

Municipality of Anchorage

Anchorage School District

Fund Balance Review

Budget Advisory Commission Meeting

February 8, 2024 11:30 am



Fund Balance Impact on Rating

- **Does Anchorage have two bond ratings (one for ASD and one for MOA) or just one bond rating?**

The Municipality has one general obligation bond rating.

- **If just one bond rating, if ASD spends down its fund balance from 7% to 4%, will that affect our bond rating and our cost of borrowing?**

The ASD is a component unit of the MOA and their financials are not directly in the rating agency scoring process. However, any decrease in fund balance for ASD or the MOA will have a negative effect on how the rating agencies view the Municipality. Further decreases in fund balance will cost the taxpayers money.

Sources: ASD Budget Book, ASD ACFR, and <https://go.boarddocs.com/ak/asdk12/board.nsf/Public#>

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Fund Balance Impact on Rating

- **If so, can you estimate the impact to our cost of borrowing?**

The impact of a rating downgrade is difficult to quantify. This is due to the many variables in the marketplace that effect the pricing of bonds on any given day. However, it is reasonable to say that a rating downgrade will increase the cost of funds for an issuer.

- **Is it possible that the ASD's fund balance is the cause of our recent downgrades in fund balance?**

The recent downgrades were solely based upon the Municipality's lack of meeting its fund balance policy. The Municipality spent its fund balance on the responses to the 2018 earthquake and the COVID-19 Pandemic.

Sources: ASD Budget Book, ASD ACFR, and <https://go.boarddocs.com/ak/asdk12/board.nsf/Public#>

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Fund Balance Impact on Rating

- **Don't we have a written agreement with the ASD that they will maintain a 10% fund balance?**

ASD does have a fund balance policy that is delineated on the next two pages.

- **If we do, have we been communicating with them about their compliance or lack of compliance with that agreement?**

The Public Finance staff is in frequent communication with the Finance Staff of ASD on a number of topics, including fund balance.

Sources: ASD Budget Book, ASD ACFR, and <https://go.boarddocs.com/ak/asdk12/board.nsf/Public#>

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ASD 10% Fund Balance Requirement

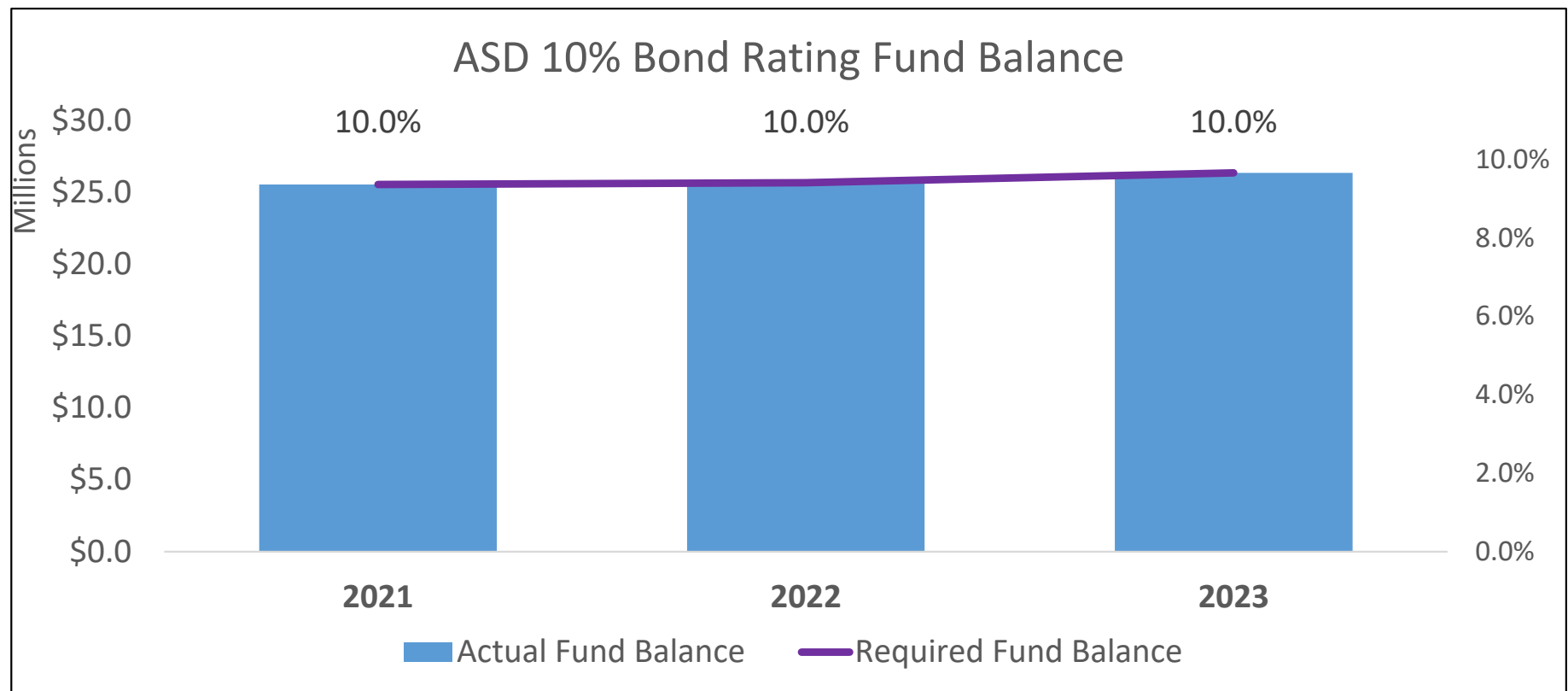
- ASD is required to reserve 10% of its local tax appropriation revenue as Bond Rating Designation fund balance pursuant to ASD Memorandum #225 approved on March 22, 2012, upon recommendation by AR 2011-345(S).
- ASD has met this requirement the past three fiscal years.

