



Reserves & Budget Policies Update

June 15, 2010

Outline

- ◉ **GASB 54 Requirements**
- ◉ **General Fund Reserve Policy**
- ◉ **Revised Budget Policies**



GASB 54 Requirements

New Accounting Standards

- **Government Accounting Standards Board (GASB) Statement 54 issued Feb. 2009**
 - **Redefines how Reserves (Fund Balances) are to be reported**
 - **Affects fund structure by changing the definition of Special Revenue Funds and other fund types**
 - **Effective for County's FY2011 Financial Statements**

New Definition of Reserves (Fund Balance)

- **Changes focus from what is available for appropriation to what the constraints on spending are**
- **Key concepts:**
 - **Identify who sets the restrictions on spending**
 - **Identify who determines the amount assigned to each category**

New Definition of Reserves (Fund Balance)

- **Five Categories:**

- **Non-spendable**
- **Restricted**
- **Unrestricted – Committed**
- **Unrestricted – Assigned**
- **Unrestricted – Unassigned**

New Definition of Reserves (Fund Balance)

- **Non-spendable Category**

- Example: Inventory

- **Restricted Category**

- Limitations on use are imposed by external entities (for example, Grants not yet spent)

- **Unrestricted – No policy required for these categories**

- GFOA recommends Policy focus on Unrestricted categories

Reserves (Unrestricted Fund Balance)

- **Committed**

- Limitations approved by BCC before end of fiscal year
- Specific dollar amounts or percentages

- **Assigned**

- Limitations approved by County Administrator
 - May occur after fiscal year end

- **Unassigned**

- Any amounts over Committed + Assigned

General Fund Reserves (Fund Balance)

Unrestricted Categories	GASB Category	Working Definition	General Fund Definition
	• 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

Fund Structure Changes

- **New Accounting Standard: Special Revenue Funds should only be used for restricted revenue sources**
- **Recommends that revenues and expenditures should be accounted for in same fund**
- **Changes required:**
 - **Budget Penny for Pinellas revenue in Capital Projects Fund**
 - **Eliminate Penny Special Revenue Fund (Fund 0408)**
 - **Budget Local Option Gas Tax revenue in Transportation Trust Fund**
 - **Eliminate Local Option Gas Tax Special Revenue Fund (Fund 0409)**

Other Funds Structure

- **No changes to other funds recommended at this time**
- **Additional changes may be required when the external auditors review preliminary financial statements**
 - **Other changes may be recommended as part of OPUS implementation**



