FY 2017 Recommended Budget

Budget Question

Board Question #: 116

BUDGET QUESTION: Provide a scenario showing the projected impact on reserve balances if the Budget Stabilization Reserve (BSR) were eliminated and the Fiscal Stability Reserve (FSR) were increased by 0.25% per year for each of the next five years. What are the pros and cons? How much in recurring funding would be available if we used the eliminated BSR balance to pay cash for a FY 2017 capital purchase?

RESPONSE: Attached is a spreadsheet showing the reserve balances through FY 2021 assuming the BSR is eliminated with 0.25% being shifted to the FSR for each of the next five years.

Following is a table that shows the pros and cons:

Pros	Cons
• Money freed from eliminated BSR can be used to decrease debt issuances for either County or Schools	• The current FSR policy is written in such a way as to be purposely very restrictive … available only for dire emergencies. The BSR was added to provide a less restrictive reserve to address revenue declines or other economic stress placed on the budget. The addition of the BSR policy allowed staff to tighten revenue and expenditure projections in FY 2017 knowing that the BSR is available to address potential issues without major disruptions in services or tax increases. If we put all our eggs in the FSR, what will we do if, for example, revenues decline, we are three-quarters of the way through the year, and there are not enough expenditures left in the year to make enough cuts to balance against the revenue loss? The way the policy is written now, we would not be able to go to the FSR to get the money. The FSR, as written, is not meant for budget stabilization purposes.
• Decreased debt issuance causes on-going money to become available	• With the reserves as they exist now, we are $15M short of the GFOA recommended 2 months of expenditures. With this scenario, we'd be $19M short. (There's a $4M, not $5M, difference because I'm assuming year 1 of the 0.25% increase in the FSR is funded for FY 2017 now.)
• Even a reduced increase in reserves is an increase in reserves. That is a positive.	

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If the BSR were eliminated with 0.25% being added to the FSR for FY 2017, that would cause $4.0M to be available to apply to a FY 2017 capital purchase.

- If the $4.0M were used for Schools' capital projects, the recurring debt service savings would be $651K.
- If the $4.0M were used for the County's capital projects, the recurring debt service savings would be $547K.

The debt service savings is different here because we can apply the full $4.0M to 7-year projects for the Schools. The County does not have $4.0M in 7-year projects to be financed in FY 2017, so we would have to apply some of the $4.0M to 12-year projects. All else being equal, the use of cash for longer term projects yields less debt service saving in year 1 (FY 2017).

Scenario:

Add 0.25% per year for 5 years to FSR

Eliminate BSR

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
	Purposely the same #s**					
Fiscal Stability Reserve						
Projected balance at end of FY 2017 Budget development process	$44,035,033	$44,035,033	$44,829,346	$45,570,257	$46,457,092	$47,293,319
Add 0.25% per year for 5 years	$1,000,796	$1,000,796	$2,037,698	$3,107,063	$4,223,372	$5,374,241
Total Fiscal Stability Reserve	**$45,035,829**	**$45,035,829**	**$46,867,043**	**$48,677,320**	**$50,680,464**	**$52,667,560**
Total % of Revenues	11.25%	11.25%	11.50%	11.75%	12.00%	12.25%
Dollar amount to be added each year			$1,831,214	$1,810,277	$2,003,144	$1,987,097
Budget Stabilization Reserve						
Projected balance at end of FY 2017 Budget development process	$5,003,981	$5,003,981	$0	$0	$0	$0
Eliminate	-$5,003,981	-$5,003,981	$0	$0	$0	$0
Total Budget Stabilization Reserve	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
	Purposely the same #s**					

Debt Service savings from eliminated BSR net of add to FSR ($4.0M)*

If the $4.0M is used for Schools' projects:	$651,428
If the $4.0M is used for County's projects:	$547,681

*The savings is different here because we can apply the full $4.0M to 7-year projects for the Schools. We don't have $4.0M in 7-year projects to be financed in FY 2017 for the County, so we have to apply some of the $4.0M to 12-year projects. This leads to less debt service savings in FY 2017.

** The FY 2016 and FY 2017 figures are purposely shown as the same numbers. Recall that we are funding the reserves that will be necessary at the end of FY 2017 with some of the one-time money that was available at mid-year FY 2016.