

# **General Fund Reserve Balance**

January 4, 2018

# Outline

- Reserve Balance Overview
- Current Fund Balance Reserve Policy
- Historical Fund Balances
- Benefit of AAA Rating
- Five-Year Model

# What is the Reserve Balance?

- The General Fund reserve balance shall consist of residual net resources, that is, those resources that remain after those that are restricted, committed, and assigned

# Why Have a Reserve Balance?

- The “Perfect Storm” of 1992
- GFOA Guidelines
- Uses of the Fund Balance

# The “Perfect Storm” of 1992

- Low sales tax receipts
- Mild weather -> low franchise tax receipts
- Fund balance went negative before Property Tax revenue arrived in January.

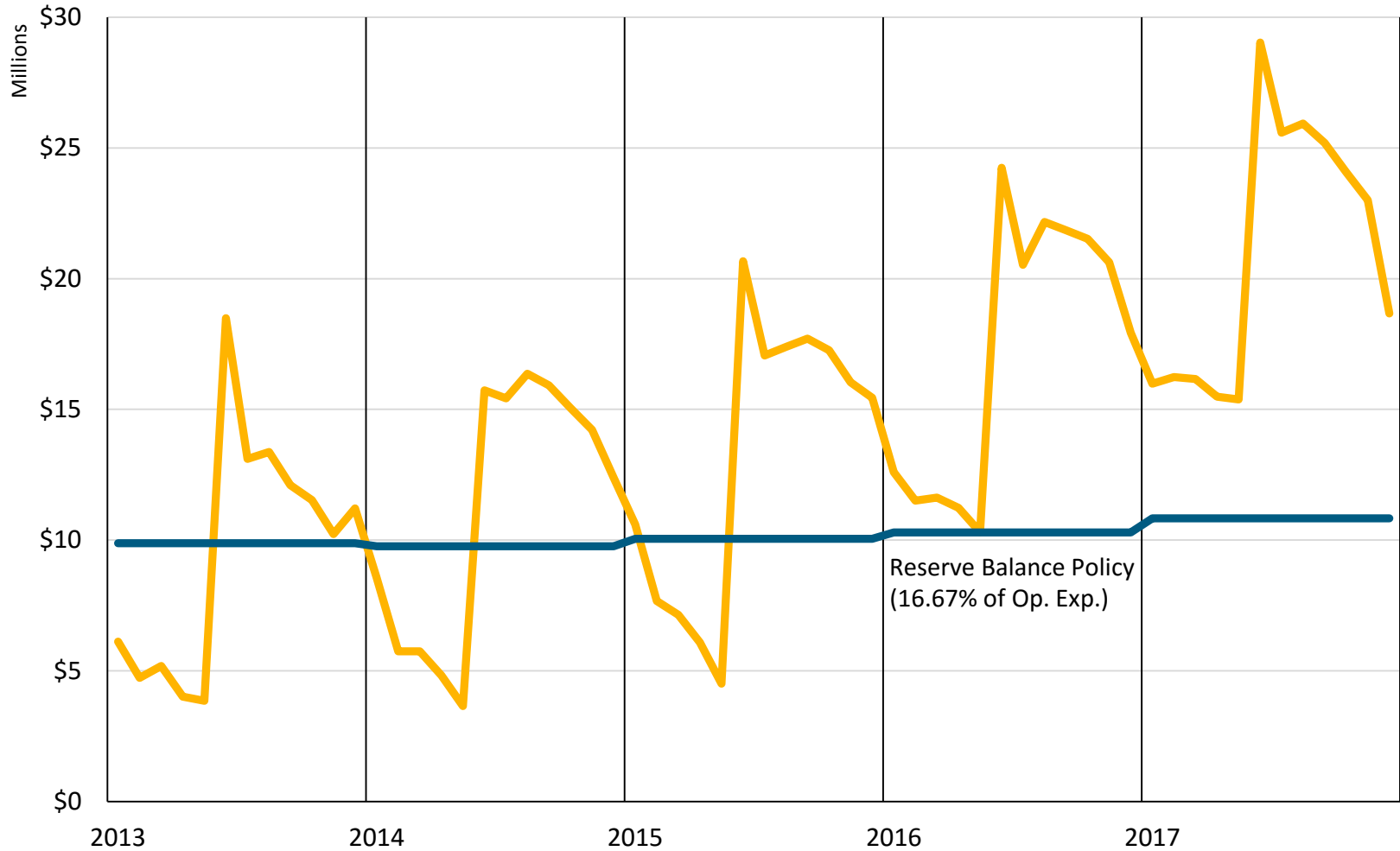
# Purposes of a Fund Balance Policy (GFOA)

- Plan for contingencies
- Maintain good standing with rating agencies
- Avoid interest expense – Tax Anticipation Notes
- Generate investment income
- Ensure cash availability when revenue is unavailable

# Uses of the Fund Balance

- Cash flow
- Safety Net
- Continuity of Services

# Monthly Unassigned General Fund Balance





# General Fund Reserve Balance Policy

(Ord. 7428)

- Requires the fund balance to be at least two average months of regular operating revenues or expenditures, whichever is greater, based on the prior fiscal year.
- Annual operating expenditures will not exceed annual operating revenues except in unusual and extraordinary circumstances.

