



## Butte County Administration

General Fund Reserve Policy  
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Version 2.0

### PURPOSE

Establish a General Fund Reserve Policy.

### POLICY SCOPE

This Policy sets forth the parameters and funding methods the County may utilize to establish and maintain an adequate General Fund Reserve and Appropriation for Contingencies.

### BACKGROUND

The maintenance of a General Fund Reserve is a sound business practice to protect the fiscal solvency of Butte County. A prudent General Fund Reserve level is a critical measure of a government's ability to manage risk. Risk comes in many forms, often unforeseen – a reserve fund is a key tool in meeting the financial challenges of such unforeseen occurrences.

Support for the establishment of a General Fund Reserve can be found in California Government Code, as well as recommendations from the Government Finance Officers Association (GFOA) and various credit rating agencies.

Government code section 29085 states: "The budget may contain reserves, including a general reserve and designations in such amounts as the board deems sufficient." The Code is very specific and clear, however, on the establishment and accessibility of a general reserve, as stated in Government Code section 29086: "Except in cases of a legally declared emergency...the general reserve may only be established, canceled, increased or decreased at the time of adopting the budget...."

The GFOA recommends, at a minimum, that general-purposes governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of general fund operating revenues or general fund operating expenditures. A stable, reasonable level of reserved and unreserved fund balance denotes financial stability and strong fiscal management, both important factors considered by rating agencies in evaluating the credit worthiness of the County. The General Fund Reserve Policy and General Fund Appropriation for Contingencies establishes guidelines to ensure the County maintains an unrestricted fund balance in line with GFOA recommendations.

A General Fund Reserve Policy is important in order to ensure that the County is effectively able to:

- A. Respond strategically and responsibly to the challenges of a changing fiscal environment;
- B. Mitigate operational impacts during difficult economic times;
- C. Provide flexibility to the Board of Supervisors for thoughtful reaction to State fiscal or legislative actions that reduce County revenues or increase County costs;
- D. Maintain adequate cash balances;
- E. Manage unanticipated costs occurring on a one-time basis, such as natural disasters; and
- F. Demonstrate fiscal soundness and continued creditworthiness to bond rating agencies and the financial community.

#### POLICY

A. General Fund Reserve and Appropriation for Contingencies – It is the goal of the Board of Supervisors to build a combined General Fund Reserve and General Fund Appropriation for Contingencies of ten to fifteen percent of the prior year's actual General Fund operating expenditures, with up to five percent of the prior year's actual General Fund operating expenditures in the General Fund Appropriation for Contingencies.

1. If the combined General Fund Reserve and Appropriation for Contingencies for the upcoming budget year is less than fifteen percent of the prior year's actual General Fund operating expenditures, the Board of Supervisors will consider increasing the General Fund Reserve and/or Appropriation for Contingencies during the public hearing on the Recommended Budget in the following circumstances:
  - a. When projected General Fund tax revenue receipts for the upcoming fiscal year are expected to increase by more than four percent (4%) over the current (closing) fiscal year.
  - b. When one-time, unanticipated, discretionary revenues exceeding \$500,000 with no offsetting expenditures were received over the current (closing) fiscal year.
  - c. When the County Auditor-Controller and the Chief Administrative Officer determine additional working capital is needed in the General Fund for cash flow of the County, the Board of Supervisors will consider contributing the calculated amount needed to cover cash flow demands to the General Fund Appropriation for Contingencies.