General Fund Reserve Policy

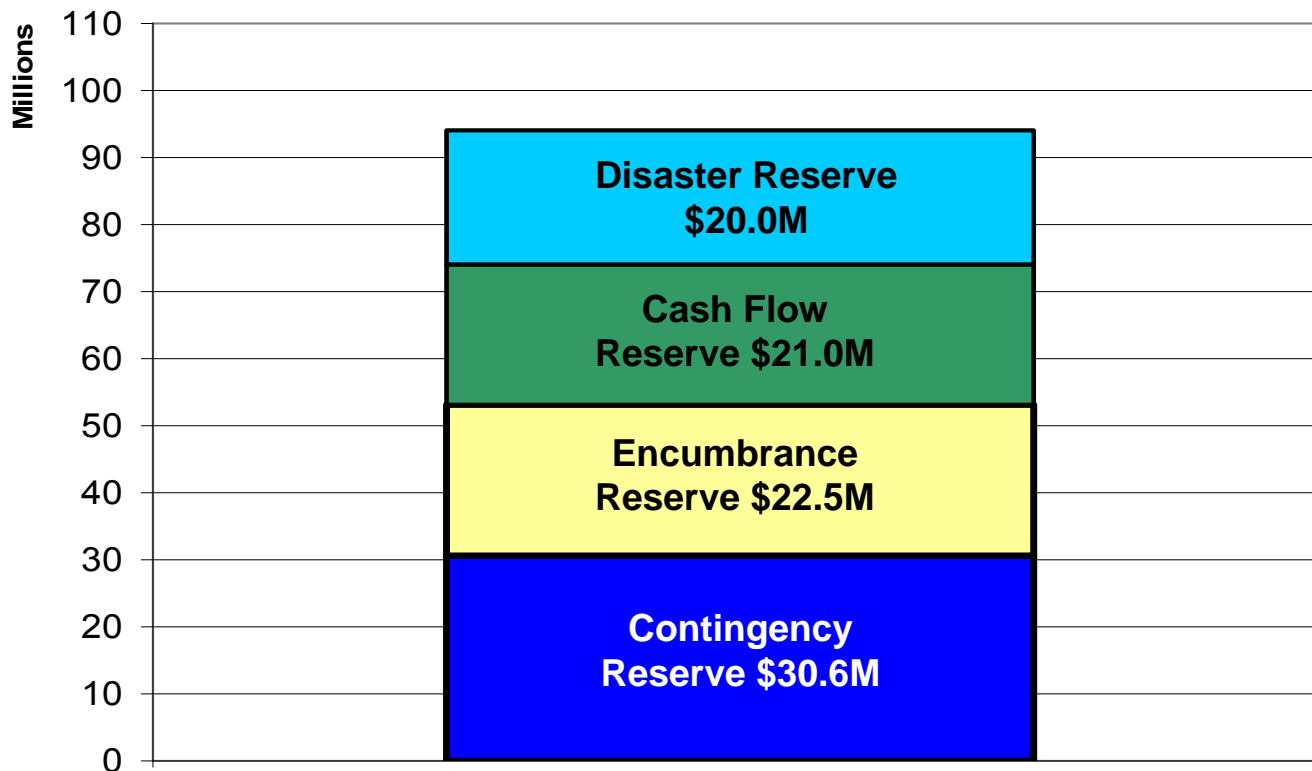
Current General Fund Reserve Policy

● Budget Policy

- “At a minimum, no less than 5% to 15% of operating revenues, or no less than one to two months of operating expenditures”
- Over last several years the BCC reserve target has been 15% of total resources

FY2010 General Fund Reserve

- **FY2010 Reserve of \$94.1M meets 15% target consistent with adopted budget policies**



Board Direction

- ◉ **Prepare alternative methodology for determining General Fund reserve level**
 - **Focus on gross dollar amount necessary for disaster response**

Disaster Response and Recovery Needs

- **Salaries for Public Safety personnel**
- **Salaries for other emergency response personnel (example: Public Works)**
- **Cost of Emergency Operations Center**
- **Cost of shelter operations**
- **Fuel for vehicles and generators**
- **Debris removal**
- **Emergency infrastructure equipment and repairs (example: traffic signals)**

Costs for Recent Hurricanes

Year	Event	Location	Cost
2004	Hurricane Dennis	Escambia County	\$29M
2004	Hurricane Charley	Charlotte County	\$124M
2004	Hurricane Ivan	Escambia County	\$196M
2005	Hurricane Wilma	Palm Beach County	\$325M
2005	Hurricane Katrina	Miami Dade County	\$1B

In 2004, the County Incurred Significant Costs From Hurricanes That Did Not Make Landfall in Pinellas County

Event	Expenditures	Cost
Hurricane Charley	Protective Measures	\$0.7M
Hurricane Frances	Protective Measures Debris Removal	\$1.0M \$1.9M
Hurricane Jeanne	Protective Measures Debris Removal Roads & Bridges Buildings & Other	\$0.6M \$4.6M \$0.2M \$0.3M
TOTAL EXPENDITURES		\$9.3M
<i>TOTAL REIMBURSEMENTS (over <u>3</u> YRS)</i>		<i>\$7.7M</i>

