

**FY 2025 Fund Balance Discussion
Change in Method and Policy**

**Fund Balance Discussion
with the
Board of Finance
*March 22, 2024***

FUND BALANCE OVERVIEW

➤ ***Moody's Change and Methods:***

- Moody's previously accepted our policy of maintaining an unassigned general fund balance of at least 10% of budgeted operating expenses.
- Moody's is now requiring we maintain an **“Available Fund Balance Ratio”**, as defined by Moody's, of between 25% and 35%.
- **Available Fund Balance Ratio** is defined in Moody's *US Cities and Counties Methodologies* as **AVAILABLE FUND BALANCE + NET CURRENT ASSETS) / REVENUE**. These components are derived from the audited GAAP basis financial statements. (<https://ratings.moodys.com/api/rmc-documents/386953>)

➤ ***Definitions from Moody's US Cities and Counties Methodologies:***

- **Available fund balance is the sum of a city's or county's available fund balance across all governmental funds. The available fund balance equals the sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds section of a city's or county's audited financial statements.** We exclude any non-spendable fund balance that is in the total governmental funds section, and typically exclude restricted fund balance in that section.
- We define **net current assets as unrestricted current assets minus current liabilities from a city's or county's business-type activities and internal services funds.** Long-term liabilities, including the current portion that we incorporate into the Long-term Liabilities Ratio, where disclosed, are not incorporated into the calculation of net current assets. This approach results in comparability between net current assets and available fund balance, even though each measure is derived from a different accounting presentation.
- The **denominator is revenue, which is the sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions.** The netting out of transfer activity minimizes double-counting, i.e., we do not count a transfer as revenue because it is likely already counted as revenue elsewhere in the financial statements. In excluding transfer revenue, we also minimize revenue volatility stemming from activity outside normal governmental activities.

- **Types of Fund Balances: *Included in the Available Fund Balance:***
 - **Non-spendable:** This represents amounts that cannot be spent due to form (i.e. inventories, prepaid amounts, and amounts required to be retained for perpetuity).
 - **Restricted:** This balance represents amounts constrained for a specific purpose by external parties, such as grantors, creditors, contributions or laws and regulation of their governments.
 - **Committed:** This represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority.
 - **Assigned:** This balance represents amounts constrained for the intent to be used for a specific purpose.
 - **Unassigned (undesignated):** This balance represents fund balance in the General Fund in excess of non-spendable, restricted, committed or assigned.

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➤ ***Historical Available Fund Balance Ratios Calculated by Moody's and FY2023 Estimate per Finance:***

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Available Fund Balance Ratio in Thousands

Sources Financials and Moody's 2023 Credit Report

	2023	2022	2021	2020	2019
Assigned GF FB	\$ 8,531	\$ 8,455			
Unassigned GF FB	\$ 10,157	\$ 13,785			
Available Government Funds - Gen.Fund Balance	\$ 18,688	\$ 22,240			
Available Fund Balance in other Govt Funds	\$ 4,082	\$ 2,925			
Internal Service Fund (Current Assets - Current Liabilities)	\$ 1,790	\$ 2,181			
Enterprise Funds (Current Assets - Current Liabilities)	\$ 7,757	\$ 7,473			
Total Available Fund Balance	\$ 32,317	\$ 34,819	\$ 36,538	\$ 37,984	\$ 37,071
General Fund Revenues	\$ 157,636	\$ 147,187			
Other Gov Revenues	\$ -	\$ -			
Enterprise Revenues	1,330	\$ 1,420			
Total Revenues	\$ 158,966	\$ 148,607	\$ 141,467	\$ 146,407	\$ 141,211
Available Fund Balance Ratio	20.33%	23.43%	25.83%	25.94%	26.25%

➤ **Discussion with Moody's Analyst:**

- The discussion with the Moody's analyst occurred after the 2023 ATM.
- We shared FY23 and FY24 actual Available Fund Balance Ratios would be below the 25% minimum because during the development of budgets for those years, the BOF followed the previous policy of maintaining an unassigned fund balance equal to 10% of budgeted operating expenses. Amounts in excess of 10% were used to reduce the amount of the budget funded by taxpayers.
- We noted, and the Moody's analyst agreed, it would require a few future budget years to return to an Available Fund Balance Ratio of 25% or higher.
- We committed to change our policies to reflect the new requirements, which included not using unassigned fund balance amounts to reduce property taxes while the Available Fund Balance Ratio was 25% or less.

➤ ***Recommendations:***

- Establish a new Fund Balance policy to work toward and maintain a minimum Available Fund Balance Ratio, as defined by Moody's, of 25%.
 - Policy should contain actions to increase the ratio if the ratio is below 25%.

- Establish a new policy, that limits the use of unassigned fund balances to reduce the taxpayers' share of the budget funding in a manner consistent with the new Moody's requirements.