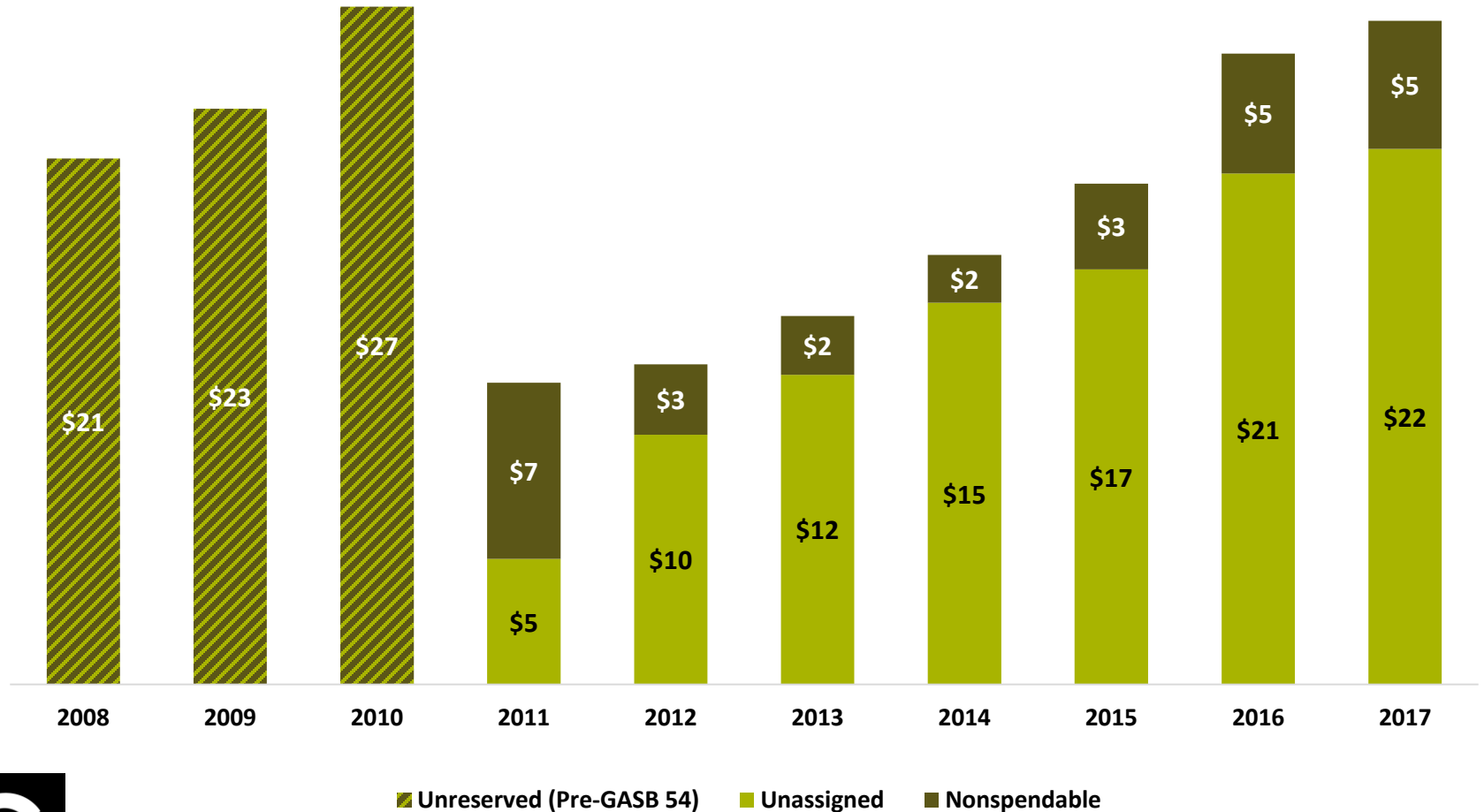
# General Fund Reserve Balance Policy

(Ord. 7428)

- The fund balance shall not be used to fund any portion of ongoing and routine operating expenditures.
- In the event of an “extraordinary expenditure,” the reserve balance will be restored within the next three years.

# General Fund Year End Reserve Balance

(in \$millions)



# Aaa Rating

- The City re-attained Aaa bond rating from Moody's in August
- Interest rate spread
- Factors for upgrade:
  - Strong and stable fiscal management
  - Healthy Reserve Balance
  - Manageable debt and pension levels

# 5-Year Model

- Instrument used to analyze long-term fiscal impacts of policy changes on General Fund and reserve balance
- Next week staff will discuss the City's financial condition, and its impact on the ability to afford further wage adjustments