

Memorandum



CITY OF DALLAS

DATE September 16, 2011

TO Budget, Finance and Audit Committee Members:
Jerry Allen (Chair), Tennell Atkins (Vice Chair), Monica Alonzo, Scott Griggs, Ann Margolin

SUBJECT FY 2011-12 Proposed Budget Reserve Levels

The Budget, Finance, and Audit Committee will be briefed on the FY 2011-12 Proposed Budget Reserve Levels on Tuesday, September 20th. Attached is a copy of the briefing for your review.

Please let me know if additional information is needed.

A handwritten signature in cursive script that reads "Jeanne Chipperfield".

Jeanne Chipperfield
Chief Financial Officer

Attachment

- c: Honorable Mayor and Members of the City Council
- Mary K. Suhm, City Manager
- Thomas P. Perkins, Jr., City Attorney
- Rosa Rios, Acting City Secretary
- Craig Kinton, City Auditor
- C. Victor Lander, Judiciary
- A.C. Gonzalez, First Assistant City Manager
- Ryan S. Evans, Assistant City Manager
- Jill A. Jordan, P.E., Assistant City Manager
- Forest Turner, Assistant City Manager
- Joey Zapata, Interim Assistant City Manager
- Helena Stevens-Thompson, Assistant to the City Manager
- Jack Ireland, Director, Office of Financial Services

FY2011-12 Proposed Budget Reserve Levels

Budget, Finance & Audit Committee
September 20, 2011





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, 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
 - Recommended changes scheduled for council vote on September 28, 2011

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
 - As of September 30, 2011 GASB 54 has divided fund balance from 3 categories to 5 categories:
 - **Nonspendable** – amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact
 - Inventories
 - **Restricted** – amounts subject to constraints which are externally imposed by creditors, grantors, contributors, laws or regulations
 - Debt Service Funds

Background (cont'd)

- **Committed** – amounts subject to self-imposed constraints through formal action of the City Council
 - Risk Reserve

- **Assigned** – amounts constrained by the City's intent to be used for specific purposes
 - Encumbrances

- **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
 - FY2011-12 Proposed Emergency Reserve of \$17,563,082 is funded from the FY2010-11 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
 - FY2011-12 Proposed Contingency Reserve is \$5,100,000 or 0.0505% of General Fund expenditures
 - Funded from FY2010-11 projected ending balance of \$3,436,886 and FY2011-12 appropriated transfer from General Fund of \$1,663,114

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

	FY2011-12 Proposed
Unassigned Fund Balance	\$65.2m
FY2011-12 Proposed General Fund Expense	\$1,009.6m
5% of General Fund expense – Minimum Requirement	\$50.5m
Over/(Under) Minimum Reserve Requirement	\$14.7m
% General Fund Expense	6.5%

FMPC Reserve Requirements

FMPC #9 - History	Actual* FY2007	Actual * FY2008	Actual * FY2009	Actual* FY2010	Estimated FY2011	Proposed FY2012
Unassigned Fund Balance (including Emergency and Contingency Reserves)	\$67.0m	\$69.9m	\$69.9m	\$59.1m	\$63.5m	\$65.2m
General Fund Operating Expenditures	\$1,007.0m	\$1,032.4m	\$1,037.6m	\$1,015.4m	\$1,007.3	\$1,009.6m
% of GF Expenses	6.7%	6.8%	6.7%	5.8%	6.3%	6.5%

***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
- FY2011-12 Proposed Reserve funded at \$1,250,00 using the FY2010-11 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 low when compared to cities that are also rated Aa1
- Moody's October 2010 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; however, the rating also takes into consideration formally adopted fiscal policies that include minimum financial reserves ...”