

Memorandum



CITY OF DALLAS

DATE August 14, 2017

Honorable Members of the Government Performance & Financial Management
Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,
TO Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **General Fund Reserves**

On Monday, August 21, 2017, the Office of Financial Services will brief the Government Performance & Financial Management Committee on General Fund Reserves. I have attached the briefing for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich
Chief Financial Officer

Attachment

C: Honorable Mayor and Members of the City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Jo M. (Jody) Puckett, P.E., Assistant City Manager (Interim)
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Raquel Favela, Chief of Economic Development & Neighborhood Services
Nadia Chandler Hardy, Chief of Community Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors

General Fund Reserve

August 21, 2017

**Elizabeth Reich
Chief Financial Officer**

**Jack Ireland, Director
Office of Budget**

**Janette Weedon, Assistant Director
Office of Budget**



Purpose

- Review background
- Discuss Financial Management Performance Criteria (FMPC) General Fund reserve requirements
- Consider next steps



Background

- City Council initially adopted FMPC 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 Trust
- Dallas Water Utilities has a separate set of 13 criteria



Background

- 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 City Council in September 2014
- We will brief the Government Performance and Financial Management Committee on recommended changes to FMPC on Tuesday, September 5

Background – Fund Balance

- Fund balance represents the 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



Background – Fund Balance

- Fund balance has five categories
 1. Non-spendable – amounts that are not in a spendable form (inventories) or are required to be maintained intact
 2. Restricted – amounts subject to constraints which are externally imposed by creditors, grantors, contributors, laws, or regulations (Debt Service)
 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)



FMPC Reserve Requirements

- Criteria #7 – Emergency Reserve
 - 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 City Council resolution
 - Any use must be replenished in next fiscal year
 - FY 2017-18 proposed Emergency Reserve of \$17.6 million is funded from the FY 2016-17 projected Emergency Reserve ending balance

FMPC Reserve Requirements

- **Criteria #8 – Contingency Reserve**
 - Maintain balance at a level ranging from 0.5% to 1% of budgeted departmental expenditures
 - Funds are allocated from contingency reserve only after analysis by the City Manager and City Council approval
 - Funds allocated each year in the budget process to replace any use of Contingency Reserve funds during the preceding fiscal year



FMPC Reserve Requirements

- Criteria #8 – Contingency Reserve
 - FY 2017-18 proposed Contingency Reserve balance is \$9.1 million or 0.72% of proposed General Fund budget expenditures
 - \$2.6 million remaining balance in FY 2016-17
 - \$4.7 million included in FY 2017-18 proposed General Fund expenditures
 - \$1.8 million assigned from existing fund balance

