

MENDOCINO COUNTY POLICY #32	GENERAL RESERVE AND CONTINGENCIES
ADOPTED: March 16, 1999 AMENDED: April 24, 2012	ADOPTED BY: Minute Order

General Fund Balance Policy Objective

The purpose of the County's general fund balance policy is to maintain a prudent level of financial resources to protect against having to reduce service levels and workforce reductions due to 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
- Reporting provisions

Reserve Policy Overview

The appropriate level for the General Fund Reserve is a policy decision that must be set by the Board of Supervisors. There is no nationally uniform standard regarding the appropriate level of "general fund reserve" local governments should maintain. However, the Government Finance Officers Association (GFOA) recommends a prudent reserve policy be in place to protect the County from risks associated with various factors such as economic uncertainties, natural disasters, changes in funding from the State and Federal governments, and other such unpredictable factors.

The GFOA recommends general-purpose governments maintain a "General Fund Reserve" level of no less than five to fifteen percent of general fund operating revenues or of no less than one to two months of General Fund operating expenditures. In addition, the financial resources in the other funds should also be considered in evaluating the adequacy of "reserve" in the general fund.

For Mendocino County, this last consideration has particular application to the Health and Human Services Agency which comprises a large proportion of the County's total budget.

Mendocino County is exposed to a particularly unpredictable State budget environment and is subject to various unpredictable, but inevitable, natural disasters. These circumstances make it prudent for Mendocino County to maintain a general fund reserved at the higher end of the GFOA recommendations.

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General Fund Reserves

The **General Fund Reserves** shall consist of three sub-reserves. These three sub-reserves are defined as follows:

- **Stabilization Reserve** is established to manage the fluctuations in sales tax and transient occupancy tax revenues.
- **Counter-Cyclical Reserve** is established to protect the County from those short falls in revenue that result from a downturn in the economy, State or Federal budget shortfalls or delays or some combination of the two.
- **Emergency Reserve** is established to fund one-time, emergency expenditures that result from natural disasters and other one-time, unanticipated emergencies.

General Fund Reserve Levels

The funding levels of the three General Fund sub-reserves shall be as follows:

Stabilization Reserve Funding Level target shall be at least \$3 million or 1.9% of the prior budget year's general fund expenditures if the percentage calculation yields an amount greater than \$3 million.

Counter-Cyclical Reserve Funding Level target shall be at least \$5 million or 3.2% of the prior budget year's general fund expenditures if the percentage calculation yields an amount greater than \$5 million.

Emergency Reserve Funding Level target shall be at least \$2 million or 1.25% of the prior budget year's general fund expenditures if the percentage calculation yields an amount greater than \$2 million.

The General Fund Contingencies balance shall not be factored in as to meet the requirements of the General Fund Reserve levels.

These amounts place Mendocino County at the prudent, higher levels of the Government Finance Officers Association (GFOA) recommendations.

Use of General Fund Reserves

The **General Fund Reserves** shall be used as the last resort in balancing the County budget. The combined General Fund Reserves shall be maintained at an absolute minimum balance of \$2 million (the emergency reserve funding level) at all times and can be spent down at a maximum of \$3.33 million per fiscal year.

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The **General Fund Reserves** shall be maintained to provide the County with sufficient working capital and a comfortable margin of safety to support one-time costs for the following purposes:

- When the County faces economic recession/depression and the County must take fiscal action.
- When the County is impacted by a natural disaster or other emergency.
- When the County experiences unexpected declines in revenues and/or when unpredicted large one-time expenditures arise.
- General Fund Reserves shall **not** be used to support recurring operating expenditures. An exception will be made for winding down a program or service which must be eliminated, in order to provide sufficient notice to soften the blow to the community, staff and the clients. This action shall have a definite end date of not more than one fiscal year.
- General Fund Reserves shall **not** be used to leverage dollars for program expansion or as a match requirement for grants. An exception can be made for capital projects and public works under circumstances of a declared emergency.
- The Stabilization Reserve shall only be accessed when there are sales and transient occupancy tax shortfalls that threaten the County's ability to achieve a balanced budget.

