Subject: FW: fund balance policy

From: Gaul, Martin
Sent: Wednesday, August 09, 2017 10:18 AM
To: ZZ Council Members
Cc: Kabat Tim; Stein, Heidi
Subject: FW: fund balance policy

Council members,

We have a very important issue before us in the resolution to change our current fund balance policy. The resolution was passed unanimously by the Finance Committee and thus is part of the consent agenda. As such I feel it important to address this for everyone.

Below is the information I received before making the final decision to move forward with this resolution for change. I have also attached the latest rating report supplied to us by Springsted.

This change is not without risk as our fund balance policy is part of the overall assessment used to establish our credit rating. Although some risk exists, as it does with all of the financial decisions we make on behalf of the City, I believe moving forward is necessary as we continue to creatively work to meet all of the financial challenges we face. We all know the list of projects is endless as we seek funds for the Memorial Pool restoration, various road projects, fire department upgrades, and on and on. Given our self imposed borrowing limits we can only do so much through our normal capital process.

We are charged to make important financial decisions on behalf of those we represent. Part of that mission is to create efficiencies, reduce costs, and control spending whenever possible. However that mission also requires us to raise revenues as necessary while making maximum use of the resources at hand. That must include making prudent decisions as to the balances we maintain.

Martin Gaul

Martin Gaul
Councilman, District 11
Council President

Elected Officials and Members of Official Committees: Do Not Forward.

<u>Provided to me by Finance Director Valerie Fenske on August 4:</u>

I researched recommended practices through the GFOA (Government Finance Officers Association – a national organization that recommends best practices and provides guidance to governmental entities from a Finance/Accounting perspective) – it was in a recommended GFOA Fund Balance Policy that I found the information below – I had also provided this to our Financial Advisor for him to consider:

Appropriate Level. The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to

explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.[5] The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.[6] Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time.

If you want to read the whole recommended practice here's a link: http://gfoa.org/fund-balance-guidelines-general-fund. I was looking for assurance that we would be in alignment with GFOA recommendations for a GF Reserve Balance Policy. I then calc'd how many months of operating expenses we had at the 25% level and how much we would have at 20% – at the 20% level we would have 2.4 months of operating expenses in reserves and at 25% we would have 3.0 months in reserves.

			Months of Coverage
2017 GF Operating Exp Budget	$ 69,184,174		
25% Requirement		17,296,044	3.00
20% Requirement		13,836,835	2.40
Avg Monthly Op Exp (Total Op Exp / 12 mos)	$ 5,765,348		

As far Wisconsin statutes I have not been able to locate anything that would require a specific balance – I do know that **Eau Claire sets theirs at 15%.**

In terms of effect on ratings, I had used some of the considerations that our FA at Springsted had provided – there are multiple factors that go into a rating assigned by S&P and/or Moody's for debt issuance. One of the points our FA had made was the fact that the County has more recently issued more debt than it has in the past and the fact that the City will be issuing more debt over the next 8-12 months than we would normally issue – Lot C Parking Ramp & La Crosse Center plus our normal annual borrowing. Rating agencies will look at the overall debt burden being carried by taxpayers – for the local municipality plus any overlapping debt (county, school districts, WTC) as one of the factors that influence their overall rating. I've attached the most recent S&P ratings analysis performed on our earlier 2017 borrowing which will give you an indication of the "scorecard" factors that ratings agencies use. Strong fiscal management, with a fund balance policy, is certainly one of the factors in the rating but there are others as well.

Provided to me by Finance Director Valerie Fenske as provided to her by Joe Murray of Springsted on July 28:

Reviewing the City's last rating report (attached) for Series 2017A-C, which gave the City's GO a AA/Stable Outlook rating, we note that the City's fund balance position of 38% ($21.5M) of operating expenditures is one of the strongest rating characteristics being "very strong". Decreasing the City's fund balance would be a negative trend and will definitely be of interest to S&P. The rating report already notes that a downgrade scenario would be "if the city were to draw down reserves substantially". However, we do not believe that the reduction in and of itself will result in a downgrade. However, S&P will be more interested to see how the trend continues. A further reduction in 2019 would likely result in a downgrade.

This opinion is based on the assumption that all else remains the same as from the last rating. As we've discussed, the City is also poised to issue approximately an additional $50M in debt ($15M for parking ramp + $35M for La Crosse Center). This will increase the City's direct debt burden, but again, we do not believe this will be enough to result in a downgrade. Yet, it is a "negative trend" and S&P will be monitoring it moving

forward. I do, however, feel more confident that this will not result in a downgrade since we noted the future borrowing plans during out last rating call and they're noted directly in the report. Yet the City is already considered to have a "weak" debt profile.

A third potential impact to the City's rating would be the amount of in-direct debt that also impacts the City taxpayers. This would include La Crosse County debt. Currently we are in the process of preparing to have the County issue approximately an additional $20M in debt to provide long-term financing for the renovations to the Lakeview Nursing Home and their annual highway borrowing. This too will create a negative trend for the City and as noted, the City is already considered to have a "weak" debt profile.

Collectively, all three factors could result in a rating downgrade, but we do not believe the impact would be reflected in the pending 2017D series rating for the parking ramp (since the policy wouldn't be adopted or enacted until 2018), but S&P will continue to monitor the situation and trends carefully moving forward. A negative outlook could be possible to the rating, but the underlying rating of AA should remain.

Again, I must emphasize that this is based on the assumption that all of the other underlying rating factors remain the same. Since we do not have the 2016 Audit, we don't know if it reflects any other trends of note.

I must also note that we cannot guarantee that S&P will view our evaluation the same way. This is only our opinion.