

Memorandum



DATE August 29, 2014

CITY OF DALLAS

TO Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair), Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

SUBJECT FY2014-15 Proposed Budget: Reserve Levels

The Tuesday, September 2nd Budget, Finance and Audit Committee agenda will include a briefing on the FY2014-15 Proposed Budget: Reserve Levels. The briefing will be presented by Jack Ireland, Director of the Office of Financial Services.

Please let me know if you need additional information.

A blue ink signature of Jeanne Chipperfield.

Jeanne Chipperfield
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Joey Zapata, Assistant City Manager
Charles M. Cato, Interim Assistant City Manager
Theresa O'Donnell, Interim Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager

FY2014-15 Proposed Budget: Reserve Levels

Budget, Finance & Audit Committee
September 2, 2014



Purpose

- To provide information on the General Fund Reserves, including:
 - Background
 - Purpose of reserve
 - 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)
 - Difference between a fund's assets and liabilities
 - Adjusted annually by the difference between revenues and expenditures
 - Serves as a measure of available resources in a fund
 - Divided into 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)

Purpose of Reserves

- Mitigate current and future risks such as revenue shortfalls and unanticipated expenditures
- Avoids borrowing for cash flow due to timing of revenues and expenditures
- Measure of credit worthiness – higher credit ratings associated with greater levels of reserves will allow for lower cost of borrowing

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
 - FY15 Proposed Emergency Reserve of \$17,563,082 is funded from the FY14 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
 - In November 2013 Council approved using \$2,348,103 Contingency Reserve for the emergency repair at the Central Library (CR# 13-1995). The fund will be replenished using FY14 projected surplus pending approval of ordinance amendments.
 - FY15 Proposed Contingency Reserve is \$6,200,000 or 0.53% of General Fund budget expenditures
 - Funded from FY14 projected ending balance of \$6,200,000

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

FY15 Proposed

Unassigned Fund Balance (9/30/15 Projected)	\$121.1m*
FY15 Proposed General Fund Expenses	\$1,166.2m
5% of General Fund expense – Minimum Requirement	\$58.3m
Over/(Under) Minimum Reserve Requirement	\$62.8m
% General Fund Expense	10.4%
Days of Reserve	37.9

* Include \$5.3m FY14 forecast surplus as of 7/31/2014; an increase of \$2.1m from 6/30/2014 forecast

FMPC Reserve Requirements

FMPC #9 - History	Actual*	Actual*	Actual	Actual**	Estimate***	Proposed
	FY10	FY11	FY12	FY13	FY14	FY15
Unassigned Fund Balance (including Emergency and Contingency Reserves)	\$59.0m	\$79.7m	\$95.0m	\$114.9m	\$121.1m	\$121.1m
General Fund Operating Expenditures	\$1,015.4m	\$998.7m	\$1,001.3m	\$1,031.8m	\$1,128.5m	\$1,166.2m
% of GF Expenses	5.8%	8.0%	9.5%	11.1%	10.7%	10.4%
Days of Reserve	21.2	29.1	34.6	40.7	39.2	37.9

*Restated to GASB 54 reporting requirements

** Unaudited

*** Include \$5.3m FY14 forecast surplus as of 7/31/2014; an increase of \$2.1m from 6/30/2014 forecast

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
- FY15 proposed reserve funded at \$1,250,000 using the FY14 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
- Standard & Poor's Rating Services affirmed AA+ rating to the City of Dallas General Obligation in December 2013.
 - The rating rationale indicated that “the city’s budgetary flexibility remain very strong with reserves above 10% of expenditures...” and supporting the city’s finances is liquidity the rating agency considered very strong.
- Moody’s Investors Service’s latest rating on City of Dallas’ GO bond was in June 2013 and the City’s GO bond received a rating of Aa1
 - The rating rationale states “The Aa1 rating reflects significantly improved but still below median reserve levels for the rating category, expected modest surplus in 2013, and financial policies that mandate low reserves.”
 - “what could make the rating go up”, the report points out “Significant increase in General Fund liquidity and General Fund balance.”

FMPC Reserve Requirement Change

- Consider increasing the city's FMPC reserve requirement from current minimum 5% of General Fund operating expenditures to minimum 8.2% (30 days) to be consistent with other FMPC requirements and take a more conservative approach to reserve balances

Questions and discussion