Potential Revenue Impacts

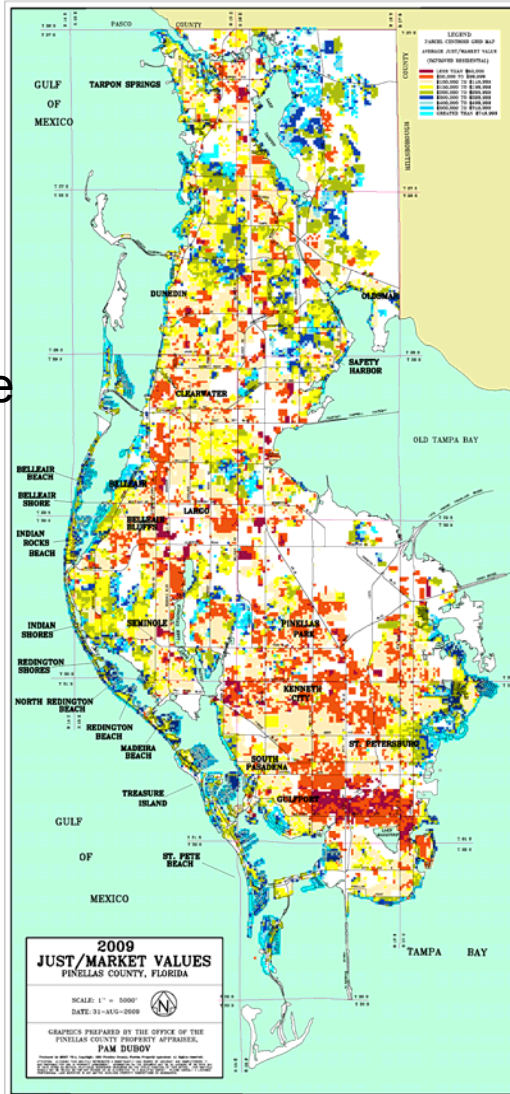
- ◉ **A loss of 10% of taxable value due to a disaster would cause a revenue loss of \$30M in property taxes the following year**
- ◉ **Sales and other taxes would also decrease due to negative impacts on tourism**
- ◉ **Rebuilding would generate additional revenues but would take time to offset losses**

Economic Losses for Hurricane Charley Exceeded \$6.6 Billion

County	Residential	Commercial & Industrial
Charlotte	\$2.561B	\$202M
De Soto	\$.283B	\$24M
Hardee	\$.138B	\$18M
Lee	\$1.014B	\$64M
Orange	\$1.597B	\$131M
Osceola	\$.425B	\$47M
Polk	\$1.045B	\$67M
Total Region	\$6.101B	\$553M

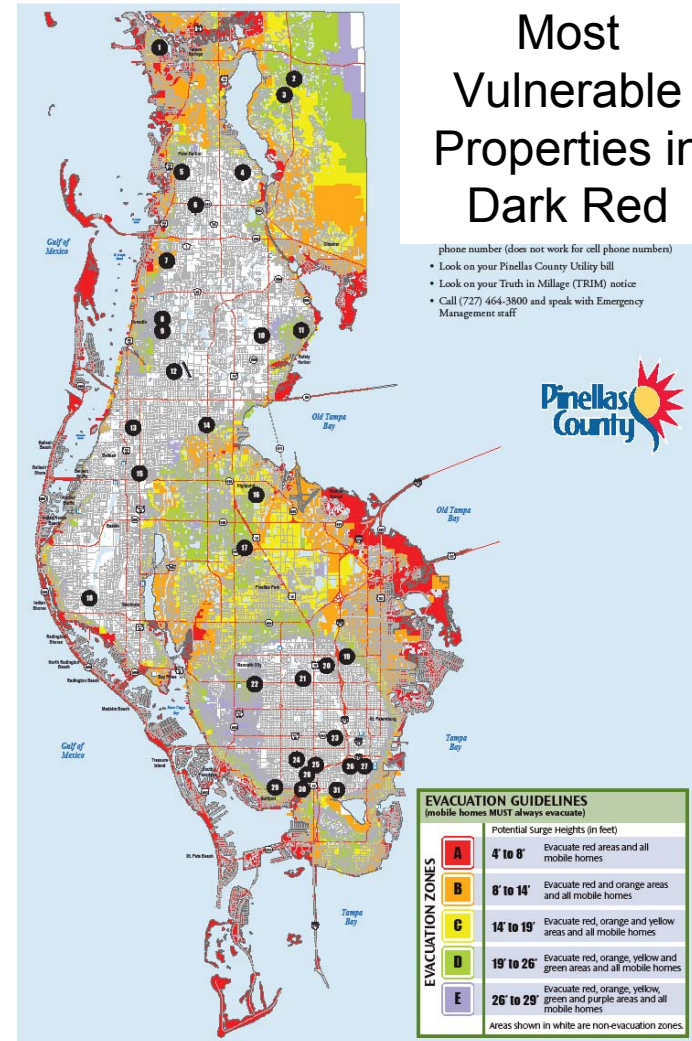
Pinellas High Taxable Value Properties Vulnerable to Storms

