

# Solano County Fund Balance Policy June 7, 2011

## Purpose of Fund Balance Policy

The purpose of the County's fund balance policy is to maintain a prudent level of financial resources to protect against having to reduce service levels because of temporary revenue shortfalls or unpredicted one-time expenditures, and to maintain the County's credit rating (recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting).

The policy addresses the following:

- Level of unrestricted fund balance in the General Fund.
- Spending priorities for unrestricted fund balance.
- Replenishing deficiencies when they fall below specifications.

The new categories of fund balance are defined as follows:

**Nonspendable Fund Balance:** Nonspendable Fund Balance refers to amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. It includes long-term loans and notes receivable, inventories and prepaid items.

**Restricted:** Amounts restricted by constraints that are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Examples include grants, highway user tax, and Public Facilities Fees.

**Committed:** Amounts to be used for specific purposes pursuant to constraints imposed by formal action of the Board of Supervisors. These self-imposed constraints must be set in place prior to the end of the fiscal year. These amounts require 4/5 Board action to appropriate. Examples is the General Fund Balance for Accrued Leave Payoff.

**Assigned:** Amounts constrained by the County's intent to use for specific purposes, but are neither legally restricted nor committed. Assigned amounts are more easily removed or modified than amounts classified as committed and may be established after fiscal year-end. An example is an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues.

**Unassigned:** This classification represents fund balance not assigned to other funds and not restricted, committed or assigned to specific purposes within the general fund and is available for financing future budgets. The General Fund is the only fund that reports a positive unassigned fund balance amount.

## **General Fund - Fund Balance Policy**

This policy addresses the County's unrestricted fund balance (i.e. Committed, Assigned, and Unassigned).

### **Committed Fund Balance**

During any Board meeting, the Board of Supervisors may establish a Committed Fund Balance through a resolution approved by a 4/5 vote. The commitment must be established by the end of the fiscal year for a specific purpose and requires the same action to be changed or lifted.

### **Assigned Fund Balance**

During any Board meeting, the Board of Supervisors may establish or change an Assigned Fund Balance through a resolution approved by a 3/5 vote.

### **General Fund General Reserve Policy**

The General Fund General Reserve is subject to restrictions imposed by Government Code Section 29086, which limits the Board's access to the reserve during the annual budget process and requires 4/5 vote by the Board.

The Board's policy is to maintain General Fund General Reserves equal to 10% of the County's total budget excluding inter-fund transfers with a minimum \$20 million balance maintained at all times.

The General Fund General Reserve is maintained to provide the County with sufficient working capital to support one-time costs, subject to Board approved restrictions, for the following purposes:

- When the County faces economic recession/depression and the County must take budget action.
- When the County is impacted by a natural disaster or any other emergency that could result from acts of terrorism, disease epidemic, pandemic flu, chemical spill, or nuclear contamination whether it is a natural occurring phenomenon or manmade.
- When the County experiences unexpected declines in revenues and/or when unpredicted large one-time expenditures arise.

Subject to Board of Supervisors' restrictions, the following is how reserves should be used:

1. Use the General Fund General Reserve to phase into fiscal distress periods gradually, focusing on maintaining the Board's priorities.
2. To the extent possible, use the General Fund General Reserve as the last resort to balance the County Budget.
3. To the extent possible, the spending down of General Fund General Reserve should not exceed \$6 million a year.

In circumstances where the General Fund General Reserve has fallen below the established requirement, the County shall replenish the deficiency within five fiscal years or as soon as economic conditions allow from the following revenue sources: year-end surpluses, non-

recurring revenues, budget surpluses, or if legally permissible and with a defensible rationale, from excess resources in other funds.

### **General Fund Balance for Accrued Leave Payoff**

The Board committed **General Fund Balance for Accrued Leave Payoff**. The purpose of this designation is to minimize the fiscal impact on County Departments' budgets due to employee retirements. These funds are to be used for large employee payoffs upon retirement when the respective department has insufficient appropriations during the fiscal year to fund these payoffs. The following criteria and procedures were approved by the Board for managing the Fund Balance for Accrued Leave Payoff:

1. Minimum General Fund Balance for Accrued Leave Payoff. On an annual basis the Auditor-Controller shall calculate the projected leave payout requirements for the subsequent five years, net of Federal and State reimbursements and provide the information to the County Administrator's Office for inclusion in the following year's Recommended Budget. The Board's policy is to maintain General Fund Balance for Accrued Leave Payoff equal to 40% of the five year projected leave payout requirements net of federal and state reimbursements with a minimum of \$2 million balance maintained at all times.
2. Replenishing General Fund Balance for Accrued Leave Payoff. In circumstances where the General Fund Balance for Accrued Leave Payoff has fallen below the established requirement, the County shall replenish the deficiency within three fiscal years or as soon as economic conditions allow from the following revenue sources: year-end surpluses, non-recurring revenues, or if legally permissible and with a defensible rationale, from excess resources in other funds.
3. Anticipated Accrued Leave Payoffs. During the budget process, a General Fund Department or a Department that receives a General Fund contribution should determine the amount needed to cover anticipated accrued leave payoffs for the upcoming year and include the amount in the Requested Budget. The Departments will work with the CAO to determine the funding strategy.
  - a. If the Department has sufficient appropriations to fund the accrued leave payoff, the Department shall absorb the cost; or
  - b. If the Department cannot absorb the cost, the Department must work with the CAO to determine the funding source(s) to offset the increased costs. Funding from the **General Fund Balance for Accrued Leave Payoff** may serve as a resource to provide the affected department with the General Fund share of the employee payoff.
  - c. The General Fund share of the estimated accrued leave payoff will be appropriated in the General Expenditures budget, during the budget process. This appropriation will be funded from the **General Fund Balance for Accrued Leave Payoff**.
  - d. The CAO is authorized to make necessary budget adjustments to the affected Department **without** Board approval limited to amount appropriated in 3(c) above.
4. Unanticipated Accrued Leave Payoffs. During the budget year, departments may have employees retire/terminate that were not factored in the accrued leave payoff calculation. Departments should consult with the CAO to determine the most appropriate funding strategy.

- a) General Fund Departments or Departments that receive a General Fund contribution should determine if sufficient appropriations are available within their budget to absorb the payoff, and, if not, work with the CAO to determine the appropriate level of funding from the **General Fund Balance for Accrued Leave Payoff** as indicated above in 3(c) or General Fund Contingency. These actions require 4/5 vote of the Board.
- b) Non-General Fund Departments that do not receive General Fund contributions will need to determine if their respective program has sufficient appropriations or contingencies to support the accrued leave payoff and should adjust their budget accordingly at Mid Year or Third Quarter, as necessary.

### **General Fund Nonspendable Fund Balance**

The County's policy to comply with the above requirement is as follows:

- When the Board of Supervisors (BOS) has approved long-term loans, advances or notes receivable expected to have outstanding balances at the end of the fiscal year, the long-term amount approved by the BOS will be classified as nonspendable fund balance.
- In circumstances when the BOS has approved a loan, the BOS shall state where the nonspendable fund balance shall be obtained (i.e. General Fund General Reserves, Unassigned Fund Balance, etc.).
- Repayment of General Fund Loans will be put back into General Fund General Reserves.

## **Countywide Spending Priority Policy**

### **Funding Flow Assumptions**

This policy considers restricted amounts to be spent before unrestricted fund balance when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed, assigned, and then unassigned amounts in that order will be spent when an expenditure is incurred for a purpose for which amounts in any of those unrestricted fund balance classifications could be used.

The County's Spending Priority policy applies to fund balance and revenue sources. In circumstances when expenditure is made for a purpose for which following amounts are available in multiple fund balance classification, the use of fund balance will be applied in the following order:

1. **Restricted**
2. **Committed**
3. **Assigned**
4. **Unassigned**

## **Internal Service Funds**

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to another department or agency of a government on a cost reimbursement basis. (i.e., Fleet, Data Processing, Risk Management)

The County operates in accordance with the Countywide Cost Allocation Plan (2CFR Part 225) in regard to working capital balances. Internal service funds are dependent upon a reasonable level of working capital to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.

## **Other Funds' Fund Balance Policy**

### **Special Revenue Funds**

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources restricted or committed to expenditure for specified purposes other than debt service or capital projects.

To the extent special revenue fund balances are sufficient to support annual operations, appropriated General Fund contributions, over any legally required obligation (i.e. Maintenance of Effort (MOE)), shall not be utilized and shall lapse at the end of the fiscal year.

### **Debt Service Funds**

Debt Service Funds are used to account for and report the financial resources restricted, committed, or assigned to expenditure for principal, interest and costs related to the issuance of debt. It is the County's policy that debt reserve requirements for any outstanding debt issue will be consistent with the ordinance or resolution authorizing the issuance of debt.

### **Capital Projects Fund**

Capital Project Funds are used to account for and report financial resources restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects may extend beyond a single fiscal year.

Residual project proceeds are bound by the same conditions and restrictions as the original funding source. If there are no restrictions on residual project proceeds it is the County's policy to return the residual proceeds to the appropriate operating fund.

### **Enterprise Funds**

Enterprise Funds are used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges (i.e. Airport). The majority of the fund's revenues are fee generated and are maintained to meet the following objectives:

1. Ensure adequate funding for operations;
2. Ensure adequate funding for infrastructure repair and replacement; and
3. Provide working capital to absorb rate fluctuations and provide stable rates to customers.

Enterprise Funds must be operated and managed as an ongoing business entity and therefore focus on long term sustainability using the economic resources measurement focus and the full accrual basis of accounting. Accordingly, Enterprise Funds must have revenues (customer charges, interest income, and all other income) sufficient to meet all cash operating expenses, depreciation expense, and prescribed cash reserves per financial policies unique to each enterprise activity.