

Fund Balance Policy and Council Dividend





Topics

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Current Fund Balance Policy (GF)

- City's current policy is as follows:
- Resolution 2009-38
 - “It is the policy of City Council that at the beginning of each fiscal year there shall be an unreserved designated fund balance in the General Fund equal to 20% of that fiscal year's General Fund budgeted appropriations”
- OMB-8: Budget Administration
 - VIII. Fund Balance.
 - A. Pursuant to City Ordinance, City Council will set aside in a designated reserve 20% of the next year's General Fund appropriations.
 - B. The OMB Director shall prepare the necessary reports and documents to document the degree of compliance with this fund balance policy.
 - C. It is the City Council's longer-term goal to increase the designated reserve to 25% of the next year's General Fund appropriations.

Best Practices and Bond Ratings

- Why is Fund Balance important?
 - Avoid cash flow disruptions or need for short-term borrowing
 - Provides flexibility for capital financing
 - Strong liquidity viewed favorably by rating agencies leading to lower borrowing costs
 - Stable reserves enable long-term financial planning instead of focus on near-term cash needs



Best Practices and Bond Ratings

- GFOA (Government Finance Officers Association) –
 - GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.
 - Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period.
 - In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.”
 - Appropriate Level - The adequacy of unrestricted fund balance in the general fund should **take into account each government’s own unique circumstances**. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance.
 - GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund **of no less than two months of regular general fund operating revenues or regular general fund operating expenditures**

Best Practices and Bond Ratings

- GASB (Governmental Accounting Standards Board) –
 - GASB Statement 54 creates definitions and standard classifications of Fund Balances
 - Fund Balance must be defined as nonspendable, restricted, committed, assigned and unassigned
 - Discussion of the City's Fund Balance policy will focus on the Unassigned category
 - *Nonspendable = illiquid assets or legally required to remain intact (endowment fund)*
 - *Restricted = constrained for specific purposes by fund provider through legal action*
 - *Committed = constrained for a specific purpose by the City itself – must be reserved until Council takes action to change or remove constraint*
 - *Assigned – amounts the City intends to use for a specific purpose*
 - *Unassigned – amounts available for any purpose*



Best Practices and Bond Ratings

- Rating Agencies review and require:
 - A stated fund balance policy
 - Compliance with the stated policy
 - A plan to get back into compliance with the policy
- Moody's Criteria – fund balance between 15% and 30% of revenues is needed to receive a scorecard value of “Aa”
 - 30% Economy/Tax Base
 - 20% Management
 - 20% Debt/Pensions
 - 30% Finances
 - 10% Fund Balance & Operating Revenue
 - 10% Cash Balances & Revenues
 - 5% 5-year dollar change in Fund Balance
 - 5% 5-year dollar change in Cash Balance



Best Practices and Bond Ratings

- Standard & Poors (S&P) Credit Scorecard
 - 30% Economy/Tax Base
 - 20% Management
 - 10% Debt and Contingent Liabilities
 - 10% Institutional Framework
 - 30% Finances
 - 10% Budgetary Flexibility
 - 10% Budget Performance
 - 10% Liquidity
- City is rated AAA/Aaa by all 3 major agencies



Proposed Policy

- City should maintain a minimum required reserve of 20% of appropriations less one-time expenses
 - Beginning with the accumulated fund balance over the 20% level at 6/30/22, distribute as follows:
 - 80% of remaining funds Transferred to Capital Projects Fund as Capital Project Reserve (*Committed Fund Balance*)
 - 20% of remaining funds Allocated for Council Dividend, split evenly for each Council Member for use in their specific district or for any city-wide project for at-large elected officials – up to a maximum annual allocation of \$250,000 per Council Member
 - If excess funding remains due to maximum annual allocation, funds will remain as Unassigned Fund Balance
 - For each Fiscal Year, any additions to Fund Balance would follow the same distribution
 - Council District Funds unspent after 3 fiscal years are returned to Capital Project Reserve



Example Calculation – First Year

- Assume \$20,000,000 required reserve
- FY21 ending unassigned Fund Balance was \$37,921,043
 - \$20,000,000 – reserved for 20% requirement
 - \$14,336,834 – transferred to Capital Project Reserve (80%)
 - \$1,750,000 – assigned to Council Dividend (\$250k each)
 - \$1,834,209 – Unassigned Fund Balance (20% less Council Dividend)
- Result – Unassigned Fund Balance of 21.8% (\$21,834,209), Capital Project Reserve of \$14.3 million, and each Council Member receives \$250,000 dividend for use in their specific district or for any city-wide project for at-large elected officials.