Highest Value Properties in Dark Blue



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Surviving the Storm Guide



Disaster Response Amount

- **There is no ideal methodology for disaster response amount**
- **Pinellas County is a high hazard, coastal county**
- **Reserves will be difficult to restore in the foreseeable future**

GFOA Best Practice for General Fund Reserve

- “GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain a reserve in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

The choice of revenue or expenditures as a basis of comparison may be dictated by what is more predictable in a government’s particular circumstances.

Furthermore, a government’s particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level.”

Proposed New General Fund Reserve Policy

- ◉ **Budget reserve of at least 15% of General Fund Resources**
 - Consistent with recent County practice
 - Aligned with GFOA Recommended Best Practice
- ◉ **Reserve is currently budgeted at \$94M (15%)**
- ◉ **Propose same dollar amount in FY2011 budget**
 - Do not adjust reserve amount downward as overall budget decreases



Revised Budget Policies

Budget Policies

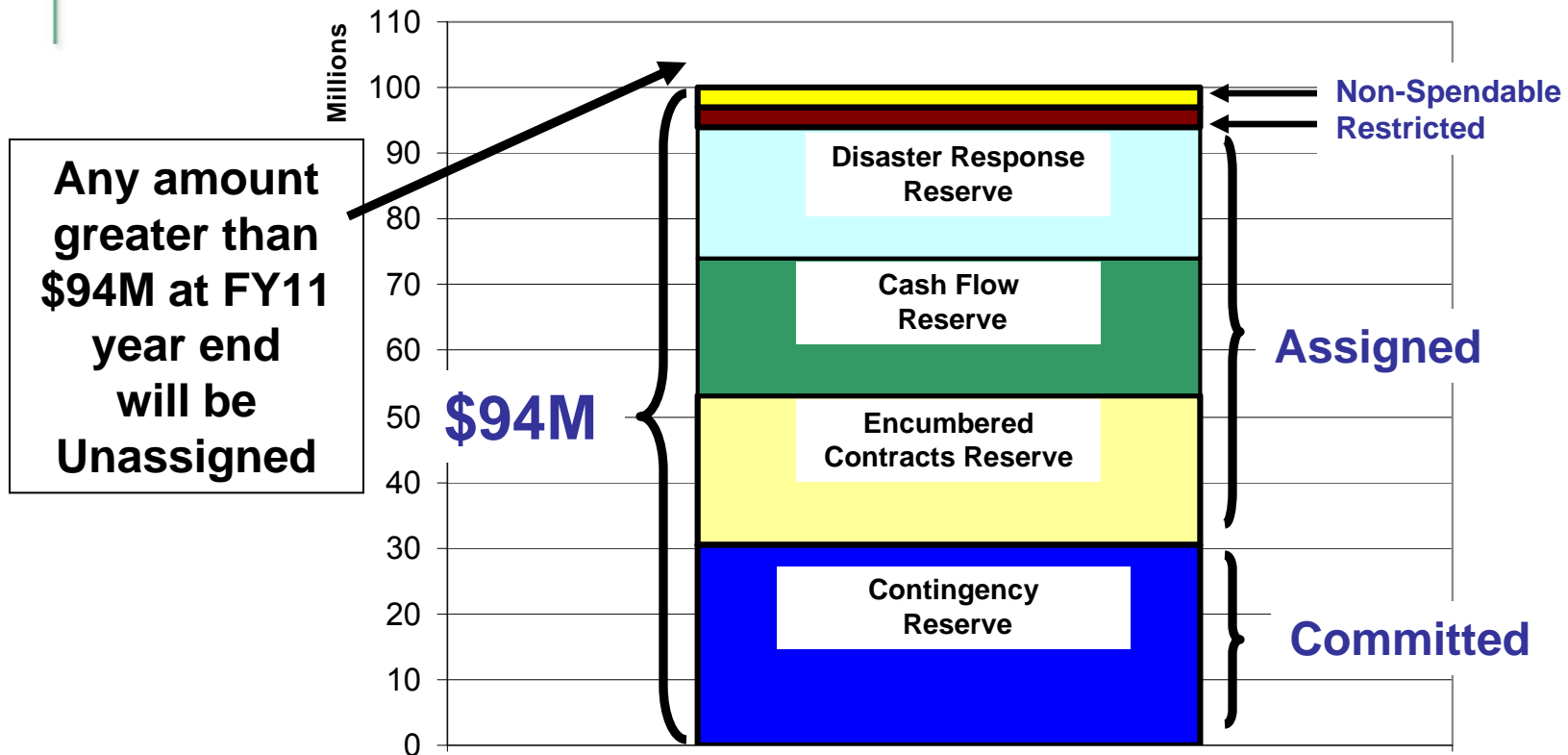
- ◉ **The Board's budget policies were adopted in FY2002**
- ◉ **The original policies were based on best practices from that time**
- ◉ **Revisions are needed to address changing accounting standards (GASB 54) and updated best practices**

