

Memorandum



CITY OF DALLAS

DATE September 2, 2016

TO Honorable Members of the Budget, Finance & Audit Committee: Jennifer S. Gates (Chair), Philip T. Kingston (Vice Chair), Erik Wilson, Rickey D. Callahan, Scott Griggs, Lee M. Kleinman

SUBJECT FY 2016-2017 General Fund Proposed Reserves

On Tuesday, September 6, 2016, the Budget, Finance & Audit Committee will be briefed on the FY 2016-2017 General Fund Proposed Reserves. The briefing is attached for your review.

Please let me know if you need additional information.


Jeanne Chipperfield
Chief Financial Officer

Attachment

cc: Honorable Mayor and Members of the City Council
AC Gonzalez, City Manager
Christopher D. Bowers, Interim City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager

Eric D. Campbell, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council

FY 2016-2017 General Fund Proposed Reserves

BUDGET, FINANCE & AUDIT COMMITTEE

SEPTEMBER 6, 2016



Purpose

- Provide overview of City's Financial Management Performance Criteria (FMPC) for fund balance and reserve related policies
- Provide information on FY 2016-17 General Fund Proposed Reserves

Background – FMPC

- City's FMPC was initially adopted by City Council in 1978 to set financial policies and standards and to guide decision making
- FMPC contains 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

Background – FMPC

- FMPC is evaluated for compliance during budget preparation, at year-end, and for each debt issuance
- Council periodically reviews and updates criteria (Last FMPC update was approved by Council in September 2014)

Background – Fund Balance

- Fund Balance represents difference between fund's assets and liabilities and serves as measure of available resources in fund
 - Reported annually in City's Comprehensive Annual Financial Report (CAFR)
 - Adjusted each year by difference between revenues and expenditures
- Fund Balance has 5 categories
 1. Non-spendable – amounts that are not in a spendable form (inventories) or are required to be maintained intact (corpus of an endowment fund)
 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 City Council (Risk Reserve)
 4. Assigned – amounts constrained by 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 total fund balance (includes Emergency and Contingency Reserves)

Purpose of Reserves

- Mitigate current and future risks such as revenue shortfalls and unanticipated expenditures
- Enable a governmental entity to respond to unanticipated events or an emergency during a fiscal year
- Avoid borrowing for cash flow due to timing of revenue and expenditures
- Component of credit rating – higher reserve levels associated with higher credit ratings and allows 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 requires authorization by Council resolution
 - Any use must be replenished in next fiscal year
 - FY 2016-17 proposed Emergency Reserve of \$17,563,082 is funded from the FY 2015-16 projected Emergency Reserve ending balance

FMPC Reserve Requirements

- Contingency Reserve (FMPC #8)
 - Required to be maintained at 0.5% to 1% of budgeted expenditures
 - FY 2016-17 proposed Contingency Reserve is \$7,279,145, or 0.6%, of proposed General Fund budget expenditures
 - FY 2015-16 projected Contingency Reserve balance is \$5,629,145
 - \$1,650,000 has been included in FY 2016-17 proposed General Fund expenditures to bring Contingency Reserve to proposed balance of \$7,279,145
 - September 7th Council agenda requests use of \$2,000,000 in Contingency Reserve funds to provide aerial spraying for mosquito control
 - Contingency Reserve funds may also be requested to fund an upcoming ERF election (\$600,000)
 - If both items are approved, FY 2016-17 Contingency Reserve projected ending balance would be \$4,679,145, or 0.4%, of proposed General Fund budget expenditures

