

Memorandum



CITY OF DALLAS

DATE August 14, 2015

TO 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 FY2015-16 Budget: General Fund Reserve Levels and Proposed Amendment to the Financial Management Performance Criteria (FMPC)

On August 17, 2015 the Budget, Finance and Audit Committee will be briefed on the FY2015-16 Budget: General Fund Reserve Levels and Proposed Amendment to the Financial Management Performance Criteria (FMPC). The briefing will be presented by Jack Ireland, Director of the Office of Financial Services. The briefing is attached for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "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
Joey Zapata, Assistant City Manager
Mark McDaniel, Assistant City Manager
Eric D. Campbell, Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager

FY 2015-16 Budget: General Fund Reserve Levels and Proposed Amendment to the Financial Management Performance Criteria (FMPC)

Budget, Finance & Audit Committee
August 17, 2015



Purpose

- Provide overview of the city's Financial Management Performance Criteria (FMPC), including current status and proposed amendment
- Provide information on the General Fund's fund balance and reserves
- Recommend amendment to the FMPC as proposed in the FY 2015-16 budget

FMPC – Background

- The City's Financial Management Performance Criteria (FMPC) was initially adopted by the City Council in 1978 to set financial policies and standards and to guide decision making
- The 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

FMPC – Background

- The FMPC is 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 in September 2014
 - A revision to FMPC #9 is proposed along with the adoption of the FY 2015-16 budget
 - Additional review by staff, with potential revisions, will occur through the Fall 2015

FMPC – Compliance

- With the exception of the following, all criteria within the FMPC are “in compliance”
- #6 – Each enterprise and internal service fund should maintain at least 30 days of net working capital
 - Equipment Services is forecast to have 28 days of net working capital; approximately \$273,000 less than required by the FMPC
- #14 – An annual assessment and 5 year projection for all equipment and maintenance needs should be performed, and a maintenance and replacement schedule developed based on the projection
 - Current criteria is not aligned with current processes
- #42 – CAFR will be completed within 120 days
 - FY 2013-14 CAFR was completed on May 28, 2015 (240 days); 180 days is more reasonable standard

Fund Balance – Background

- Fund Balance represents the difference between a fund's assets and liabilities and it serves as a measure of available resources in a fund
 - Reported annually in the City's Comprehensive Annual Financial Report (CAFR)
 - Adjusted each year by the difference between revenues and expenditures

Fund Balance – Background

➤ Fund Balance has 5 categories:

1. Nonspendable – amounts that are not in a spendable form (inventories) or are required to be maintained intact (the 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 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
- 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
- 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 for an emergency nature
 - Use of Emergency Reserve would require authorization by Council resolution
 - Any use must be replenished in the next fiscal year
 - FY 2015-16 proposed Emergency Reserve of \$17,563,082 is funded from the FY 2014-15 projected Emergency Reserve ending balance

FMPC Reserve Requirements

- Contingency Reserve (FMPC #8)
 - Funds may be used to provide for unanticipated needs that arise during fiscal year
 - Use of Contingency Reserve would require authorization by Council resolution
 - During FY 2014-15 (to date), Council has approved use of \$3,678,101 from Contingency Reserve for Bridge Steps, Council elections, technology projects, and police marked squad cars

