 Proposed Budget Reserve Levels

The Budget, Finance, and Audit Committee will be briefed on FY 2009-10 Proposed Budget Reserve Levels on Tuesday, August 25, 2009. Attached is a copy of the briefing for your review.

Sincerely,

A handwritten signature in cursive script, appearing to read 'D. Cook'.

David Cook
Chief Financial Officer

C: Honorable Mayor & Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor

Ryan S. Evans, First Assistant City Manager
A.C. Gonzalez, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Jeanne Chipperfield, Director, Budget & Management Svcs.

FY2009-10 Proposed Budget Reserve Levels

Budget, Finance & Audit Committee
August 25, 2009





Purpose

To provide information on the General Fund Reserves, including:

- Background
- Financial Management Performance Criteria
 - Emergency Reserve
 - Contingency Reserve
 - Combined Reserve Levels
 - Risk Reserve
- Fund Balance Considerations

Background

Financial Management Performance Criteria (FMPC)

- Initially adopted by the City Council in 1978 to set standards and to guide decision making
- Includes 52 criteria in 5 categories
 - Operating Programs
 - Capital and Debt Management
 - Accounting, Auditing and Financial Planning
 - Cash Management
 - Grants and Trusts
- Dallas Water Utilities has its own set of 13 criteria
- FMPC are updated/evaluated for compliance during budget preparation and approval process, at year end, and for each debt issuance
- Council periodically reviews and updates the criteria
 - Last update was approved by Council on September 24, 2008

Background (cont'd)

- **Fund Balance reported annually in the City's Comprehensive Annual Financial Report (CAFR)**

- **Fund Balance**
 - The difference between a fund's assets and liabilities; the fund balance is adjusted annually by the difference between revenues and expenditures
 - Is further divided into 3 categories:
 1. **Reservations** – those amounts of the fund balance that are not available for appropriation because they are set aside for a specific future use
 - Includes encumbrances and inventory purchases
 2. **Designations** – allocation of the fund balance which indicates management's tentative plans for the future utilization of financial resources
 - Includes Contingency, Risk, Emergency reserves
 3. **Undesignated, Unreserved Fund Balance** – remaining fund balance after Reservations and Designations are deducted from the total Fund Balance

FMPC Reserve Requirements

Emergency Reserve (FMPC #7)

- Funds may be used to provide for temporary financing of unanticipated or unforeseen extraordinary needs of an emergency nature
- Use of Emergency Reserve would require authorization by Council resolution
- Any uses must be replenished in the next fiscal year
 - FY09-10 Proposed Emergency Reserve of \$17,563,082 is funded from the FY08-09 Emergency Reserve projected ending balance

FMPC Reserve Requirements

Contingency Reserve (FMPC #8)

- Provides for unanticipated needs that arise during the fiscal year
 - Use of Contingency Reserve would require authorization by Council resolution
 - FMPC requires reserve to be established annually at 0.5% to 1.0% of General Fund expenditures
 - Requirements reviewed annually and may be funded with the carry forward of ending balance from the prior fiscal year
 - FY09-10 Proposed Contingency Reserve of \$5,123,005 or 0.0504% of General Fund expenditures
 - Funded from FY08-09 projected ending balance of \$4,923,005 and FY2009-10 appropriated transfer from General Fund of \$200,000

FMPC Reserve Requirements

Combined Reserve Levels (FMPC #9)

- Requires the sum of the undesignated, unreserved fund balance; the Contingency Reserve and the Emergency Reserve to be no less than 5% of budgeted expenditures

	FY09-10 Proposed
Undesignated, unreserved fund balance	\$36.6m
Contingency Reserve	\$5.1m
Emergency Reserve	\$17.6m
Combined Total	\$59.3m
FY09-10 Proposed General Fund Expense	\$1,016.2m
5% of General Fund expense – Minimum Requirement	\$50.8m
Over/(Under) Reserve Requirement	\$8.5m
% General Fund Expense	5.8%

FMPC Reserve Requirements

FMPC #9 - History

	Actual FY2007	Actual FY2008	Estimated FY2009	Proposed FY2010
Undesignated, Unreserved Fund Balance	\$44.9m	\$49.1m	\$47.0m	\$36.6m
Contingency Reserve	\$3.8m	\$3.2m	\$4.9m	\$5.1m
Emergency Reserve	\$18.3m	\$17.6m	\$17.6m	\$17.6m
Total	\$67.0m	\$69.9m	\$69.5m	\$59.3m
General Fund Operating Expenditures	\$1,007.0m	\$1,032.4m	\$1,049.1m	\$1,016.2m
% of GF Expenses	6.7%	6.8%	6.6%	5.8%

FMPC Reserve Requirements

Risk Reserve (FMPC #10)

- Required to be maintained at a level, which, together with purchased insurance policies, adequately protects the City's assets against loss
- FY2009-10 Proposed Reserve funded at \$1,250,00 using the FY2008-09 projected ending balance of \$1,250,000



Fund Balance Considerations

- Bond rating agencies consider fund balance as a percent of expenditures as part of their analysis in determining a rating
- On a percentage basis, Dallas' fund balance is lower than other cities that are also highly rated at Aa1
- Moody's November 2008 General Obligation rating report regarding the City's General Fund reserves states:

“Although these reserves exceed the FMPC targets, Moody's believes the city's operating liquidity remains narrow relative to similar sized cities at this high rating level.”