

# Ann Arbor DDA

## Fund Balance Policy

# Overview

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Intro

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Why Should We Rethink Reserves?

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How Do We Rethink Reserves?

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What Actions Can Help Us Rethink Reserves?

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What Risks Should We Be Planning For?

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How Much is Enough/Too Much?

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Under/Over – What Then?

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Summary

# Intro Keys



Government Finance  
Officers Association

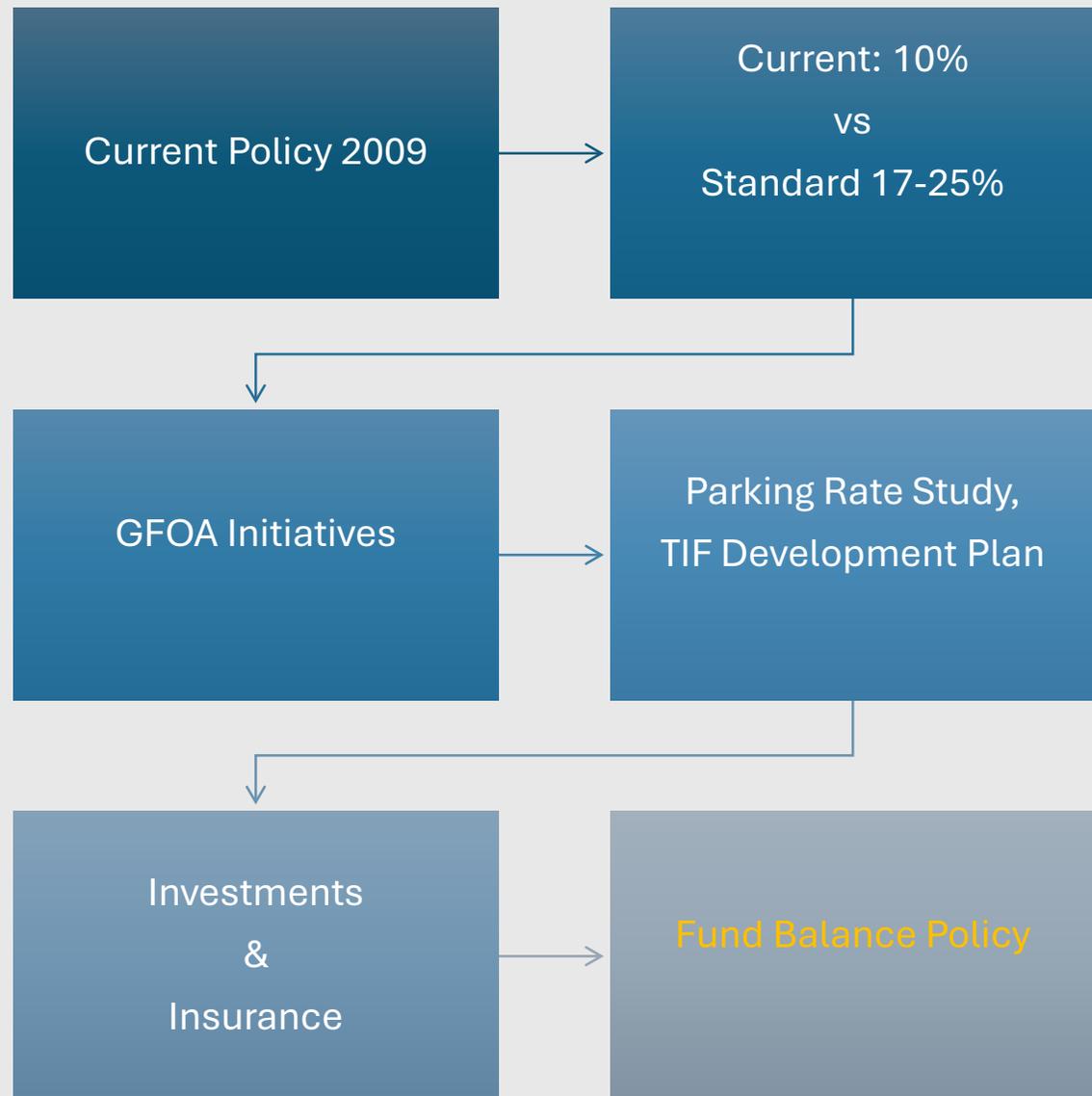
'Fund  
Balance'

'Reserves'

All models are wrong,  
but some are useful.

