

Memorandum



CITY OF DALLAS

DATE August 17, 2012

TO Honorable Members of the Budget, Finance, & Audit Committee: Jerry R. Allen (Chair), Tennell Atkins (Vice Chair), Monica R. Alonzo, Scott Griggs, Ann Margolin

SUBJECT FY 2013 Proposed Reserves

The Budget, Finance, and Audit Committee will be briefed on the FY 2013 Proposed Reserves on Monday, August 20, 2012. Attached is a copy of the briefing for your review.

Please contact me if you need additional information.

A handwritten signature in blue ink that reads "Jeanne Chipperfield". The signature is fluid and cursive.

Jeanne Chipperfield
Chief Financial Officer

Attachment

C: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Rosa A. Rios, City Secretary
Thomas P. Perkins, Jr., City Attorney
Craig D. Kinton, City Auditor
C. Victor Lander, Administrative Judge
A.C. Gonzalez, First Assistant City Manager
Ryan S. Evans, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Joey Zapata, Assistant City Manager
Stephanie Pegues-Cooper, Assistant to the City Manager

FY 2013 Proposed Reserves

Budget, Finance & Audit Committee
August 20, 2012





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 – FMPC

- The City's **Financial Management Performance Criteria** (FMPC) was initially adopted by the City Council in 1978 to set standards and to guide decision making
 - Includes 52 criteria in 6 categories
 - 1) Operating Programs
 - 2) Capital and Debt Management
 - 3) Accounting, Auditing and Financial Planning
 - 4) Budget
 - 5) Cash Management
 - 6) Grants and Trusts
 - Dallas Water Utilities has its own set of 13 criteria
 - FMPC are updated/evaluated for compliance during budget preparation, at year end, and for each debt issuance
 - Council periodically reviews and updates the criteria
 - Last update was approved by Council on September 28, 2011

Background – Fund Balance

- **Fund Balance** reported annually in the City’s Comprehensive Annual Financial Report (CAFR)
 - The difference between a fund’s assets and liabilities; the fund balance is adjusted annually by the difference between revenues and expenditures
 - As of September 30, 2011 GASB 54 has divided fund balance from 3 categories to 5 categories:
 - 1) Nonspendable – amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact (Inventories)
 - 2) Restricted – amounts subject to constraints which are externally imposed by creditors, grantors, contributors, laws or regulations (Debt Service Funds)
 - 3) Committed – amounts subject to self-imposed constraints through formal action of the City Council (Risk Reserve)
 - 4) Assigned – amounts constrained by the City’s intent to be used for specific purposes (Encumbrances)
 - 5) Unassigned – remaining fund balance available for any use after other categories are deducted from the total Fund Balance (Includes Emergency and Contingency Reserves)

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
 - FY13 Proposed Emergency Reserve of \$17,563,082 is funded from the FY 12 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 Contingency 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
 - FY13 Proposed Contingency Reserve is \$5,300,000 or 0.5091% of General Fund expenditures
 - Funded from FY12 projected ending balance of \$5,100,000 and FY13 appropriated transfer from General Fund of \$200,000

FMPC Reserve Requirements

- Combined Reserve Levels (FMPC #9)
 - Requires the unassigned fund balance, which includes the Emergency and Contingency Reserves, to be no less than 5% of budgeted expenditures

	FY13 Proposed
Unassigned Fund Balance (9/30/13 Projected)	\$84.1m
FY13 Proposed General Fund Expense	\$1,041.0m
5% of General Fund expense – Minimum Requirement	\$52.0m
Over/(Under) Minimum Reserve Requirement	\$32.1m
% General Fund Expense	8.1%

FMPC Reserve Requirements

FMPC #9 - History	Actual* FY08	Actual* FY09	Actual* FY10	Actual* FY11	Estimated FY12	Proposed FY13
Unassigned Fund Balance (including Emergency and Contingency Reserves)	\$69.9m	\$69.8m	\$59.0m	\$79.7m	\$83.9m	\$84.1m
General Fund Operating Expenditures	\$1,032.4m	\$1,037.5m	\$1,015.4m	\$998.7m	\$1,007.9	\$1,041.0m
% of GF Expenses	6.8%	6.7%	5.8%	8.0%	8.3%	8.1%

***Restated**



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
 - FY13 Proposed Reserve funded at \$1,250,00 using the FY12 projected ending balance of \$1,250,000

Fund Balance Considerations

- Bond rating agencies consider fund balance as a percent of total expenditures as part of their analysis in determining a rating
- On a percentage basis, Dallas' fund balance is low when compared to cities that are also rated Aa1/AA+
- Moody's May 2012 General Obligation rating report regarding the City's General Fund balance states:
 - "The Aa1 rating continues to reflect a somewhat narrow General Fund balance compared to other highly rated cities..."