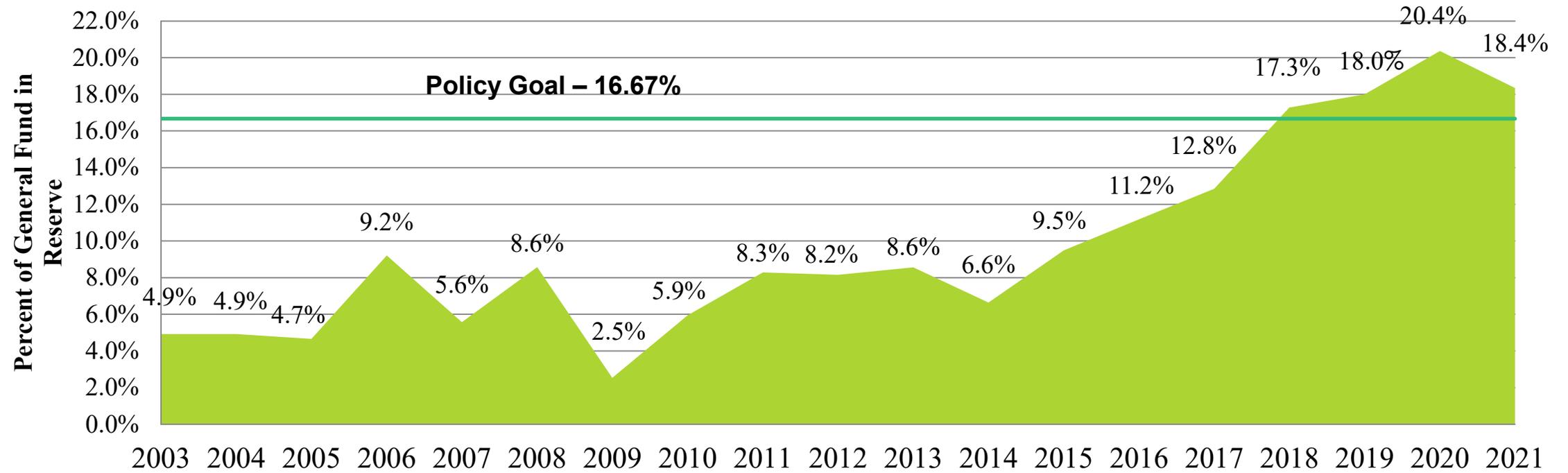




Fund Balance Policy

Ordinance No. 220500

JUNE 15, 2022

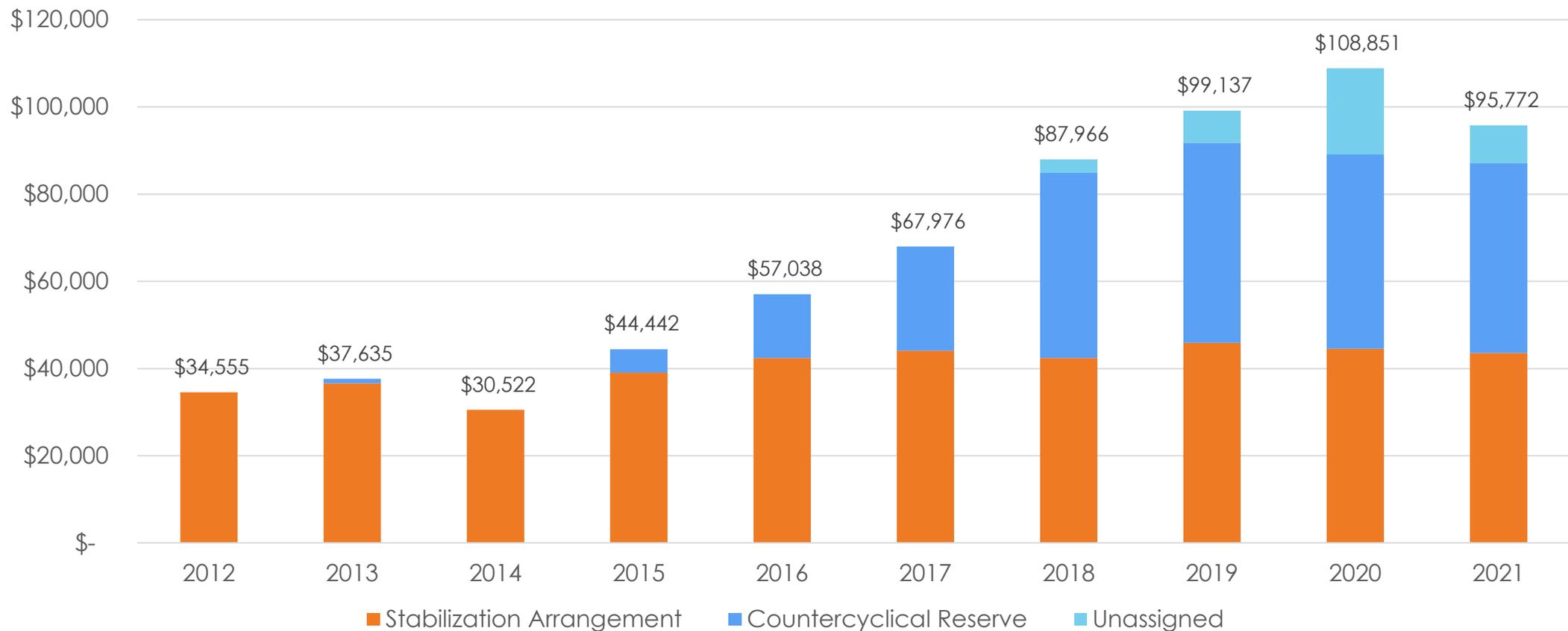


Fund Balance – since 2003 (GAAP)

Fund Balance Policy

- ▶ Section 2-1954 Code of Ordinances
- ▶ Fund balance policy goal – two months of operating expenditures or 16.67%