George Box, British statistician (1919 – 2013)

# Intro Background



# Why Rethink Reserves?



Increasingly volatile  
& uncertain world



Decreasing public  
trust



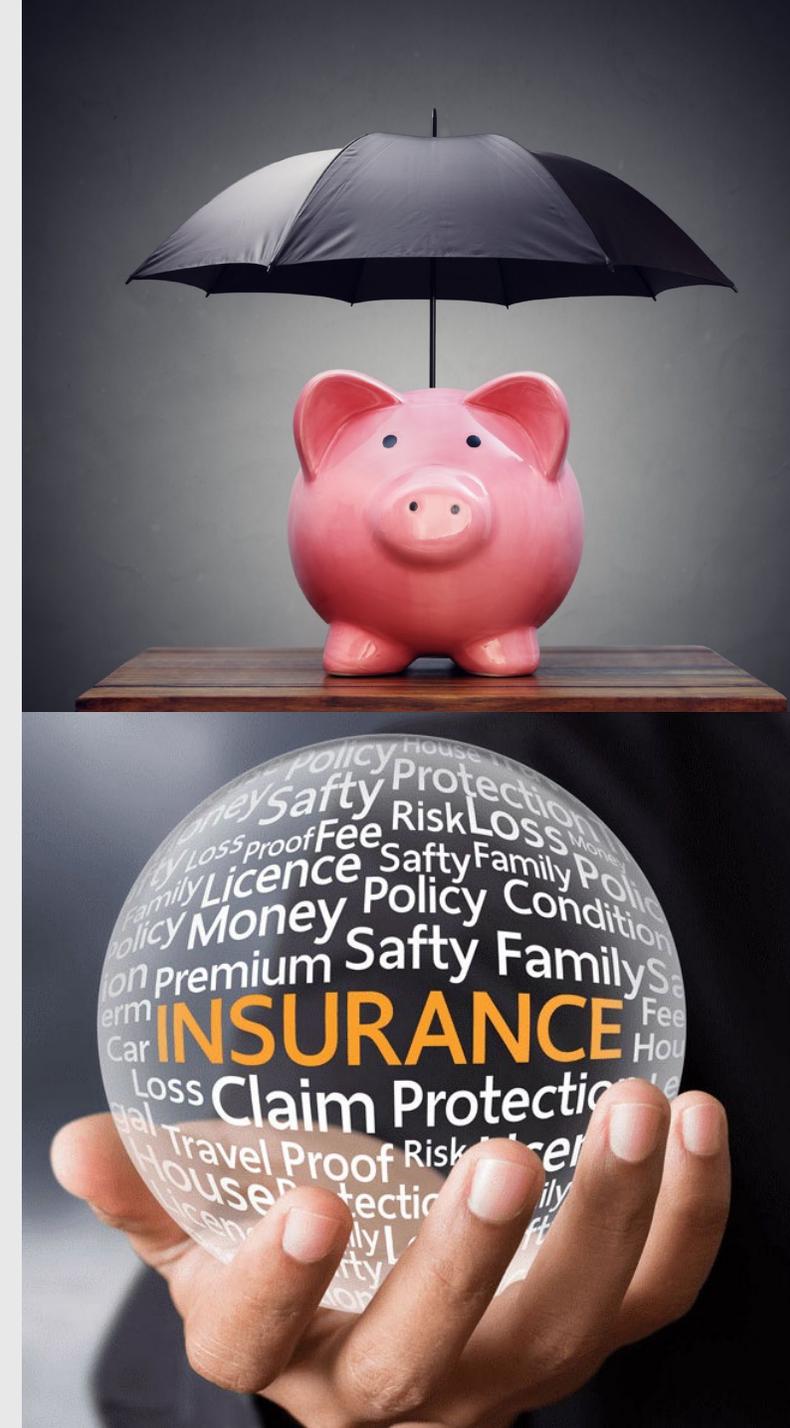
Increasing resource  
constraints



Technology offers  
easier analysis of  
strategies

# How Do We Rethink Reserves?

- Changing our mental model
- Insurance Policy vs Savings Account
- Recognize that we maintain reserves not only to save for capital expenditures, but also to “*reduce volatility and uncertainty in public finances.*”
- Reserves are resources that are removed from the local economy.
- More is not always better.