FMPC Reserve Requirements

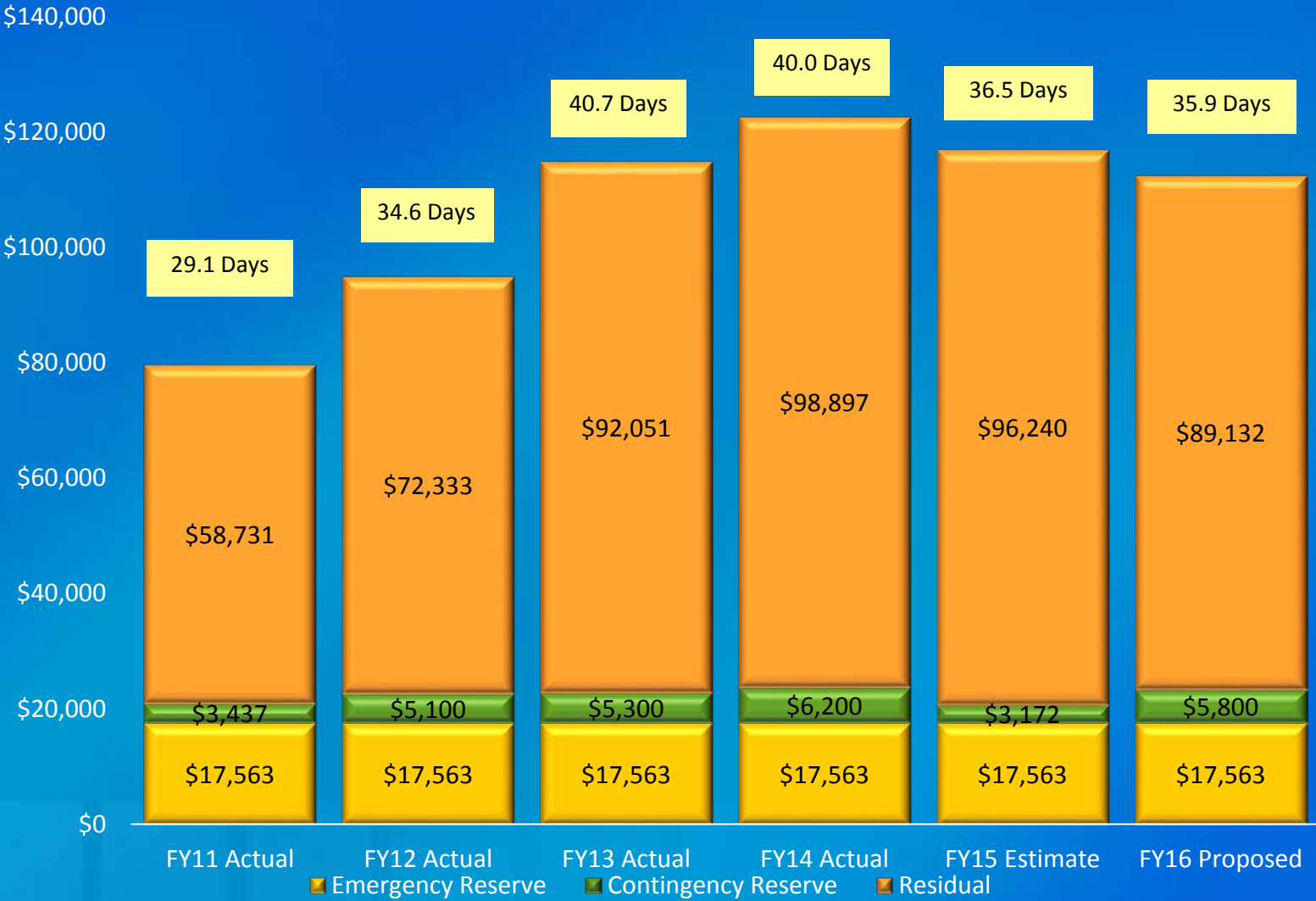
- Contingency Reserve (FMPC #8)
 - FY 2015-16 proposed Contingency Reserve is \$5,800,000, or .51% of proposed General Fund budget expenditures, including:
 - FY 2014-15 projected Contingency Reserve ending balance is \$3,171,899
 - FY 2015-16 proposed budget adds \$2,628,101 to Contingency Reserve to bring the total proposed balance to \$5,800,000 or .51%

FMPC Reserve Requirements

- Combined Reserve Level (FMPC #9)
 - FMPC #9 requires the unassigned fund balance, which includes the Emergency and Contingency Reserves, to be no less than 30 days of General Fund operating expenditures

| | FY 2016 Proposed |
|--|-------------------------|
| Unassigned Fund Balance (9/30/16 projected) | \$112.5m |
| FY 2015-16 Proposed General Fund Expenditure | \$1,144.8m |
| 30 days of GF Operating expenditures - minimum requirement | \$94.1m |
| Over/(Under) Minimum Requirement | \$18.4m |
| % of General Fund Expense | 9.83% |
| Days of Reserve | 35.9 |

FMPC Reserve Requirements



*Reduction from FY 2014-15 estimate to FY 2015-16 proposed is due to transfer of \$7m of balance to establish 30-day reserve within new Sanitation Enterprise Fund.

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
 - FY 2015-16 proposed reserve funded at \$1,250,000 using FY 2014-15 projected ending balance

FMPC – Proposed Amendment

- FMPC #9 currently reads:
 - The unassigned fund balance of the General Fund, which includes the Emergency and Contingency Reserves, shall be maintained at a level not less than 30 days of the General Fund operating expenditures less debt service. (The Risk Reserve is not included in this calculation.)

FMPC – Proposed Amendment

- FMPC #9a proposed addition:
 - During the development of the upcoming budget, the City Manager shall provide an analysis of the change in the General Fund's unassigned fund balance at the close of the most recent fiscal year. In the event of an increase in fund balance of at least 5% over the prior year and continued compliance with FMPC #9 (30 day minimum), the City Manager may recommend that the City Council appropriate up to \$3 million for the one-time use for capital investment in transportation and/or City facility improvements in the upcoming budget

Recommendation and Next Step

- Request BFA Committee and Council support of addition to FMPC allowing use of up to \$3 million for the one-time use for investment in transportation and/or City facility improvements in the upcoming budget
- In Fall 2015, additional review by staff and amendments to FMPC will be brought to BFA Committee for consideration