 - ▶ Committed (Emergency Reserve)
 - ▶ One month of operating expenditures or 8.33%
 - ▶ Assigned (Countercyclical Reserve)
 - ▶ One month of operating expenditures or 8.33%
- ▶ Excess fund balance – no formal policy

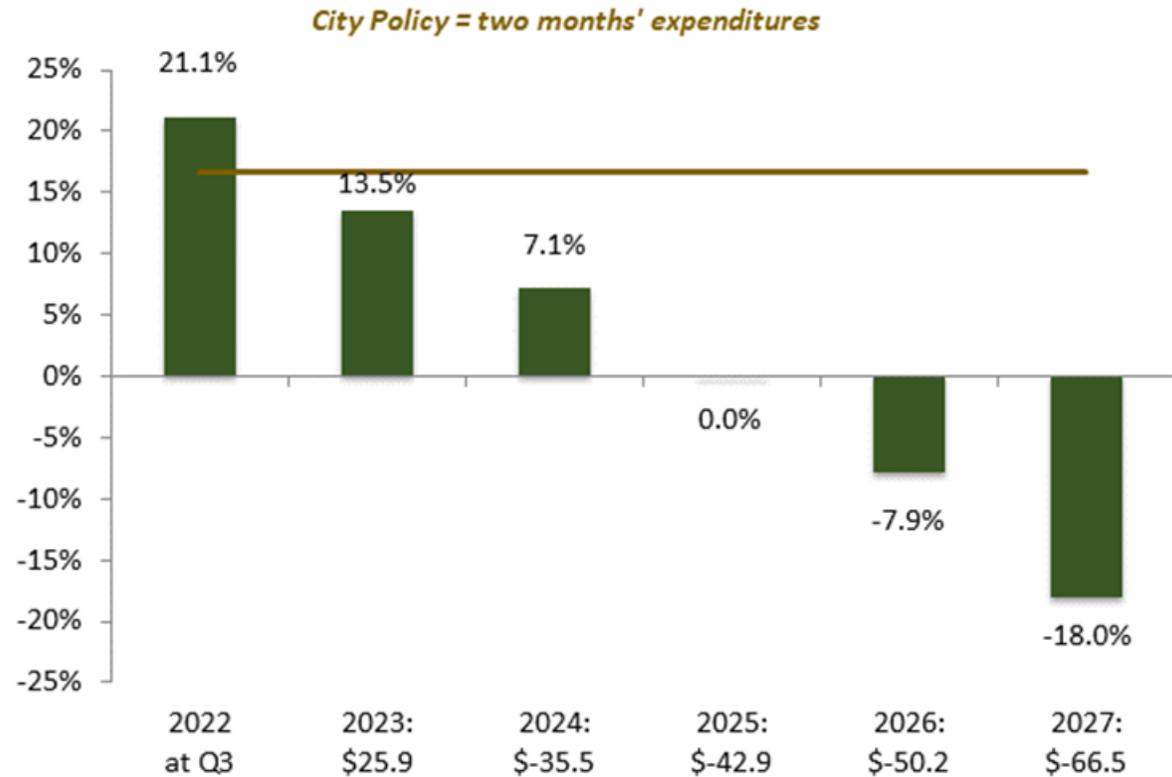
Components of Fund Balance (GAAP)