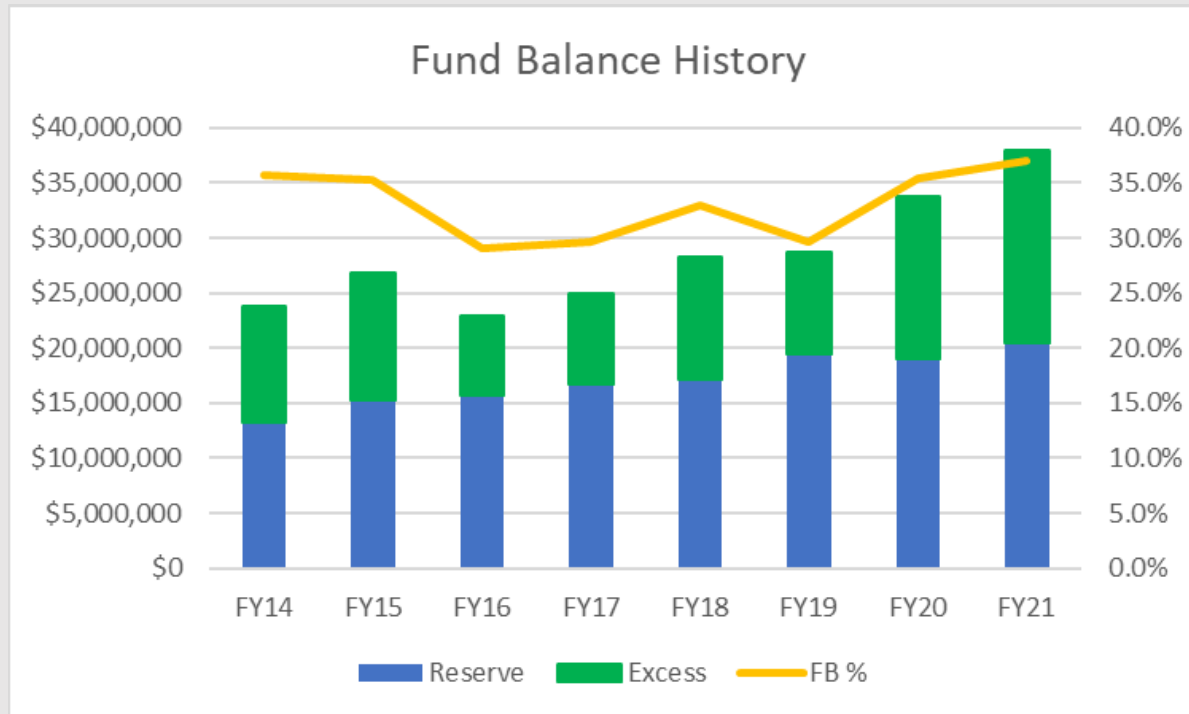
Example Calculation 2 – future year

- FY21 ended with an addition of \$16,252,778 to Fund Balance, of which \$4,220,593 was available for use
 - \$7,815,221 was appropriated for FY22 (committed), \$4,216,964 was rolled forward for purchase encumbrances (assigned)
- Distribution would be as follows:
 - \$3,376,474 transferred to Capital Project Reserve
 - \$844,199 assigned to Council Dividends (\$120,588 each)
- Results – about \$3.3 million added to Capital Project Reserve and unassigned fund balance, and each Council Member receives about \$120k dividend for use in their specific district or for any city-wide project for at-large elected officials.