FMPC Reserve Requirements

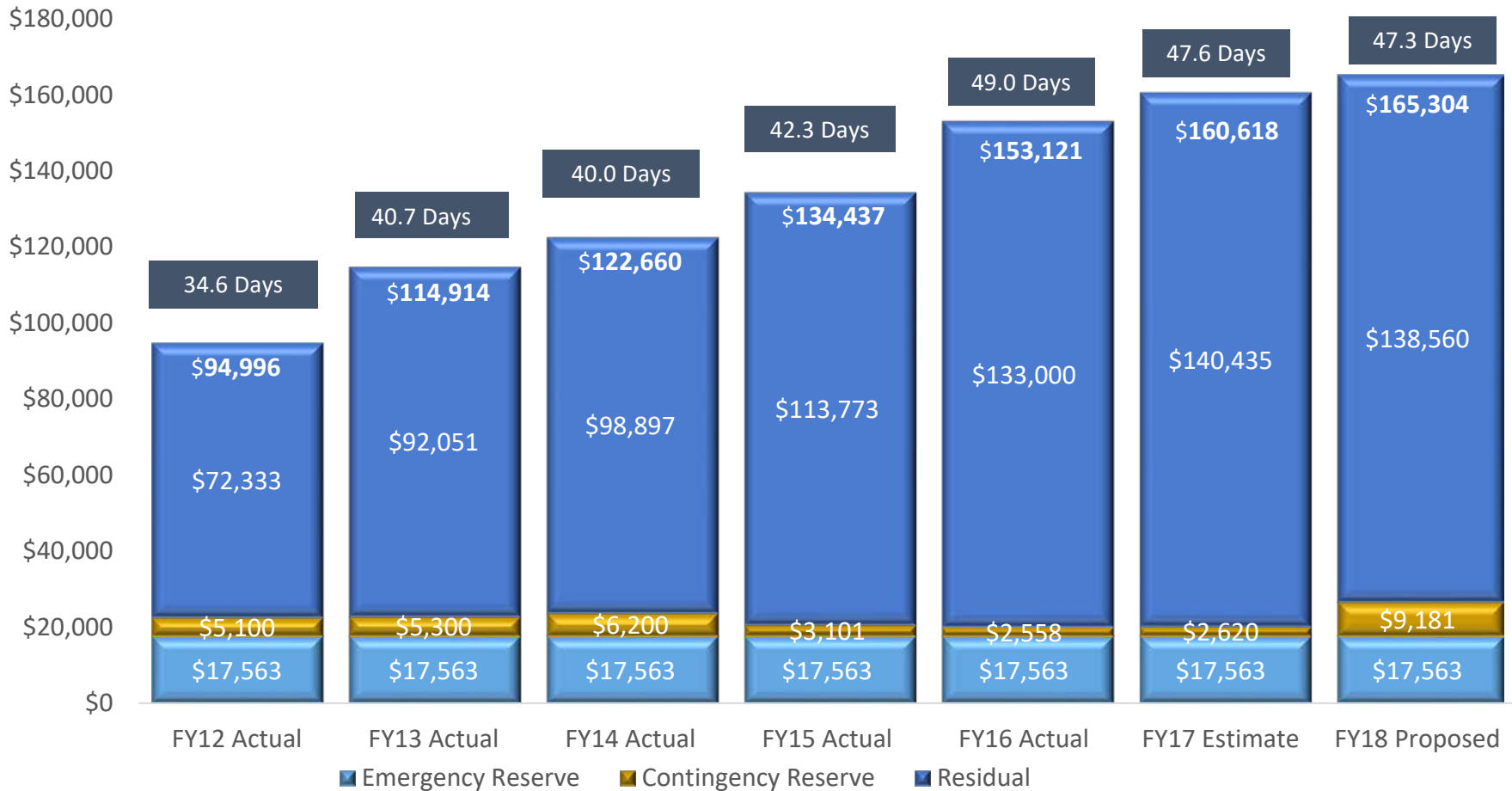
- Criteria #9 – Unassigned fund balance
 - Includes the Emergency and Contingency Reserves
 - Maintained at a level not less than 30 days of the General Fund operating expenditures less debt service
 - The Risk Reserve is not included in this calculation

FMPC Reserve Requirements

- Criteria #9 – Unassigned fund balance

(In Millions)	FY 2017-18 Proposed
Unassigned fund balance (9/30/2017 projected)	\$165.3
FY 2017-18 proposed General Fund expenditure	\$1,278
30 days of General Fund operating expenditure – minimum requirement	\$105.1
Percent of general fund expense	12.93%
Days of reserve	47.3

FMPC Reserve Requirements



FMPC Reserve Requirements

- Criteria #10 – Risk Reserve
 - Required to be maintained at a level, which together with purchased insurance policies, adequately protects City’s assets against loss
 - Analysis conducted every three years or when the deductible level of the City’s property insurance is modified (whichever is earlier)
 - FY 2017-18 proposed risk reserve funded at \$1.3 million using FY 2016-17 projected ending fund balance

Next Steps

- Present proposed amendments to FMPC to Government Performance Financial Management committee on September 5



General Fund Reserve

August 21, 2017

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