The **General Fund Reserves** are subject to additional restriction imposed by Government Code Section 29086, which states "the General Fund Reserve, except in cases of a legally declared emergency, as defined in Section 29127, may only be established, cancelled, increased or decreased at the time of adopting the budget as provided in section 29088." This means that the Board can only open discussions of the use of these moneys during the annual budget hearing process and requires a **four-fifths** vote by the Board of Supervisors.

Establishment and Maintenance of the General Fund Reserves

General Fund Reserves

The General Fund balance above the prior-year operational budget amount shall be placed into the General Fund Reserves until at least \$3.33 million or 1/3 of the total General Reserve target has been achieved. General funds used in the County's operational budget shall not exceed the amount of the prior budget until this minimum target has been achieved.

Once the minimum target has been achieved, no less than one-half of the General Fund balance above the prior year's operating budget shall be placed into the General Fund Reserve until the Reserve target of \$10 million or 6.35% of the General Fund has been achieved.

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General Fund Contingencies

The Recommended and Final Budgets shall include a General Fund Contingency Reserve funded through operational (Budget Unit 1000) revenues, not from prior-year carryovers. The Contingency Reserve shall be established at a \$250,000 minimum beginning in Fiscal Year 2012-2013, and thereafter the minimum will be adjusted annually based upon a rolling average of the prior five year's of the national Consumer Price Index (CPI) as produced by the Federal Bureau of Labor Statistics. The General Fund Contingencies shall not be accessed to fund programmatic or operational expansion or to leverage funds for the purposes of programmatic or operational expansion. Outside of the above limitations, the Board of Supervisors shall retain full discretion to access the General Fund Contingency Reserve throughout the fiscal year by a four-fifths vote, as required under Government Code 29125.

Health and Human Services Agency (HHSA) General Reserve

The **Health and Human Services Agency General Reserve** is established to protect the County from those shortfalls in revenue as a result of a downturn in the economy, State and Federal revenue shortfalls or delays, and from increased expenditures caused by higher service level demand with State and Federally mandated programs.

HHSA Reserve Levels

The **HHSA Reserve Funding Level** target shall be at least \$2.15 million or 2% of the prior budget year's total HHSA operating expenditures if the percentage calculation yields an amount greater than \$2.15 million.

Use of HHSA Reserves

The **HHSA Reserve** shall be used as the last resort in balancing the HHSA budget. The HHSA Reserve shall be maintained at a minimum balance of \$725,000 and can be spent down at a maximum of \$725,000 per fiscal year.

The HHSA Reserve shall be maintained to provide the Agency with sufficient working capital and a comfortable margin of safety to support one-time costs for the following purposes:

- When the Agency faces Sales Tax or Vehicle License Fee Realignment revenue shortfalls.
- When State or Federal Revenues are reduced or delayed.
- When the Agency is impacted by a natural disaster or other emergency.
- When unpredicted large one-time expenditures arise.
- When there are large increases in expenditures due to unexpected increases in caseloads or service demands in State or Federally mandated programs.
- Shall **not** be used to support recurring operating expenditures.

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The use of the HHSA Reserve shall be made during the annual budget process upon the recommendation of the HHSA Director and the approval of the Board of Supervisors.

Establishment and Maintenance of the HHSA Reserves

HHSA Reserve Fund

Excess Agency funds can be placed into the HHSA General Reserve in consultation with the County's Chief Executive Officer and Auditor-Controller.

Reporting

Each year during the Final Budget Public Hearings, the County Executive Officer and the County Auditor-Controller shall report separately to the Board of Supervisors verbally and in writing the answers to the following questions regarding the County General Fund Reserves, Contingency Reserves and the HHSA Reserves:

- Have the General Fund Reserves and HHSA General Reserve minimum target levels been achieved?
- Have the General Fund Reserves and HHSA General Reserve total target levels been achieved?
- Has the General Fund Contingency Reserve minimum been achieved?
- If the answer is "No" to any of the above questions, what progress towards these targets is being made by the Final Budget and what is the estimated timeframe for achieving the target levels.