

GENERAL FUND RESERVES

The *General Fund Reserves* portion of the [FY2014 Budget Message](#) describes the purpose of reserves, the relevant industry standards, the County's budget policies on reserves, and the specific components of the FY2014 General Fund Reserves. It includes the following sections:

- Purpose of Reserves
- General Fund Reserve Policy
- FY2014 Budgeted Reserves
- FY2014 Estimated Ending Fund Balance

Purpose of Reserves

Reserves are not expenditures, but they are included in the budgeted total requirements for the fund. In order to be expended, the BCC must take formal action reappropriating these funds.

Maintaining adequate reserves is key to the County's ability to deal with potential emergencies and unforeseen events such as fuel price increases, unanticipated dips in revenues or a natural disaster. This is even more important in view of our geographic location on the Florida Gulf Coast. We need to have the ability to maintain critical public safety, transportation, and other services during and after hurricanes and other severe storms. We need the resources to provide these services immediately and not rely on Federal funding, which is often made available as reimbursements and received months or years after the event. Also, federal (FEMA) reimbursements typically cover only 75% of the loss. Additionally, due to conditions in the insurance marketplace, our coverages are less than the County's total asset base. The County's property value is estimated at approximately \$1.2 billion (net of the Solid Waste and South Cross facilities). We carry \$100M worth of wind damage insurance. This means that we have additional exposure depending on the kind of damage we could receive in a storm event or natural disaster.

Having an adequate reserve also demonstrates stability to the financial markets. Although Pinellas has the lowest general revenue debt of any major Florida county, this stability enhances our ability to raise capital through bonding at a lower cost if required in the future..

General Fund Reserve Policy

In 2002, the Board of County Commissioners adopted a comprehensive series of budget policies which included reserve requirements. In June 2010, the BCC reviewed revisions to the Budget Policies on General Fund Reserves. These changes incorporated the new fund balance categories defined by the Government Accounting Standards Board (GASB) and best practices adopted by the Government Finance Officers Association (GFOA).

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The budget policies for General Fund Reserves (Fund Balance) are summarized in the following table.

	GASB Category	Working Definition	General Fund Definition
Unrestricted Categories	•Non-spendable	By nature, cannot be spent	Inventory
	•Restricted	Spend only per outside agency	Grants
	•Committed	Specific amount or percentage set by BCC	* Contingency Reserve
	•Assigned	Amounts determined by Admin in accordance with BCC policy	* Cash Flow Reserve * Encumbered Contracts Reserve * Disaster Response Reserve
	•Unassigned	Fund Balance in excess of Reserves	Non-recurring funds for one-time expenses

The amount and use of Non-spendable and Restricted Reserves are defined by the value of inventories and limitations imposed by external entities such as grants that are being carried forward from the previous year. The budget policies address the other “unrestricted” categories.

Prior to FY2011, the General Fund reserve policy was “at a minimum, no less than 5% to 15% of operating revenues, or no less than one to two months of operating expenditures.” Over the last several years, the Board of County Commissioners set a conservative General Fund reserve target of 15% of total resources.

For FY2011, the Board revised its budget policy to incorporate this more conservative approach given that Pinellas County is a high hazard, coastal county. The revised budget policy states:

The General Fund Reserve (Ending Balance) should be budgeted at a level of no less than 15% of total resources.