| Fiscal Year Ending June 30 | 2021 | 2022 | 2023 |
|--|-------------|-------------|-------------|
| Local tax revenue appropriations (Begin FY) | 255,406,416 | 256,691,028 | 263,484,006 |
| Required Amount (10%) | 25,540,642 | 25,669,103 | 26,348,401 |
| Actual Amount | 25,540,642 | 25,669,103 | 26,348,401 |
| Actual Amount as % of Local tax revenues | 10.0% | 10.0% | 10.0% |

Sources: ASD Budget Book, ASD ACFR, and <https://go.boarddocs.com/ak/asdk12/board.nsf/Public#>

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ASD 8% Fund Balance Requirement

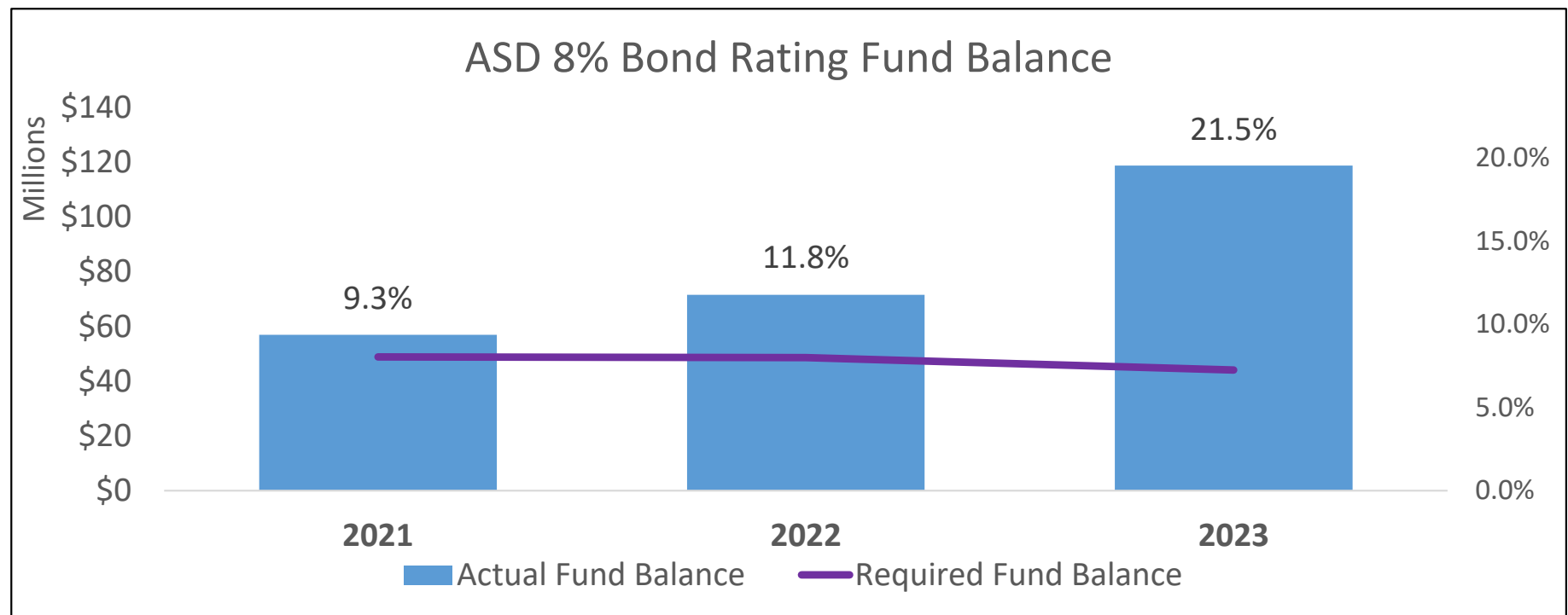
- ASD strives to maintain an Unreserved Fund Balance in the general fund of at least 8% of current expenditures, pursuant to ASD Board Policy Article 3 – BP 3470 Fund Balance Classification.
- The Unreserved Fund Balance is considered “Restricted” under GASB.
- ASD has met this requirement the past three fiscal years.

| Fiscal Year Ending June 30 | 2021 | 2022 | 2023 |
|--|-------------|-------------|-------------|
| Current Expenditures in General Fund | 611,612,375 | 608,200,530 | 551,825,263 |
| Required Amount (8%) | 48,928,990 | 48,656,042 | 44,146,021 |
| Actual Amount | 56,993,933 | 71,665,630 | 118,892,417 |
| Actual Amount as % of Current Expenditures in General Fund | 9.32% | 11.78% | 21.55% |

Sources: ASD ACFR and Supplemental, and <https://www.boardpolicyonline.com/?b=anchorage>

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