# What Actions?

## Risk-Based Analysis

- Think of the Target Fund Balance as a range instead of a single point.
- Floor - Establishes a minimum for good stewardship
- Ceiling – Recognizes the limitation of reserves as insurance.
- Accommodates different appetites for risk.
- Supports the ongoing management of reserves.
- Eliminates ambiguity and provides a framework for development of a clear course of action when reserves exceed or fall short of the target range.



# What Actions?

## Pooling & Insuring for Risk

- *“By grouping multiple risks together into the reserve, the reserve will be more likely to withstand the addition of previously unknown risks.”* GFOA Should We Rethink Reserves?
- Premise - Many risks are unrelated to each other and are unlikely to occur in tandem, reducing the level of resources needed in reserve.
- External - Michigan Municipal Risk Management Authority (MMRMA)
- Internal - Considering relationship of threats
- Commercial Insurance - Appropriate levels of commercial insurance can reduce target reserve levels.



# What Actions?

## Investment Strategies & Debt Service

- Informs cash flow analysis for optimization of returns.
- Bond Ratings are significantly affected by reserve levels.
- The City issues debt on our behalf, we pay the debt service.
- Good stewards/good partners.
- Standards for debt service reserves call for 100% - 120% of the annual debt service commitment.





# What Actions?

## Comprehensive Fund Balance Policy

A comprehensive fund balance policy is...

“...a method to ‘pre-commit’ the organization to wise decisions about reserves.”

- Why necessary?
- How much?
- What actions kick in when reserve levels fall outside of the target range?



# Why are Reserves Necessary? Impact Variables



Parking Fund

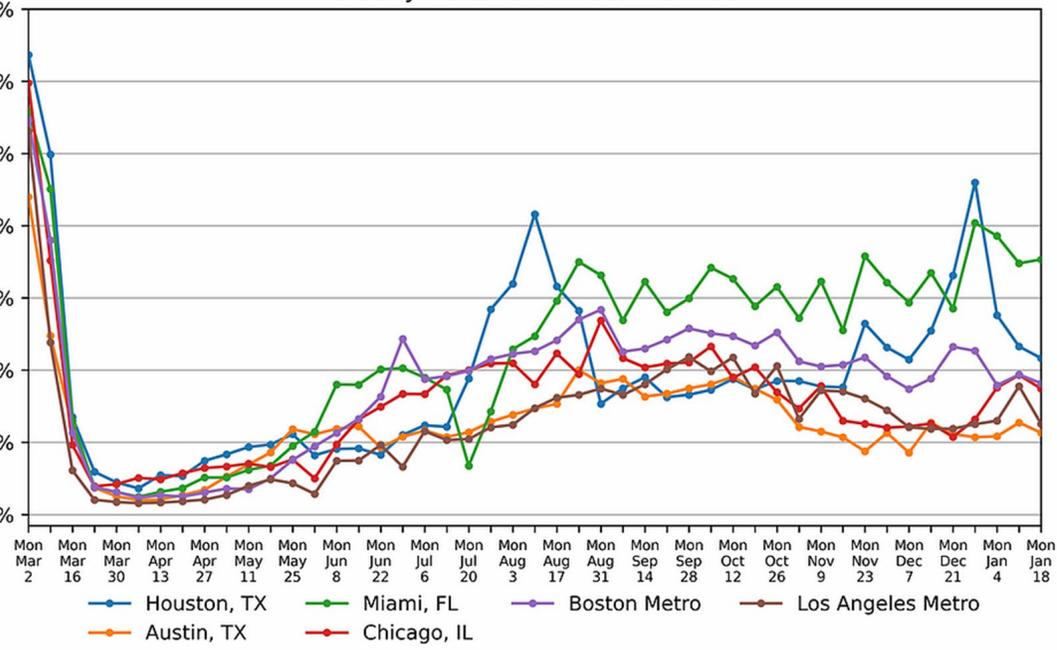
Parking CIP Fund



General/TIF Fund

Housing Fund

Weekly Visitor Off Street Revenue



# Why are Reserves Necessary?

## Risk Mitigation & Saving

WEATHER  
EVENTS

UTILITY  
INTERRUPTIONS

PUBLIC HEALTH  
CRISIS

POLITICAL  
UPHEAVAL

CYBER ATTACKS

LEGAL CLAIMS

???