2. During the public hearing on the Recommended Budget, in response to a fiscal emergency or as part of a multiyear plan to adjust to revenue losses, the Board of Supervisors may consider reducing the amount set aside in the General Fund Reserve.
  3. During the public hearing on the Recommended Budget or at any properly noticed public meeting the Board of Supervisors may consider reducing the amount set aside in the General Fund Appropriation for Contingencies.
- B. Excess Fund Balance Available – When adopting the annual budget for the General Fund, the Board of Supervisors will provide direction to the County Auditor-Controller to reconcile the difference between the General Fund’s estimated and actual Fund Balance Available at the beginning of the budget period. In those instances when the actual Fund Balance Available is less than estimated, the County Auditor-Controller may be directed to reduce the General Fund Appropriation for Contingencies and/or General Fund Reserves. In those instances when the actual Fund Balance Available is greater than estimated, the County Auditor-Controller may be given specific direction, generally within the following parameters:
1. The first priority for Excess General Fund Balance Available at the beginning of each fiscal year, if any, is to increase the General Fund Reserve and/or General Fund Appropriation for Contingencies to ensure it is maintained within the recommended range of ten to fifteen percent of the prior year’s General Fund operating expenditures.
  2. The second priority for Excess General Fund Balance Available at the beginning of each fiscal year, if any, is to dedicate excess fund balance for known and quantified unfunded liabilities or one-time unmet needs, including but not limited to the following:
    - a. Employee pension plan contributions and pension obligation bond debt service
    - b. Other post-employment benefits (retiree health)
    - c. Unmet building or maintenance needs
    - d. Accrued employee leave
- C. Unreserved Fund Balance – The County will maintain sufficient fund balances in the General Fund to provide adequate working capital and to accommodate required adjustments to other reserve accounts, including advances to other funds. Appropriations or use of funds from Unreserved Fund Balances will require approval by the Board of Supervisors.
- D. Other Assignments or Commitments of the General Fund – Establishment of these policies do not preclude the Board of Supervisors from setting aside additional funds for a specific project, program or capital item.

## RESPONSIBILITIES

The County Administrative Officer and the County Auditor-Controller are hereby authorized and directed to implement the Policy hereby established when preparing the annual budget for each fiscal year. Additionally, the County Administrative Officer will initiate a review of the policy within 7 years of adoption. The review of the policy will include a review of best practices as well as a financial risk assessment.

## DEFINITIONS

**Appropriation for Contingencies** – An amount appropriated for unanticipated expenditure requirements. Appropriation for Contingencies is adopted as part of the Budget with a majority vote of the Board of Supervisors and can be used during the course of a fiscal year with a 4/5<sup>th</sup> vote of the Board of Supervisors transferring the appropriation to elsewhere in the budget. The Appropriation for Contingencies expires June 30<sup>th</sup> of each fiscal year to be reestablished the following year.

**Fund Balance Available** – The amount of General Fund balance that is available for financing expenditures and other funding requirements after deducting non-spendable, restricted, committed and assigned fund balance. Also referred to as the unobligated or unassigned fund balance.

**Excess Fund Balance Available** – The amount, if any, of actual General Fund balance that is available, after the close of fiscal year accounting, exceeding the estimated General Fund Balance Available used in the Recommended Budget. This difference, if any, is considered when finalizing the annual Adopted Budget.

**Fund Balances** – Fund balances represent the net assets of each fund. Net assets generally represent a fund's assets (cash, receivables, etc.) less its liabilities. Portions of a fund's balance may be non-spendable, restricted, assigned or committed for future expenditure as a result of County policy, terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions, which the County cannot unilaterally alter.

**General Fund** – The main operating fund providing general county-wide services.

**General Fund Reserve** – The portion of the General Fund balance assigned by the Board of Supervisors as the General Fund Reserve. It is not available for appropriation during the fiscal year except in cases of a legally declared emergency, as the funds are held for future years in anticipation of limited duration budget shortfalls and to ensure sufficient working capital for cash flow. Government Code Section 29086 provides as follows, "Except in cases of a legally declared emergency...the general reserve may only be established, canceled, increased or decreased at the time of adopting the budget..." The General Fund Reserve is not a budgetary appropriation and so does not expire at year end. It can be added to or reduced with each year's budget.

**Unrestricted Fund Balance** – The portion of the General Fund balance made up of the committed, assigned and available (unassigned) fund balance. The unrestricted fund balance is not restricted by law for a specific purpose.