Historical Lookback

- Over the past 7 years (starting in FY14), General Fund results have been as follows:
 - Average FB% - 33.1% but no CIP reserve or Council Dividend

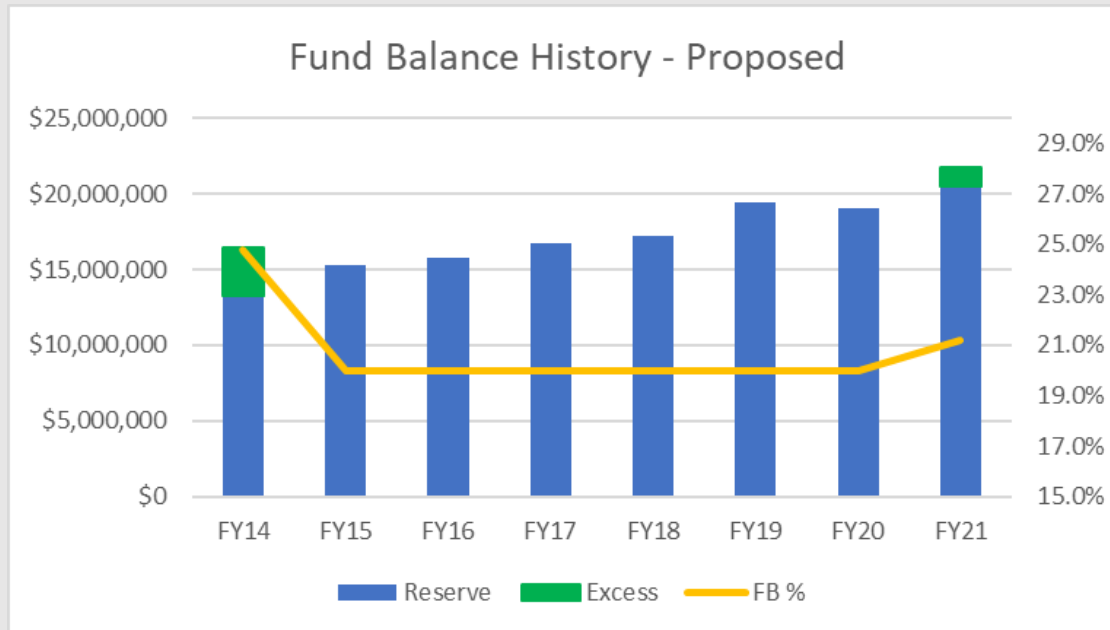


Fiscal Year	Reserve	Excess	FB%
FY14	\$13,285,882	\$10,465,200	35.8%
FY15	\$15,250,950	\$11,631,445	35.3%
FY16	\$15,724,740	\$7,134,185	29.1%
FY17	\$16,779,213	\$8,154,777	29.7%
FY18	\$17,182,669	\$11,127,221	33.0%
FY19	\$19,450,545	\$9,330,958	29.6%
FY20	\$19,007,570	\$14,692,880	35.5%
FY21	\$20,500,000	\$17,421,043	37.0%



Historical Lookback – with proposed policy

- If proposed policy had been in place, General Fund results have been as follows:
 - Average FB% - 20.7%, \$24.8 million CIP reserve, \$6.2 million Council Dividends



Fiscal Year	Reserve	Excess	FB%
FY14	\$13,285,882	\$3,163,722	24.8%
FY15	\$15,250,950	\$0	20.0%
FY16	\$15,724,740	\$0	20.0%
FY17	\$16,779,213	\$0	20.0%
FY18	\$17,182,669	\$0	20.0%
FY19	\$19,450,545	\$0	20.0%
FY20	\$19,007,570	\$0	20.0%
FY21	\$20,500,000	\$1,202,070	21.2%



Pros and Cons

- The current Fund Balance policy is insufficient in that it provides no direction on Fund Balance in excess of the 20% reserve
- Setting funds aside for CIP reserve will provide better overall coordination between planning and execution of projects
- The policy may not always provide additional funding – in the lookback model there were two years that required recission of CIP funds. Council Dividend would have been applied in 6 of 8 years.
- Providing Council dividends may allow for smaller scale projects to advance quicker to execution if not competing for large-scale CIP funding



Next Steps

- If Council wishes to amend the current Fund Balance policy, a resolution will be drafted to place into effect
- Relevant City policies will be modified to conform with the new Council policy
- At the closeout of FY22 (Oct-Nov), appropriation ordinances will be drafted to set up additional CIP reserve and Council Dividend accounts

Fund Balance Policy and Council Dividend