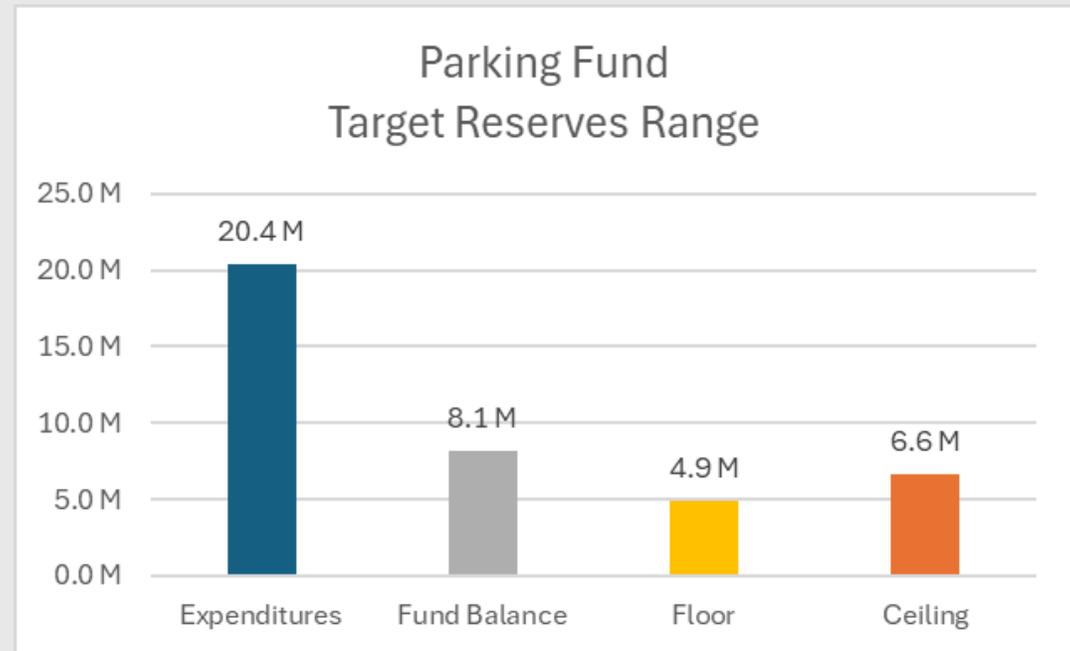
CAPITAL  
PROJECTS &  
PROGRAMS

# How Much?

## Parking Fund

- Administration, Operations, Grants – consistent quarterly levels, GFOA standard
- Meter Rent – based on revenue, no identifiable risk
- Credit Card Fees – rate increase only identifiable risk
- Debt – standard calls for 100-120%
- Legal/Cyber – under insured contingency

| Category                  | Projected         | Floor      | Ceiling    | Floor            | Ceiling          |
|---------------------------|-------------------|------------|------------|------------------|------------------|
| Administration            | 1,454,300         | 17%        | 25%        | 242,868          | 363,575          |
| Operations                | 10,214,100        | 17%        | 25%        | 1,736,397        | 2,553,525        |
| Grants                    | 600,000           | 17%        | 25%        | 102,000          | 150,000          |
| Meter Rent                | 4,652,400         | 0%         | 0%         | -                | -                |
| Credit Card Fees          | 940,200           | 3%         | 5%         | 28,206           | 47,010           |
| Debt                      | 2,518,000         | 100%       | 120%       | 2,518,000        | 3,021,600        |
| Legal/Cyber               | -                 |            |            | 250,000          | 450,000          |
| <b>Total Expenditures</b> | <b>20,379,000</b> | <b>24%</b> | <b>32%</b> | <b>4,877,471</b> | <b>6,585,710</b> |



