

# COUNTY OF SAN BENITO

## GENERAL FUND RESERVE POLICY

### **PURPOSE**

The purpose of the County of San Benito's General Fund Reserve Policy ("Reserve Policy") is to ensure that the County has sufficient funding available at all times to meet its operating, capital, and debt service obligations. Reserves should be managed in a manner to fund costs consistent with its annual capital improvement program, forward-looking financial plan, and other long-term plans. The main goals of the reserve policy are outline below:

1. To provide a financial base sufficient to sustain county services to maintain the social well-being and physical conditions of the County.
2. To be able to withstand local and regional economic downturns, to adjust to changes in the service requirements, and to respond to other changes as they affect the community.
3. To maintain an excellent credit rating in the financial community and assure taxpayers that the County of San Benito's government is maintained in sound fiscal condition.
4. To consider and provide for the needs of future generations in the County of San Benito

### **GENERAL FUND RESERVE POLICY**

The General Fund accounts for all resources except for those where a separate (Subvention/Special) fund is necessary for legal or administrative purposes. The primary sources of funding include sales tax, property tax, franchise fees, building, engineering, planning, business license fees, transient occupancy tax and other marginal sources of revenues. The primary uses are safety (Sheriff's, Probation, and District Attorney), community development (planning, housing, and building), public works (engineering, parks, streets, and landscape), recreation, library, and administration (treasurer, tax collector, auditing, administration, human resources , information technology, etc.).

The General Fund Reserve, or fund balance of the general fund, is a measure of the financial resources available. It has been built up over the years as a result of revenues exceeding expenditures, primarily due to one-time savings. The reserve will help the County mitigate risks and provide a back-up for revenue shortfalls. The policy will help the County continue to provide the existing level of services to residents. In addition, the policy demonstrates continued prudent fiscal management and creditworthiness, to allow the County to maintain a sustainable financial structure.

The general fund reserve is intended to help the County when revenues temporarily fall short of expenditures. This can be in response to the challenges of a changing economic environment, or during cyclical deficits when annual expenditures temporarily exceed revenues. In more extreme cases, the General Fund is established as a safety net in the event of a disaster requiring immediate response from the County. A major earthquake, flood or terrorist attack could require cash to be on-hand to immediately respond prior to the receipt of state or federal assistance. A catastrophic event could quickly exhaust the reserve and require a service level reduction (i.e. less money for parks, streets, recreation, etc.)

Per Sections 29086 of the California Government Code, except in cases of a legally declared emergency, as defined in Section 29127, the general reserve may only be established, canceled, increased, or decreased at the time of adopting the budget as provided in Section 29088. The general reserve may be increased any time during the fiscal year by a four-fifths vote of the board.

**POLICY STRUCTURE**

It is in the best interest of the County to establish a tiered General Fund Reserve. The reserve will be composed of an Operating Reserve and an Emergency Reserve. The reserves will fluctuate from year to year as the General Fund Budget changes.

The purpose of the Operating Reserve is to provide working capital to meet cash flow needs during normal operations and to support the operation, maintenance and administration of the County’s General Fund. The reserve is intended to reduce impacts from unforeseen events such as economic downturns. The intent is to hold a reserve of 15% of the fiscal years General Fund Budget.

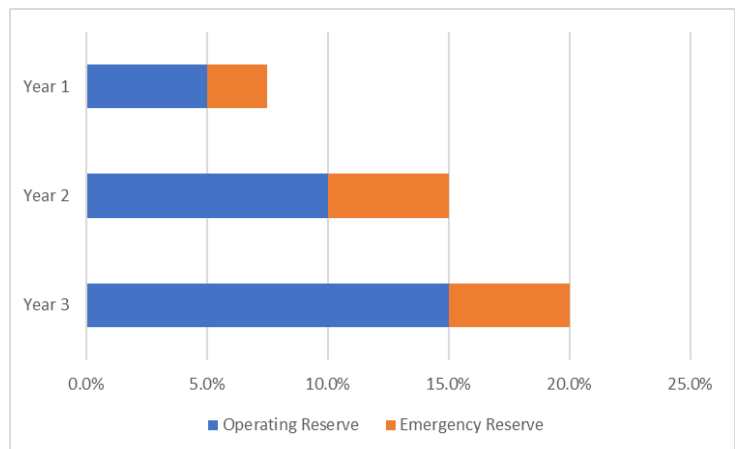
The purpose of the Emergency Reserve is to supplement the County’s already established Disaster Reserve. Uncertainty can come in many forms, severe drought, heavy rainfall, earthquakes, cyber/terrorist attacks etc. This reserve ensures that operations can continue should there be significant events that impact the County. The intent is to hold a reserve of 5% of the fiscal years General Fund Budget.

