

# Fund Balance Analysis – Sun Valley and Ketchum

Nils Ribí

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It is time to take a close look at the financial realities of the proposed city consolidation.

The one thing on which I agree with the consolidation proponents is the need to deal in facts that represent the true picture. That was one of the reasons I disagreed with the methodology in their original financial comparison of Ketchum and Sun Valley that they presented. As a result, the proponents deleted it from their blog site. Unfortunately, a revised analysis, currently on their blog site, fails to address the real issues that concern Sun Valley citizens and taxpayers when evaluating what is, in essence, an annexation by Ketchum.

The proponents continue to claim that Ketchum and Sun Valley are very much alike from a financial perspective. On many less relevant aspects we probably are. There is one financial aspect, however, where we are financially very different and it is perhaps the area about which Sun Valley voters and taxpayers are particularly interested. This area, a comparison of our cities' fund balances, is one the promoters would probably prefer not to debate or have a dialogue about, and you will quickly see why.

There is no real magic to fund balance analysis. All major credit rating agencies, like Standard and Poor's and Moody's, use it. It is based on standard protocols and is used by the professional Government Finance Officers Association (GFOA)\*. Fund balance analysis is quantifiable and a universally accepted method to measure a municipality's economic condition.

To quote the Government Finance Officers Association:

*“Credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government’s general fund to evaluate a government’s continued creditworthiness... Those interested primarily in a government’s creditworthiness or economic condition (e.g. rating agencies) are likely to favor increased levels of fund balance.”*

Last fall during the Sun Valley budgeting process two of our City Council members claimed the proposed budget was “irresponsible” because we were draining down reserves to take care of infrastructure rather than fund programs like “recreation.” In response, I prepared a Fund Balance Analysis of the City’s Fiscal Year 2009 Budget, based GFOA protocols. The analysis showed that, in fact, the budget was very “responsible” and would leave the City in a sound financial position at the end of this current fiscal year, particularly considering the downturn in the economy we were seeing at that time.

That fund balance analysis, prepared in August 2008, is still relevant today as our City's budget remains unchanged from when the City Council first adopted it on August 25, 2008. The analysis is available online at [this link](#). It is the most relevant way to compare the financial health of Sun Valley to that of Ketchum.

Again, the GFOA states:

*"It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning."*

According to the GFOA a city should:

***"...maintain unreserved fund balance in their general fund of no less than five to 15 percent of regular general fund operating revenues, or of no less than one to two months of regular general fund operating expenditures."***

The City of Sun Valley would have an unreserved fund balance ratio at the end of its fiscal year of 24% or the equivalent of 2.9 months of regular general fund operating expenditures on hand. We then add our long-established 16-week cash reserve to that, and **Sun Valley would have a fund balance ratio of 52% or the equivalent of 6.3 months of regular general fund operating expenditures on hand (total fund balance of \$2,405,000).**

I performed the same analysis on Ketchum's originally adopted Fiscal Year 2009 Budget (I am awaiting their revised budget). The complete original City of Ketchum FY09 Budget is available online at [this link](#) and the full Ketchum fund balance analysis is online at [this link](#).

The City of Ketchum would have an unreserved fund balance ratio in its original FY09 Budget at the end of its fiscal year of approximately 7.5% or the equivalent of .9 months of regular general fund operating expenditures on hand (total fund balance of \$689,500).

In a conversation Mayor Willich and I had with Ketchum Councilman Charles Conn on March 9, 2009, Mr. Conn indicated Ketchum's general fund balance is "\$400,000." On that basis, **Ketchum would have an unreserved fund balance ratio of approximately 4.4% or the equivalent of 0.5 months of regular general fund operating expenditures on hand (total fund balance of \$400,000).**

This was essentially confirmed by Ketchum Mayor Randy Hall in his direct quote regarding fund balances during the Ketchum City Council meeting on Monday March 16, 2009:

*"...We have a commitment to our Fund Balance at 5% and we are honoring that and over the course of the next couple of years, hopefully, we will add to that a little bit."*

## So, why is this particular financial comparison and dialogue important to Sun Valley voters and taxpayers?

1. If Sun Valley is going to consider being annexed by Ketchum, we need to understand this truth about Ketchum's financial health since we will become a minority party to the combined new city. This may well be the last time we have a full vote and say in the future of what is now Sun Valley.
2. In an earlier email I pointed out that the existing Ketchum government will immediately govern the former Sun Valley until the election of a new Mayor and Council for the consolidated "Ketchum" can take place (Idaho Code 50-2108).
3. There is another provision in Idaho State law which comes into play and should be understood regarding the disposition of our city funds which have been prudently managed to keep Sun Valley fiscally sound and able to withstand economic downturns:

TITLE 50  
MUNICIPAL CORPORATIONS  
CHAPTER 21  
CONSOLIDATION OF CITIES

50-2113.BOOKS OF SMALLER CITY(IES) PROPERTY OF NEW CITY. All records, papers and documents of the smaller city or cities, in the hands of the clerk of such city or cities, shall be transmitted to the clerk of the newly consolidated city and the treasurer of such smaller city or cities shall on demand turn over all money, books, papers or records in his hands belonging to such smaller city or cities to the treasurer of the new corporation.

The annexation of Sun Valley by Ketchum becomes a reality immediately upon the passage of the ballot issue. At that point there is no going back. There is no do-over. There is no opportunity for further debate or another revised financial comparison.

Great thanks for your continued input and thoughts through this process. If you are new to this email list and would like my earlier emails on other issues pertaining to the proposed consolidation, please contact me.

Nils

\* The Government Finance Officers Association (GFOA) is the professional association of government finance officers whose mission is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and practices and promoting them through education, training and leadership. [www.gfoa.org](http://www.gfoa.org)