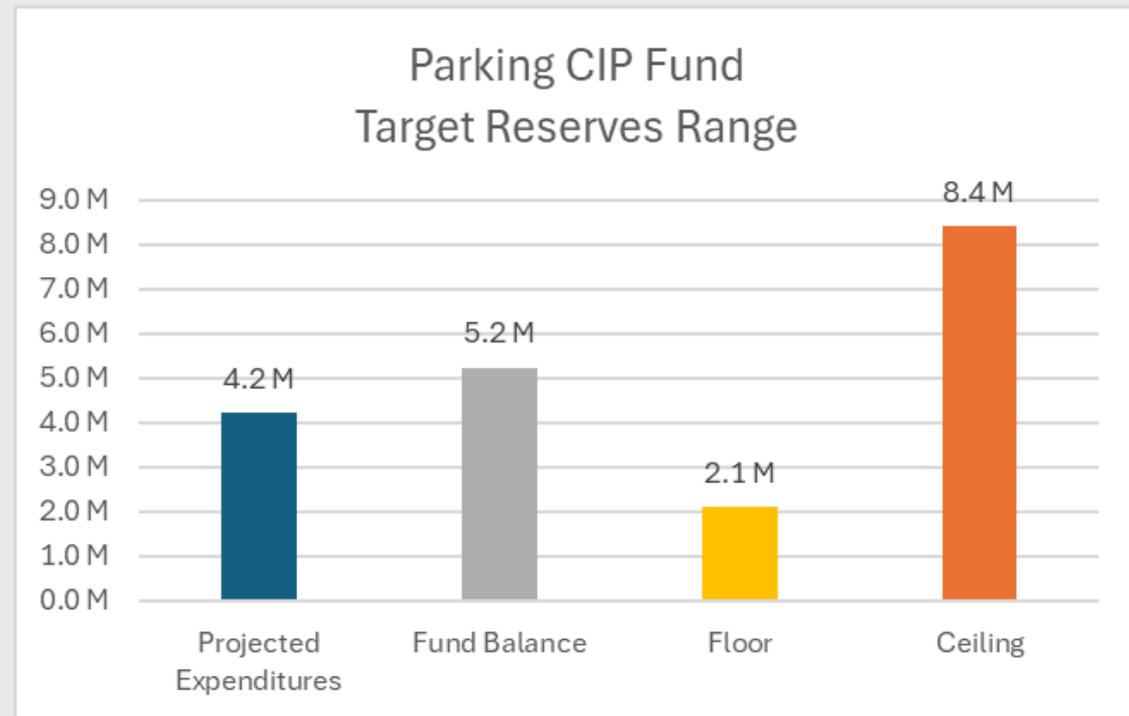
Graphic represents FY24 projected values

# How Much?

## Parking CIP Fund

- Administration – consistent quarterly levels, GFOA standard
- CIP – variable, projected 20-Year Plan annual average

| Category                  | Projected        | Floor      | Ceiling     | Floor            | Ceiling          |
|---------------------------|------------------|------------|-------------|------------------|------------------|
| Administration            | 13,000           | 17%        | 25%         | 2,171            | 3,250            |
| CIP                       | 4,200,000        | 50%        | 200%        | 2,100,000        | 8,400,000        |
| <b>Total Expenditures</b> | <b>4,213,000</b> | <b>50%</b> | <b>199%</b> | <b>2,102,171</b> | <b>8,403,250</b> |



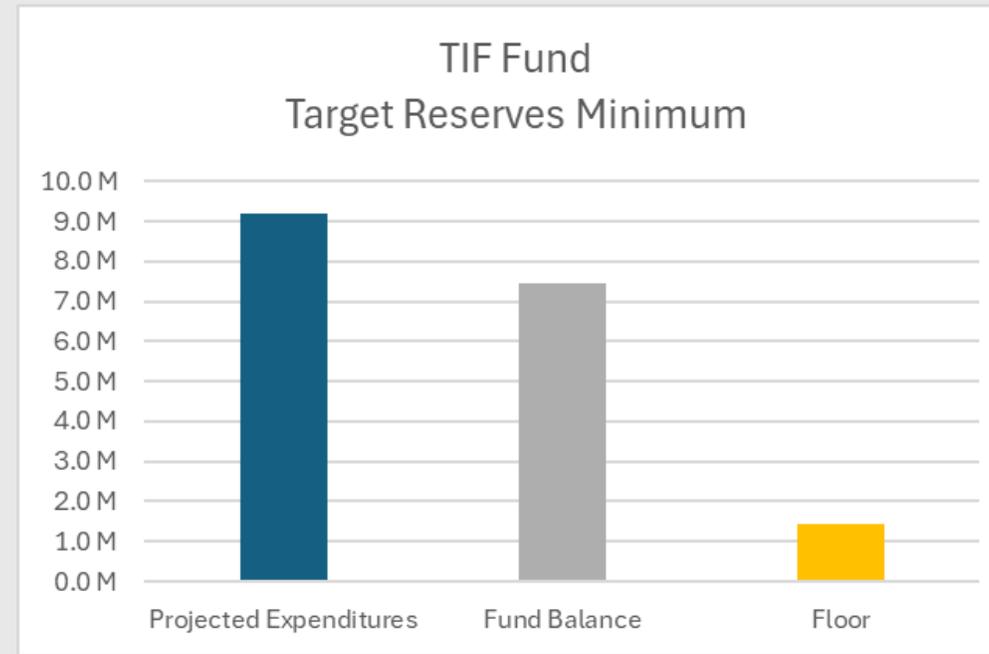
Graphic represents FY24 projected values & average CIP values