Reserve	Percentage of Operating Budget
General Fund Operating Reserve	15%
General Fund Emergency Reserve	5%

**IMPLEMENTATION**

The County of San Benito, will implement the aforementioned reserve policy with a build-up approach. The idea behind the build-up approach is to space out the implementation of policy as to not lock up all available General Fund Balance with this policy. The policy will therefore be implemented on a gradual approach in the following structure:

	Operating Reserve	Emergency Reserve
Year 1	5.0%	2.5%
Year 2	10.0%	5.0%
Year 3	15.0%	5.0%



## **MAINTAINANCE OF POLICY**

The County of San Benito will establish the reserve policy as allowed under section 29086 of the California Government Code. The reserve will become cemented as part of the County of San Benito's budget with the adoption of this policy and the budget. Any changes will need to wait until a new budget is established or in the instance of an emergency as outlined in section 29127. Increases to the reserve during the fiscal year are allowed with a four-fifths vote of the board.

Each fiscal year, with the adoption of the County of San Benito's budget the General Fund reserve will be assessed in order to set aside the appropriate amount of funds to accommodate to the reserve policy established through this document.

## **BEST PRACTICE**

The Government Finance Officers Association (GFOA) has published best practices for determining the appropriate level of unrestricted fund balance in the general fund and for replenishing the general fund balance. The GFOA states that 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."

The GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund. The guidelines should be set by the policy body and should provide a framework and specific plans to achieve the required fund balance. Counties/Cities should consider specifying the purposes for various portions of the fund balance (i.e. working capital, budget stabilization and funding for the response to emergencies). The amount of the general fund reserve should be based on a government's own specific circumstances, but no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Some governments may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In establishing a policy governing the level of the reserve, a government should consider the following factors:

- Predictability of revenues and volatility of expenditures (less predictability and more volatility necessitate higher reserve levels)
- Perceived exposure to significant one-time outlays (disasters, immediate capital needs and state budget cuts)
- Potential drain upon general fund resources from other funds or availability of resources in other funds (deficits in other funds may require a higher level of unrestricted general fund balance)
- Liquidity (having cash available to cover liabilities)
- Commitments and assignments

The GFOA recommends that if a fund balance falls below a government's policy level, it have a solid plan to replenish fund balance levels. As mentioned above, credit rating agencies consider how an agency plans to replenish its reserve when necessary. A well- developed policy may therefore reduce the cost of borrowing. Due to competing financial needs, rebuilding a general fund reserve can be challenging.

The GFOA recommends that a general fund policy specifically describe the parts of a general fund reserve and how resources will be directed to fund balance replenishment. A policy may define that the revenue sources for replenishment might include nonrecurring revenues, budget surpluses and excess resources in other funds. The GFOA notes that year-end surpluses are an especially appropriate source for replenishing fund balance. The replenishment policy should state the intent of replenishing fund balances as soon as economic conditions allow. The policy should also:

1. Define the time period for which the fund balance will be used as a “bridge” to ensure stable cash flow and provide service continuity.
2. Describe how the government’s expenditure levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge
3. Describe the time period over which the reserve will be replenished and the means by which it will be replenished.

A time period of one to three years is generally recommended by the GFOA, however there are other factors to be considered. This includes special conditions that require a County/City to have more than the GFOA recommended minimum level that would justify quicker replenishment. Extreme events, such as a natural disaster may justify a longer replenishment period. A replenishment plan should take into consideration credit rating agency expectations. A plan should establish a benchmark (e.g., after fund balances have dropped to a certain point below desired target levels) for when use of fund balance is no longer acceptable, and milestones for the gradual replenishment of the reserve.