Revised Budget Policies

- **The revised budget policies are included in the Board's handouts and reflect:**
 - **Proposed new General Fund Reserve Policy**
 - **New language per GASB 54 addressing General Fund Committed, Assigned, and Unrestricted fund balance**
 - **Defines the circumstances for using each category of Reserves**
 - **Defines the process for replenishing deficiencies in Reserves**

Proposed FY2011 General Fund Reserve

- **FY2011 Reserve of \$94M (16%) is consistent with revised GF Reserve policy**



Next Steps

- ◉ **BCC approval of updated budget policies**
- ◉ **FY2011 Proposed Budget will be prepared in accordance with new budget policies**

BUDGET POLICIES

The following policy guidelines are based upon prudent fiscal management and reflect best practices as adopted by the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting Practice:

General Fund Reserve (Ending Balance)

The Governmental Accounting Standards Board (GASB) has defined the following categories for fund balances:

Non-spendable fund balance – amounts that are not in a spendable form (such as inventory and prepaid expenses) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by external providers (such as grantors, bondholders, and higher levels of government).

Unrestricted fund balance – amounts that are not Nonspendable or Restricted are divided into three categories: Committed, Assigned, and Unassigned. In the County's budget, the Committed and Assigned amounts are shown as Reserves.

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

General Fund Reserves (Committed and Assigned Fund Balance)

Committed fund balance – amounts constrained to specific purposes by the BCC. To be reported as committed, amounts cannot be used for any other purpose unless the BCC approves a change by Board Budget Amendment.

Assigned fund balance – amounts the County *intends to use* for a specific purpose. Intent can be expressed by the BCC or recommended by the County Administrator. There are two essential differences between committed fund balance and assigned fund balance. First, committed fund balance requires action by the BCC, whereas assigned fund balance allows that authority to be delegated to the County Administrator. Second, formal action by the BCC is necessary to impose, remove, or modify a constraint reflected in committed fund balance, whereas less formality is necessary in the case of assigned fund balance.