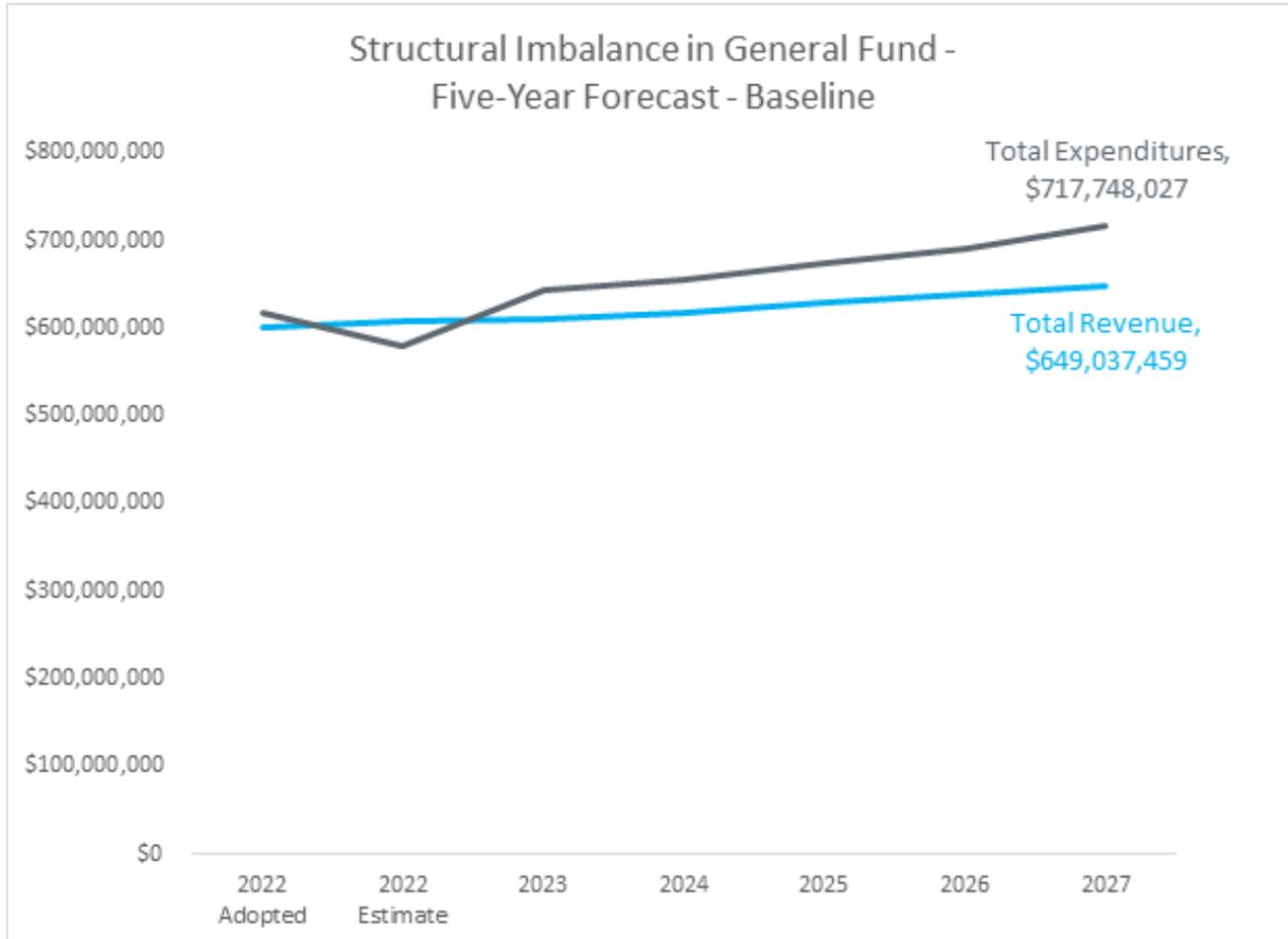


Five Year Financial Plan

Baseline

General Fund: Reserves *as a percent of operating expenditures*





Forecasted
Structural
Imbalance

Credit Rating and Fund Balance

- ▶ Fund balance (operating reserves) is a key factor in determining credit

Rating Factor	Weight	
	Standard & Poor's	Moody's
Economy/Tax Base	30%	30%
Finances	30%	30%
Management	20%	20%
Debt/Contingent Liabilities	10%	20%
Institutional Framework	10%	0%
Total	100%	100%

