

Memorandum



CITY OF DALLAS

DATE October 4, 2013

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

SUBJECT FY 2013-14 Reserve Levels

Included on your October 7th agenda is a briefing on the FY 2013-14 Reserve Levels. Attached are the briefing materials for your review.

Please let me know if you have any questions.

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

Jeanne Chipperfield
Chief Financial Officer

c: Honorable Mayor and Members of the City Council
A.C. Gonzalez, Interim City Manager
Warren M.S. Ernst, Interim City Attorney
Rosa Rios, City Secretary
Craig Kinton, City Auditor
Judge Daniel Solis, Administrative Judge
Ryan S. Evans, Interim 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
Frank Libro, Public Information Office
Elsa Cantu, Assistant to the City Manager

FY2013-14 Reserve Levels

Budget, Finance & Audit Committee

October 7, 2013





Purpose

- To provide information on the General Fund Reserves, including:
 - Background
 - Purpose of reserves
 - Financial Management Performance Criteria
 - Emergency Reserve
 - Contingency Reserve
 - Combined Reserve Levels
 - Risk Reserve
 - Fund Balance considerations and best practice



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 is 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 the net worth of 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 risk of revenue shortfalls and provide stability for government operations
- Provide a cushion for unforeseen expenditures or revenue shortfalls
- Enable a governmental entity to respond to unanticipated events or an emergency during a fiscal year
- Allow an entity to plan ahead for major expenditures and to help offset major revenue losses that would further constrain service delivery during downturns in the economy



Purpose of Reserves – continued

- Maintain a favorable bond rating and enable borrowing at lower cost
 - Credit rating agencies regularly monitor the size of a government's fund balance
- Manage timing difference between cash flows of revenues and expenditures
 - Unlike operating expenditures that are almost evenly spread out through a fiscal year, revenue collections have different cycles that are not evenly spread



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
 - FY14 Emergency Reserve of \$17,563,082 is funded from the FY13 Emergency Reserve ending balance



FMPC Reserve Requirements

- Contingency Reserve (FMPC #8)
 - Provides for unanticipated needs that arise during the fiscal year
 - Use of Contingency Reserve requires 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
 - FY14 Contingency Reserve is \$5,700,000 or 0.51% of General Fund expenditures
 - Funded from FY13 ending balance of \$5,300,000 and FY14 appropriated transfer from General Fund of \$400,000

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

Unassigned Fund Balance (9/30/14 Projected)	\$99.5m
FY14 General Fund Expenses	\$1,118.4m
5% of General Fund expense – <u>Minimum</u> Requirement	\$55.9m
Over/(Under) <u>Minimum</u> Reserve Requirement	\$43.6m
% General Fund Expense	8.9%
Days Expenses in Reserve	32.5

FMPC Reserve Requirements

FMPC #9 - History	Actual* FY09	Actual* FY10	Actual* FY11	Actual FY12	Estimate FY13	Adopted FY14
Unassigned Fund Balance (including Emergency and Contingency Reserves)	\$69.8m	\$59.0m	\$79.7m	\$95.0m	\$99.1m	\$99.5m
General Fund Operating Expenditures	\$1,037.5m	\$1,015.4m	\$998.7m	\$1,001.3	\$1,037.9m	\$1,118.4m
% of GF Expenses	6.7%	5.8%	8.0%	9.5%	9.6%	8.9%
Days Expenses in Reserve	24.6	21.2	29.1	34.6	34.9	32.5

*Restated to GASB 54 reporting requirements



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
 - FY14 Reserve funded at \$1,250,00 using the FY13 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
- Moody's Investors Service affirmed Aa1 rating to the City of Dallas General Obligation (GO) bond in June 2013
- Regarding the City's rating, the report 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"
 - "Recent operating surpluses, driven by conservative budgeting, have augmented reserves"
 - "Significant increase in General Fund liquidity and General Fund balance" could make the rating go up



Best Practice

- Government Finance Officers Association (GFOA) recommends minimum 60 days or 16.4% of expenses maintained in reserves

Questions and Discussion