- The Reserve for Contingencies (Unrestricted – Committed Fund Balance) shall be budgeted at a minimum of 5% operating expenditures. The total amount shall not exceed the statutory maximum of 10% of operating expenditures.
- The Reserve - Fund Balance (Unrestricted – Assigned Fund Balance) shall be budgeted in the following categories.
 - Cash Flow Reserve – a minimum of one-twelfth of budgeted revenue
 - Encumbered Contracts Reserve – the average month-end value of outstanding encumbrances over a preceding twelve-month period
 - Disaster Response Reserve – a minimum of \$20 million
 - The total amount budgeted shall not exceed the statutory maximum of 20% of operating expenditures.

- For annual financial reporting purposes, specific amounts for each category in the Reserve - Fund Balance will be determined by the County Administrator based on fiscal year end data.

Use of Reserves:

- The Reserve for Contingencies (Unrestricted – Committed Fund Balance) may be used for unanticipated expenditures or to address revenue shortfalls.
- The Reserve - Fund Balance (Unrestricted – Assigned Fund Balance) may be used as follows:
 - Cash Flow Reserve and Encumbered Contracts Reserve – for any authorized expenditure
 - Disaster Response Reserve – for any expenditures incurred as the result of an emergency event
 - The Cash Flow Reserve and Encumbered Contracts Reserve may be used to supplement the Disaster Response Reserve

Restoration of General Fund Reserves:

- If General Fund Reserves are depleted below the levels established by policy, the County Administrator will develop a plan to restore the balances over time for Board approval.
- The restoration plan should include such recommendations for rate/fee adjustments and/or expenditure reductions as may be appropriate.
- The plan for restoration should be reviewed and updated on an annual basis until the policy level guidelines are achieved.

General Fund – Unrestricted Unassigned Fund Balance

***Unassigned fund balance** – The General Fund, as the principal operating fund of the government, often will have net resources in excess of the categories already described. One reason for this is that Florida Statutes require most revenues to be budgeted at 95% of the total estimated amount. If there are additional net resources, the surplus is presented as unassigned fund balance. Other funds, by their nature, are established to account for revenues that are expended for specific purposes and therefore do not have unassigned fund balances.*

- General Fund Balance in excess of that which is Non-spendable, Restricted, Committed and Assigned at the end of the fiscal year shall be designated as Unassigned.
 - Unassigned Fund Balance should be used for non-recurring purposes whenever possible.
 - Preference should be given to expenditures that will result in future efficiencies or other cost savings.
 - In the event of severe financial stress resulting from unanticipated revenue decreases or expenditure increases, Unassigned Fund Balance may be used to mitigate the negative impact on public services on a short term basis.

- In addition to the Reserves and Fund Balance, a Service Level Stabilization Account may be appropriated in the General Fund to mitigate future revenue shortfalls or expenditure increases.

Other Operating Funds Reserves

- At a minimum, the Reserves (Unrestricted Balance) of Enterprise Funds should be budgeted at a level of 5 to 15% of regular operating revenues, or no less than one to two months of operating expenditures.
- Similar Reserve (Unrestricted Balance) amounts should be budgeted in other funds (i.e. 1 - 2 months of operating expenditures or an adequate working capital reserve) on a case-by-case basis.
- Fund reserve policy should be linked to a potential increase or decrease of rates/fees if reserve levels reach certain thresholds.

Balanced budget

- Recurring expenditures should be equal to or less than, recurring revenues.
- Annual operating expenditures should be fiscally balanced with revenues or income estimates that can reasonably and normally be projected to be received during the fiscal year.
- Provide disclosure when deviation from a balanced operating budget is planned or when it occurs.
- Anticipate actions to be made to bring the budget into balance if adjustments are needed in the course of a fiscal period.
- Develop a structurally balanced operating budget that requires a balance be maintained between recurring expenditures and revenues over the long term, not just during the current operating period.