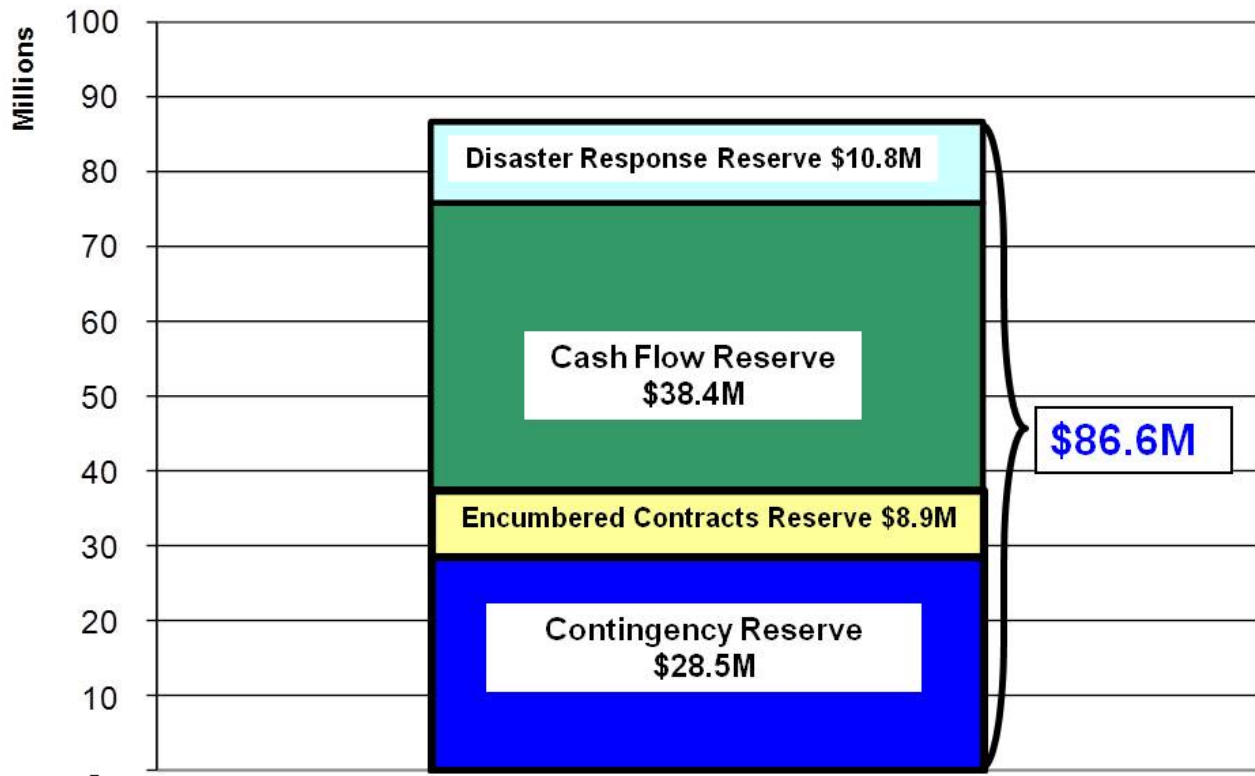
The policy essentially sets a floor of 15% for the reserve level and does not set a cap to limit the reserve. The complete list of Budget Policies is presented in the [Appendix](#) of this document.

FY2014 Budgeted Reserves

The FY2014 General Fund budget includes a projected reserve of \$86.6M which exceeds the Board’s 15% policy target minimum.

The components of the estimated FY2014 year-end reserves are Contingency, Encumbered Contracts, Cash Flow, and Disaster Response.

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Contingency Reserve

The Contingency Reserve, which is budgeted at \$28.5M in FY2014, is an amount equal to 5% of resources to be used for unanticipated revenue shortfalls or expenditures. For example, fuel costs and electricity rate increases have been highly volatile and often exceed normal inflation. Another example is the need for accrued leave payouts due to layoffs.

Encumbered Contracts Reserve

During the year, at any given time there are purchase orders and service contracts that have been approved and are subject to payment as work is completed or goods delivered. The \$8.9M in the Encumbered Contracts Reserve for FY2014 represents the average amount that was encumbered at month's end for the 12-month period ending May 2013.

Cash Flow Reserve

The Cash Flow Reserve is required to meet cash flow needs. During the first two months of the fiscal year, expenditures exceed revenues because most of the property tax revenue is not received until December. Property tax revenue represents about 67% of the total General Fund revenue. The FY2014 amount for the Cash Flow reserve, \$38.4M, is equal to one-twelfth of all General Fund revenue budgeted for the fiscal year.

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Disaster Response Reserve

As a high hazard coastal county, Pinellas needs to have Disaster Response Reserve funds on hand in case of an emergency such as a hurricane or other man-made or natural disasters. In FY2014, \$10.8M is budgeted in this reserve. Reimbursement from the Federal Emergency Management Agency (FEMA) and the State usually cover only a portion of the costs, is not available at the beginning of a disaster, and often is not received for many months or years. For example, FEMA funds for the three 2004 hurricanes which brushed Pinellas County (Jeanne, Charley, Frances) were not fully received until 2007, after extensive and protracted appeals through FEMA and the State. Approximately \$1.6M of the \$9.3M total cost was not reimbursed for these storm events.

There are other economic impacts which can result from a major disaster. With a substantial portion of the county's highest taxable value properties located on the shoreline or in lower elevation coastal areas, there is the potential for a reduction in the tax base if properties are damaged or destroyed by a storm surge or high winds. This would result in a decline in property tax revenue in the following year. Sales and other taxes would also decrease due to the negative effects on tourism from the storm. Rebuilding would generate additional revenues, but it would take time to offset the losses in the aftermath of the disaster. As an indication of the size of this problem, a seven-county area of Florida impacted by 2004's Hurricane Charley sustained over \$6.6 billion in losses to residential, commercial, and industrial properties.

