Fund Balance Policy
Overview and Strategic Considerations

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December 10, 2025

Purpose of a Fund Balance Policy

- Demonstrate financial security and stability

- Align with GFOA best practices

- Maintain adequate reserves to mitigate risks (e.g., revenue shortfalls, emergencies)

- Ensure stable tax rates

- Meet expectations of bond rating agencies
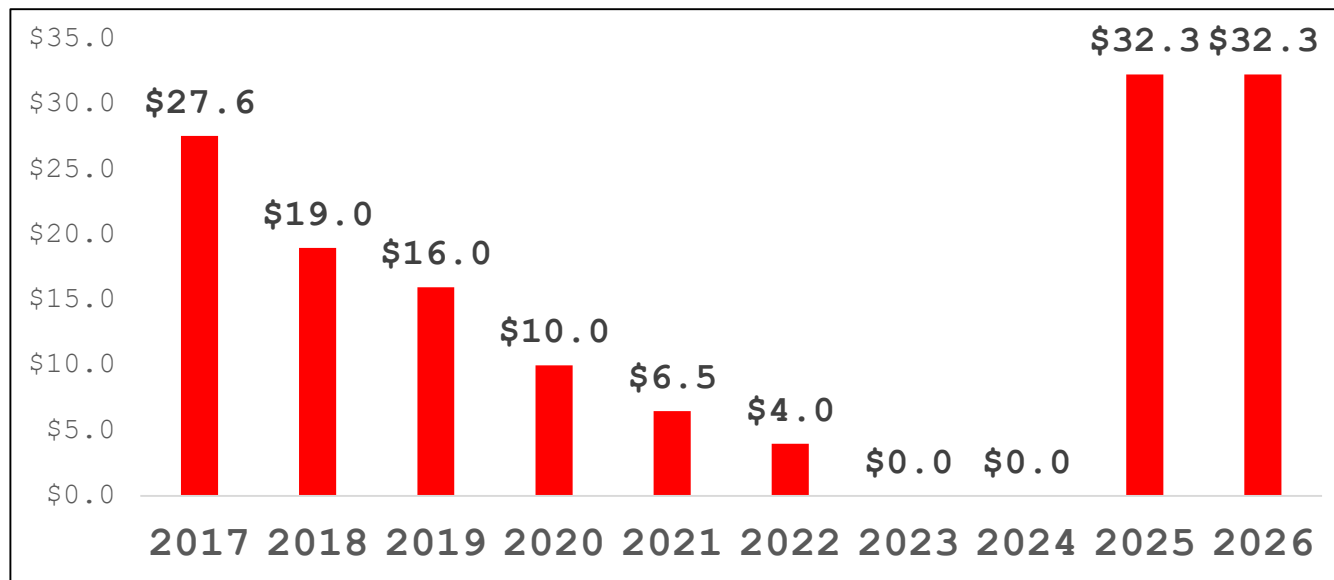
Key Elements of a Fund Balance Policy

- Target fund balance level (i.e., minimum balance)

- Conditions for withdrawal

Background

- Current TSF withdrawal policy

- Recent TSF Withdrawals (in millions):

Sample Fund Balance Policy #1

- <u>Minimum Balance:</u> 16.7% of total General Fund revenues
  - $147.4 million (using 2024 figures)

- <u>Conditions for Withdrawal</u>:
  - No withdrawals until minimum balance reached
  - Once minimum balance is reached, withdrawals are limited to fund balance in excess of the minimum balance

- <u>If this were in effect for the 2026 Budget:</u>
  - No TSF withdrawal would have been allowable
    - TSF balance at year-end 2024: $109.8 million
  - Would have needed $32.3 million in expenditure reductions and/or revenue increases to make up for no TSF withdrawal in the 2026 Budget

Sample Fund Balance Policy #2

- Minimum Balance: 10% of total General Fund revenues
  - $88.2 million (using 2024 figures)

- Conditions for Withdrawal:
  - If fund balance is below minimum balance, withdrawals of up to 50% of fund regeneration from prior year are allowable
  - Once minimum fund balance has been reached, withdrawal can be up to the greater of:
    - Fund balance in excess of the minimum balance, or
    - 50% of fund regeneration from prior year

- If this were in effect for the 2026 Budget:
  - TSF withdrawal of up to $21.6 million would have been allowable
    - TSF balance at year-end 2024: $109.8 million
  - Would have needed $10.7 million in expenditure reductions and/or revenue increases to make up for reduced TSF withdrawal in 2026 Budget

Challenges

- Per Ordinance (Ch. 304-29), the Tax Stabilization Fund cannot be used for expenditure overruns or revenue shortfalls
  - Contingent borrowing is only allowable remedy

> e.   Not for Deficit Purposes.
> e-1.   The tax stabilization fund shall not be used for the purpose of offsetting any deficit that may occur between total estimated and total actual nonproperty tax revenue or between total appropriations and total expenditures. Such an eventuality, if it develops shall be resolved by emergency borrowing if deemed necessary by the common council.

- Setting a minimum TSF balance would effectively "lock up" that balance
  - Can't be withdrawn via planned TSF withdrawals; can't be used for budget shortfalls

Opportunities

- Explore amending/revising/eliminating the Tax Stabilization Fund
  - Remove restrictions on using fund balance for revenue shortfalls or expenditure overruns
  - Requires consultation with the City Attorney on mechanics needed to carry this out

- Explore eliminating the Public Debt Amortization Fund (PDAF), and shifting the balance to the general fund
  - Would immediately improve fund balance significantly
    - PDAF balance at end of 2024: $58.8 million
  - Bond rating agencies largely do not consider the PDAF when evaluating the City; this would "give the City credit" for having these reserves on hand
  - Also requires consultation with City Attorney on how to accomplish

Key Considerations

- It will be beneficial for the City to adopt a fund balance policy

- It would be premature to adopt a fund balance policy right now
    - Need to explore removing limitations on use of fund balance

- Once a fund balance policy is adopted, it must be adhered to
    - Bond rating agency perspective: Better to not have a fund balance policy at all than to have one and not abide by it

Next Steps

- Explore legality, mechanisms for removing TSF and PDAF restrictions

- Evaluate advantages & disadvantages of available alternatives. Share findings with Common Council, Administration

- Seek feedback from key stakeholders

- Determine next steps

Questions and Discussion

Thank you!!!