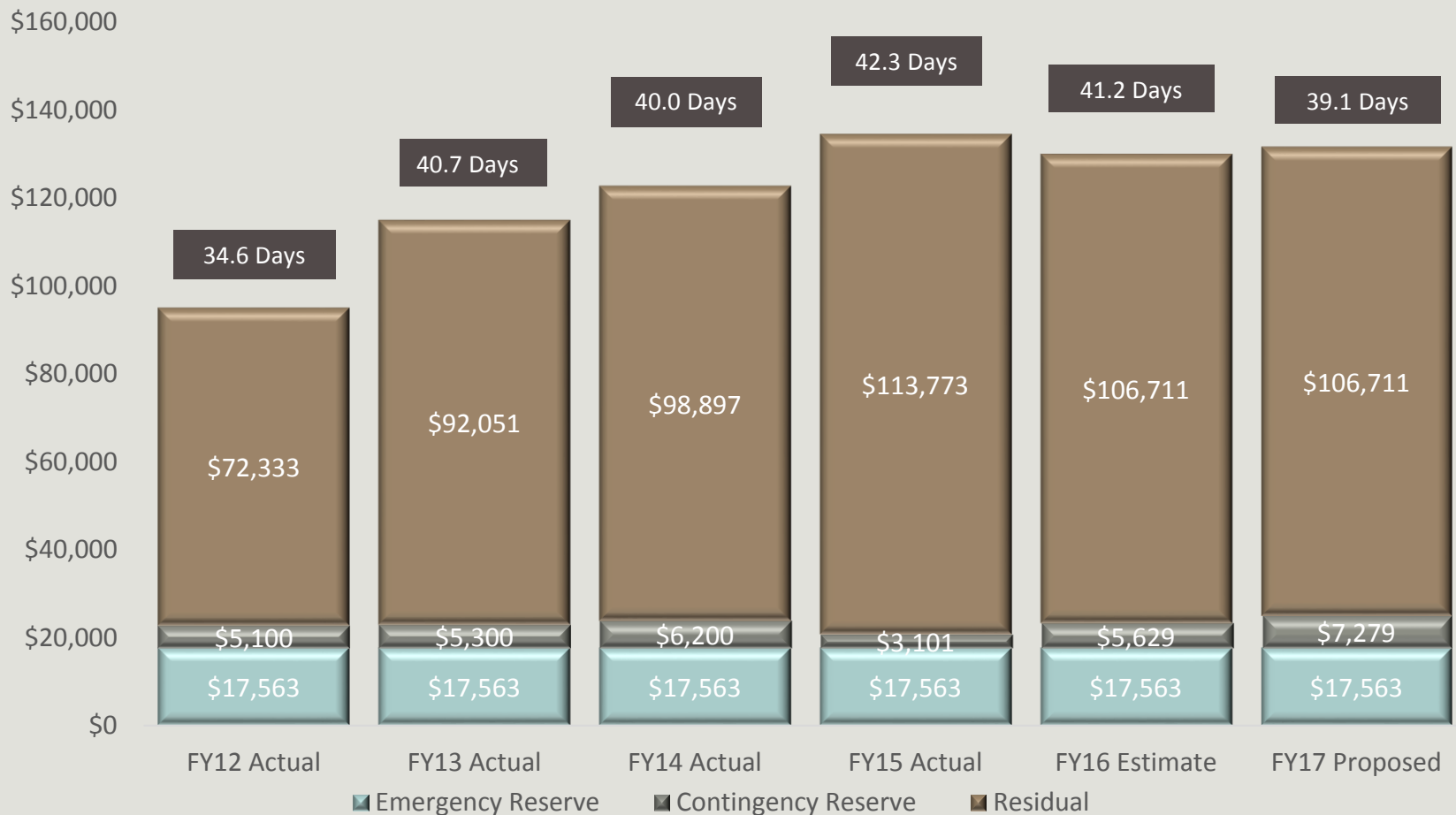
FMPC Reserve Requirements

➤ Combined Reserve Level (FMPC #9)

- Requires unassigned fund balance, which includes Emergency and Contingency Reserves, to be no less than 30 days of General Fund operating expenditures

	FY 2016-17 Proposed
Unassigned Fund Balance (9/30/17 projected)	\$131.5m
FY 2016-17 Proposed General Fund Expenditure	\$1,228.0m
30 days of GF Operating expenditures - minimum requirement	\$100.9m
Over/(Under) Minimum Requirement	\$30.6m
% of General Fund Expense	10.71%
Days of Reserve	39.1

FMPC Reserve Requirements



FMPC Reserve Requirements

- Risk Reserve (FMPC #10)
 - Required to be maintained at a level, which together with purchased insurance policies, adequately protects City's assets against loss
 - FY 2016-17 proposed reserve funded at \$1,250,000 using FY 2015-16 projected ending balance

FY 2016-2017 General Fund Proposed Reserves

Questions?