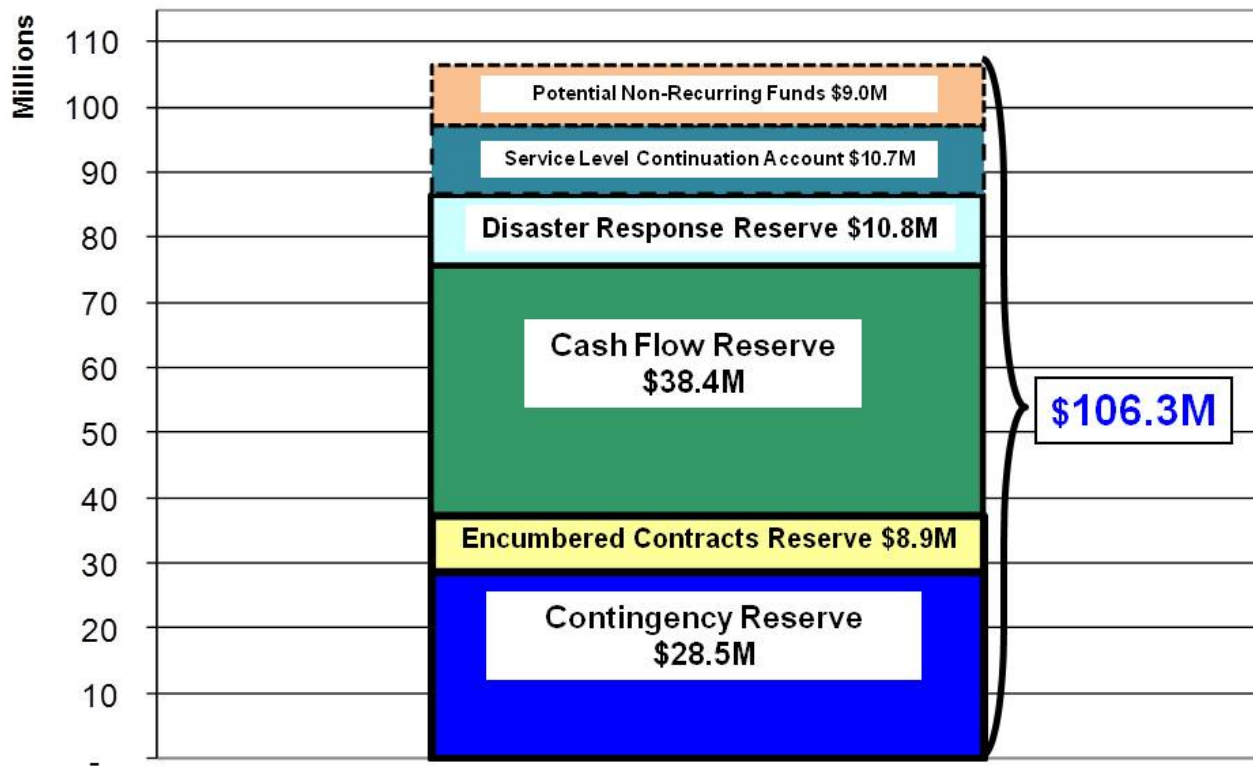
The County is the primary coordinating agency for disaster response, and extraordinary unbudgeted expenses are required to respond to such a situation. Resources are needed to pay for extended work hours for Sheriff's deputies and other emergency first response personnel and to operate emergency shelters and the emergency communications center. Public works crews and equipment, and possibly private contractors, are needed to repair storm damage. Debris removal funding may be required if solid waste resources are not available. Since storms may vary greatly in their impact, it is not possible to predict the exact amount which would be required.

FY2014 Estimated Ending Fund Balance

It is anticipated that at the end of FY2014, the Ending Balance in the General Fund will be higher than the Reserves amount reflected in the budget. This is due to the impact of the Service Level Continuation Account, the method of budgeting revenues that is required by Florida Statute, and the potential for spending less than the total amount budgeted in the fund.

When these adjustments are factored in, it is estimated that the actual FY2014 General Fund Balance reflected in the Comprehensive Annual Financial Report will be approximately \$106.3M.

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Potential Non-Recurring Funds

Non-recurring funds are realized as additional fund balance resulting from revenue in excess of expenditures in a given fund. In the General Fund, non-recurring funds are in addition to the reserve target and the amount for the Service Level Continuation Account.

$$\text{Non-Recurring Funds} = (\text{Revenues} - \text{Expenditures}) - \text{Reserve Target} - \text{Service Level Continuation Account}$$

The primary sources for the non-recurring funds estimated to be available at the end of FY2014 are additional revenues received over and above the 95% statutory requirement and actual expenditures which may be less than originally projected.

Florida Statutes require that most revenues be budgeted at 95% of the projected amount. Under normal circumstances, this will result in additional revenues being received during the fiscal year over and above the amount reflected in the budget.

While every effort is made to avoid budgeting funds that will not be spent, the historical average is that taken as a whole, departments will spend about 99% of the budget. Any spending below this average helps generate additional non-recurring funds.

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The 10-year forecast for the General Fund reflects adjustments for the additional revenue and the expenditure savings to avoid overstating potential future shortfalls.

Non-recurring funds can vary significantly from year to year. Because they are non-recurring they should be used for one-time purposes only as stated in the County's budget policies (see Appendix). As budgets get tighter, the ability to build additional fund balance becomes more limited.

The \$9.0M in potential Non-Recurring Funds is shown here for purposes of illustration only. The actual amount, if any, may vary significantly and will be dependent on actual revenues and expenditures during FY2014.