



Rethinking General Fund Balance and Reserve Policies

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Fund Balance vs Fund Balance Reserve

- Fund balance = *difference between assets and liabilities
Changes constantly but only measured at specific times
- Fund balance reserve = established minimum Fund Balance
Can be spent but only during fiscal emergency

*(specific items excluded)

Categories of Fund Balance per GASB 54

- Portions of Fund Balance are not available for budgetary use
 - Prepaid amounts
 - Loans to other funds
 - Payable amounts
- Remaining Fund Balance considered “Unassigned” and available for budgetary use

Purpose of Reserve Balance

- Serves as risk management tool during low economic cycles or emergencies
 - Recession
 - Natural disaster
 - Manmade disaster
 - Public health
 - Public safety
 - Changes in political environment

Formal Risk Assessment

- Assess the “known unknowns”
- Attempt to plan for “unknown unknowns”

Determine Appropriate Level of Fund Balance Reserve

- Analyze volatility and risks of revenue sources
 - Stable revenues vs volatile revenues as % of total revenues
- Analyze ability to adapt spending needs quickly
- Analyze likelihood of impactful events

Consider Other Tools to Control Risk

- Equipment Replacement Funds serve as savings accounts for replacement of major assets
- Insurance serves as emergency recovery tool
- Federal and State relief funds may be available

Fund Balance Policy should include:

- Defined purpose of policy
- Consideration of other risk management tools
- Reserve balance as minimum of Fund Balance range
- Targeted ceiling of Fund Balance range

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- Strategies for maintaining Fund Balance within acceptable range
- Terms of when and for what purposes Reserve Balance can be used
- Restriction on using Fund Balance for recurring expenses
- Consideration of non-available portions of Fund Balance

Role of Fund Balance in Bond Ratings

- Fund balance important but not only determining factor
- Moody's ratings are loosely associated with:
 - 35% and up = Aaa
 - 25% to 35% = Aa
 - 15% to 25% = A

- Moody's assigned rating based approximately 30% on Fund Balance
- Other factors can override Fund Balance significance
- S & P ratings are less clear but follow same general approach
- Rating analysts have discretion in rate setting process

Bond Rating Implications

- Higher bond rating results in lower interest rates for bonds
- Higher debt levels make lower interest rate more impactful
- Longer payback periods make lower interest rate more impactful
- Higher bond rating may build trust and confidence with public
- Higher bond rating may make City more attractive to businesses

Costs of Excessive Fund Balance

- Can use Fund Balance to “buy” bond rating but at what cost?
 - Excess Fund Balance represents opportunity costs
 - Money is removed from local economy
 - Represents public services that could be provided

Action Steps

- Formal risk analysis by staff
- Discussion among elected officials and staff
- Draft policy for consideration by Mayor and Council