# How Much?

## General/TIF Fund

- Administration, Operations – consistent quarterly levels, GFOA standard
- Grants – variable, GFOA standard
- Debt – minimal risk due to reliability of revenue & timing of revenues/expenditures
- Capital Expenditures – variable, calculated based on revenue, save/spend model
- Legal/Cyber – under insured contingency add-on

| Category                  | Projected        | Floor      | Floor            |
|---------------------------|------------------|------------|------------------|
| Administration            | 1,318,000        | 17%        | 224,060          |
| Operations                | 965,700          | 17%        | 164,169          |
| Grants                    | 720,000          | 17%        | 122,400          |
| Debt                      | 2,518,000        | 10%        | 251,800          |
| CIP                       | 3,295,200        | 15%        | 494,280          |
| Legal/Cyber               | -                |            | 125,000          |
| <b>Total Expenditures</b> | <b>8,816,900</b> | <b>16%</b> | <b>1,381,709</b> |

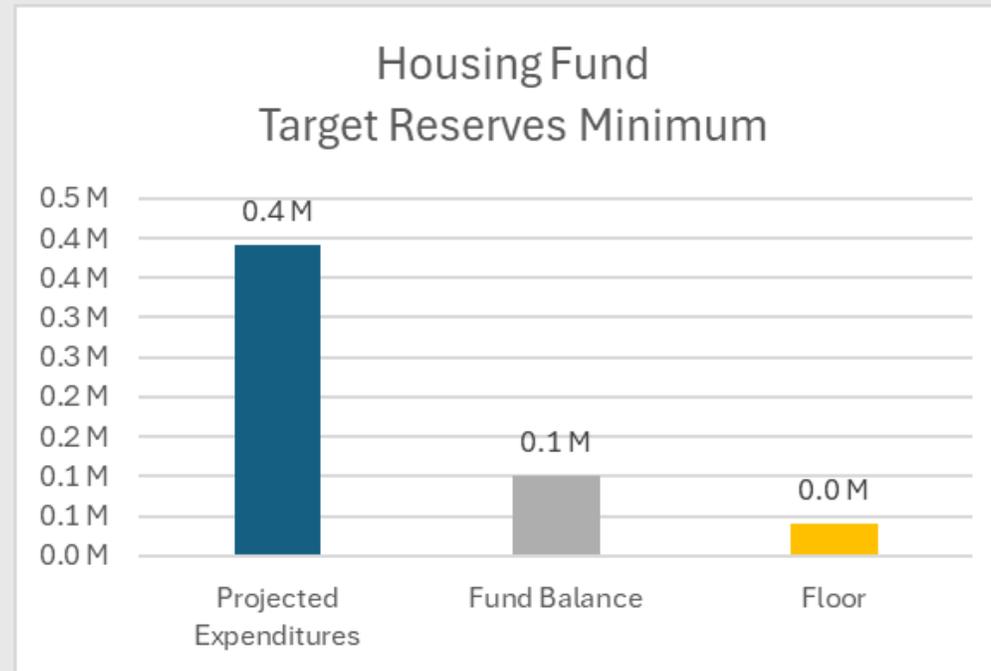


Graphic represents FY24 projected values & average CIP values

# How Much? Housing Fund

- Administration – consistent quarterly levels, GFOA standard
- Grants – Variable, calculated projected annual average based on revenue, saving/spending model
- Contingency – N/A

| Category                  | Projected      | Floor      | Floor         |
|---------------------------|----------------|------------|---------------|
| Administration            | 2,800          | 17%        | 468           |
| Grants                    | 418,100        | 10%        | 41,810        |
| <b>Total Expenditures</b> | <b>420,900</b> | <b>10%</b> | <b>42,278</b> |



Graphic represents FY24 projected values and average values



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## Over/Under – What Then?

Fund balances are included in the DDA Budget and are a part of the DDA's 10-Year Plan.

- Under Floor All Funds - The Executive Director will present the Board with a plan to bring reserves into target range.
- Over Ceiling Parking Fund – The excess reserves will be budgeted for transfer to the Parking CIP Fund in the next budget cycle.
- Over Ceiling Parking CIP Fund – The Executive Director will present the Board with a plan to bring reserves into target range.

# Summary

## Reserve Trend Across Funds