Moody's

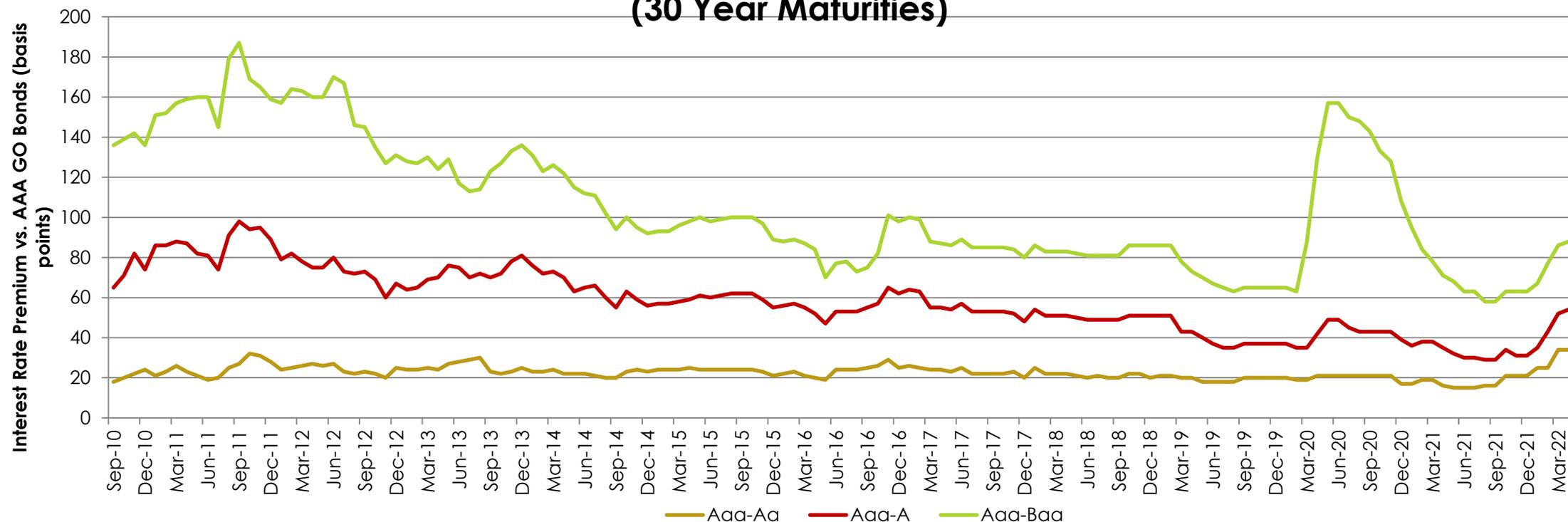
- ▶ Downgraded the City's credit in 2021 citing:
 - ▶ “Material operating reserve contraction expected due to the city's exposure to economically sensitive revenue streams impacted by the coronavirus pandemic”
 - ▶ Significant long-term liabilities
- ▶ 2022 Credit Rating comments:
 - ▶ “...below average operating reserves...”
- ▶ Factors that could lead to a downgrade:
 - ▶ “Deterioration of financial reserves”

Standard and Poor's

- ▶ 2022 Rating comments:
 - ▶ “The city has historically shown strong managerial capacity to maintain reserves consistently at its policy level, with balanced or positive general fund operations.”
 - ▶ Downside scenario:
 - ▶ “We could lower the rating if operating pressures lead to a sustained weakening of budgetary performance and materially reduced reserves.”
 - ▶ Other comments:
 - ▶ “In terms of future challenges, we note that salary increases are anticipated in fiscal 2023 and in future years, and expenditures are forecast to outpace revenues. Given these circumstances, a readjustment of the city’s budget will likely be necessary to maintain structural balance.”

Why does credit matter?

Long-Term Municipal Credit Spread (30 Year Maturities)



Ordinance No. 220500

- ▶ Fund Balance Policy Revisions
 - ▶ Excess Fund Balance Policy
 - ▶ Can only be used:
 - ▶ During the annual budget process
 - ▶ In connection with the quarterly budget review process
 - ▶ Commensurate revenue increase or decrease in a General Fund obligation
 - ▶ As a result of the declaration of a State of Emergency (Section 50-155, Code of Ordinances)
 - ▶ Section 2-1954(h)
 - ▶ Can't use unappropriated General Fund balance outside of the annual budget process unless the above conditions exist



Questions?