Long-range planning

- Develop a financial planning process that assesses long-term financial implications of current and proposed policies, programs, and assumptions and develop appropriate strategies to achieve its goals.
- The forecast should extend at least 10 years and should be regularly monitored and periodically updated.
- The forecast should include fund forecasts for all significant governmental funds.
- The forecast, along with its underlying assumptions and methodology, should be clearly stated and made available to participants in the budget process.
- Variances between previous forecast and actual amounts should be analyzed and identification made of the factors that influence revenue collections, expenditure levels, and forecast assumptions.

Asset inventory

- Create and maintain accurate inventories of all physical assets, their condition, life spans, and cost should be maintained to ensure proper stewardship of public property.
- Maintain assets at an acceptable level to protect the County's capital investment and to minimize future maintenance and replacement costs.

Revenue Diversification

- Encourage revenue diversification to the extent feasible; enhance flexibility within the constraints of available revenue sources (ex. property tax--diversify the tax base on which the tax is levied).
- Whenever possible pay general operating expenses from sources other than ad valorem taxes.
- Increase the level of self-support for new program initiatives and enhancements.
- The use of concession and licensing agreements (i.e. naming rights) should be encouraged so long as these measures are consistent with the public good.

Fees and Charges

- Where appropriate, fees should be set to recover the direct and indirect costs associated with the service provided.
- County services that provide private benefit should be supported by fees and charges in order to provide maximum flexibility in the use of general revenues to meet the cost of services of broader public benefit.
- State whether the intention is to recover full or partial costs of providing goods and services.
- If the cost of a good or service is not recovered, then an explanation of the rationale should be provided.
- Charges and fees should be reviewed and updated periodically based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates.
- Information on charges and fees should be available to the public.
- Enterprise Operating Funds should contribute to the General Fund their proportionate share of the cost of general administrative departments and a payment-in-lieu-of-taxes and other accepted reimbursement approaches as limited by outstanding Bonds or Bond resolutions.
- A review of cost of service and rate structures for Enterprise operations should be performed on an annual basis.

Use of Grants

- To the degree that grant funds are relied upon to support recurring expenses, provision should be made to make expenditure reductions should the grant funding be reduced or eliminated.
- Revenues and expenditures associated with grants should only be budgeted after grant awards or letters of commitment have been received.
- Overhead or indirect costs should be included in all grant proposals where permitted.
- Local discretionary funds should not be relied upon to automatically replace lost grant funds.

Debt Capacity, Issuance, and Management

- Minimize debt service costs through the judicious use of available debt instruments, consistent with the desirability of maintaining stable current tax rates and distributing the costs of certain long-lived facilities among all users, present and future.
- Define appropriate uses for debt.
- Define the maximum amount of debt and debt service that should be outstanding at any one time (target financial ratios).
- Maintain a high credit rating while making attempts to strengthen credit rating; identify factors and strategies to address them.
- Consider investment in equipment, land or facilities, and other expenditure actions, in the present, to reduce or avoid costs in the future.
- Capital project proposals should include cost estimates that are as complete, reliable, and attainable as possible.
- Prior to undertaking a capital project, all ongoing O&M costs should be identified and considered as part of the policy discussion.

Operating/Capital Expenditure Accountability

- Institute meaningful performance measures linked to strategic objectives and analyze results.
- Conduct reviews of prior year expenditure and revenue estimates to actuals and analyze variances.
- Seek expenditure reductions whenever possible through efficiencies, reorganization of services, and through the reduction or elimination of programs, policies, and practices which have outlived their usefulness.
- Encourage productivity improvements through training, technology, or incentives (i.e. gainsharing).
- Seek inter-agency opportunities to improve efficiency and productivity.

Internal Service Funds

- Internal Service Funds may be used for allocating the costs of central service functions and for risk financing.
- Cost allocations of central service functions are charged ratably to other funds, departments, and agencies of the primary government. The goals are to measure the full cost of providing the central service and to fully recover that cost through fees and charges.
- Risk financing internal service funds are used to account for all risks of a given type in individual funds of each type. Interfund premiums are charged to other funds to cover both current costs and provide a reserve for anticipated future losses.

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