



County of Butte

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General Fund	Version: One	Last Revision Date: 1/26/2010

PURPOSE

Establish a Fund Balance Reserve Policy for the General Fund.

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.

POLICY

- A. General Fund Appropriation for Contingencies – During the public hearing on the Proposed Budget, the Board of Supervisors will consider establishing an Appropriation for Contingencies in the General Fund equal to or greater than five percent (5%) of the Proposed Budget for the General Fund.

- B. General Fund Reserve – It is the goal of the Board of Supervisors to build a General Fund Reserve to an amount equivalent to two months of operating expenses for all County governmental funds.
 - a. During the public hearing on the Proposed Budget the Board of Supervisors will consider directing contributions to the General Fund Reserve in the following circumstances:

- i. 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, the Board of Supervisors will consider contributing to the General Fund Reserve at least half (50%) of the growth over and above the four percent (4%) baseline anticipated tax revenue growth.
- ii. When one-time, unanticipated, discretionary revenues exceeding \$500,000 with no offsetting expenditures were received over the current (closing) fiscal year, the Board of Supervisors will consider contributing all or a portion of those funds to the General Fund Reserve.
- iii. When the County Auditor-Controller and the Chief Financial Officer determine additional working capital is needed in the General Fund Reserve for cash flow of the County, the Board of Supervisors will consider contributing the calculated amount needed to cover cash flow demands.

- b. During the public hearing on the Proposed Budget, in response to 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.

C. 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 will be directed to reduce the General Fund Appropriation for Contingencies. In those instances when the actual Fund Balance Available is

greater than estimated, the County Auditor-Controller will be given specific direction, generally within the following parameters:

- a. The first priority for Excess General Fund Balance Available at the beginning of each fiscal year, if any, is to increase the Appropriation for Contingencies to ensure it is maintained, at a minimum, at the five percent (5%) level.
 - b. The second priority for Excess General Fund Balance Available at the beginning of each fiscal year, if any, is to increase the General Fund Reserve to help achieve the goal of setting aside two months of operating expenses.
 - c. The third priority for Excess General Fund Balance Available at the beginning of each fiscal year, if any, is to designate fund balance for known and quantified unfunded liabilities, including but not limited to the following:
 - i. Employee pension plan
 - ii. Other post employment benefits
 - iii. Accrued employee leave
- D. 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.
- E. Other Designations 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.

The Chief Financial Officer shall develop and maintain procedures to assist in the implementation of the Policy hereby established.

DEFINITIONS

Appropriation for Contingencies – An amount appropriated for unanticipated expenditure requirements.

Fund Balance Available – The amount of General Fund balance that is available for financing expenditures and other funding requirements after deducting encumbrances and reserves.

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 Proposed 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 reserved, designated or restricted 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's net assets not available for appropriation during the fiscal year, as the funds are held for future years in anticipation of limited duration budget shortfalls and to ensure sufficient working capital for cash flow.

Unreserved Fund Balance – The portion of net assets serving as a resource that can be used for any purpose of the fund they are reported in.

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.

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. Absorb unanticipated costs occurring on a one time basis, such as natural disasters, and
- E. Demonstrate fiscal soundness and continued creditworthiness to bond rating agencies and the financial community.