

Surplus Policy Changes

Finance and Economic Development Committee

June 20, 2024



PURPOSE

- Discuss current Surplus Policy
- Review proposed changes
- Review recommended changes
- Take City Council Committee action



THREE DESIGNATIONS OF THE SURPLUS POLICY

General Fund surplus declared by the Finance Director upon completion financial audit.



ARTICLE V. FUND BALANCES



Sec. 12-261 - "Rainy Day" Fund



Sec. 12-264 - Capital Maintenance Reserve



Sec. 12-265 - Special Purpose Reserves (non-recurring only)

DISTRIBUTION OF SURPLUS FUNDS

| Source | % of Surplus | Proposed Change |
|---|--------------|-----------------|
| “Rainy Day” Fund (Unassigned Fund Balance and Revenue Stabilization) | 50% | None |
| Capital Maintenance | 40% | None |
| Special Purpose Reserves | 10% | None |
| Total | 100% | N/A |



PROPOSED TITLE AND DATE CHANGES

| Code Section | Current | Proposed | Rationale |
|---------------------------------------|---|---------------------|--|
| 12-241 (a) (1), (4) 12-263 (a) (b) | Budget and Revenue Stabilization | Contingency Reserve | Rename for appropriateness |
| 12-242 (a) (1) 12-261 | Rainy Day | Downturn Reserve | Rainy Day Funds should have withdrawal criteria such as specific economic indicators (e.g., declines in revenue, unemployment rates) or declarations of emergencies. |
| 12-242 (b) | Report on the estimated general fund balance September 15 | November 15 | The financial audit is in the very early stages and a realistic projection cannot be made in September. |
| 12-265 | Resolution to designate all or a portion of the special purpose reserve no later than November 1 | December 15 | Allows City Council more time to designate the 10% special purpose reserve. |



PROPOSED TARGET ALLOCATION CHANGES

| Code Section | Current | Proposed | Rationale |
|--------------|---|--------------------------|--|
| 12-261 | Total equal to at least 16.67% | Be equal to at least 20% | Current target reflects about two months operating costs, should be three months or higher. Need a higher threshold to achieve AAA rating with Moody's, S&P, and maintain AAA rating with Fitch credit agencies. |
| 12-262 (a) | Goal of unassigned fund balance be equal to at least 13.67% of the General Fund Expenses | Deleted | Move to an overall goal for the Downturn Reserve fund which includes the unassigned fund balance and the Budget and Revenue Stabilization fund. Total goal proposed between two categories is increasing from 16.67% to 20%. |
| 12-263 (a) | Goal of budget and revenue stabilization fund be equal to at least 3.00% of the General Fund Expenses | Deleted | |



RESERVES ARE KEY FOR AAA CREDIT RATING

FitchRatings

- The continued compliance with the Reserve Policy is one of the key factors to the AAA upgrade

S&P Global
Ratings

- “could raise the ratings if sound fiscal operations and very strong reserves” are maintained.

MOODY'S
RATINGS

- “increases and maintenance of reserves at levels commensurate with Aaa-rated issuers” is a key factor for an upgrade.



REACHING THE 16.67% POLICY GOAL

Based on FY 2024 Adopted Budget (in millions)

| “Rainy Day” | % Goal | \$ Goal | Current | Variance |
|--------------------------------|---------------|----------------|----------------|-----------------|
| <i>Unassigned Fund Balance</i> | 13.67% | \$130.1 | \$139.9 | \$9.8 |
| <i>Revenue Stabilization</i> | 3.00% | \$28.6 | \$29.6 | \$1.0 |
| Total | 16.67% | \$158.7 | \$169.5 | \$10.8 |

Note: Numbers have been rounded and may not total. Based on \$951,923,789 FY 2024 Adopted Budget.



REACHING THE 20% AAA GOAL

Based on FY 2025 Adopted Budget (in millions)

| Contingency Reserve | % Goal | \$ Goal | Current | Variance |
|--------------------------------|--------|---------|---------|----------|
| <i>Unassigned Fund Balance</i> | 20% | \$200.4 | \$169.5 | (\$30.9) |
| <i>Downturn Reserve Fund</i> | | | | |

Note: Numbers have been rounded and may not total. Based on \$1,001,888,669 FY 2024 Adopted Budget.



CHANGING THE SURPLUS POLICY

- Generally Accepted Accounting Procedures dictate when the surplus policy is effective.
- To change the surplus policy, changes must be made before the end of the fiscal year (June 30).
- The FY 2024 surplus will need to be distributed according to the City Council adopted policy.



NEXT STEPS

- Committee Council approval of proposed changes are recommended.
- To be effective for FY 2024 changes need to be adopted by full City Council by June 30.
- Changes adopted after June 30, are effective the following fiscal year.



Discussion