

November 1, 2012 Council Meeting

Sponsor: Joe McDermott

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Proposed No.: 2012-0263

Joe McDermott Motion
Motion CARRIED

1 **AMENDMENT TO PROPOSED ORDINANCE 2012-0263, VERSION 2**

2 Delete Attachment A, King County Fund Balance Policies, dated June 22, 2012 and
replace with Attachment A, King County Fund Balance Policies, dated October 24, 2012

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3 **EFFECT: Revised Attachment A makes the new reserve fund policies applicable to**
4 **FMD**

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King County Fund Balance Policies

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I. Introduction

The County believes that sound financial management principles require that sufficient funds be retained to provide a stable financial base at all times. To attain this stable financial base, the county maintains reserves both in the general fund and other operating funds to plan for future expenditures, provide working capital, meet mandated reserve levels, and offset unexpected revenue or expenditure fluctuations.

This document sets forth specific policies regarding reserves and fund balances for King County. This document does not replace existing fund specific policies or mandated reserve levels required elsewhere. It is intended that this policy, and periodic future amendments, will be adopted by the King County Council.

II. Policy Goals

County fund balances will be managed in a way to provide a prudent level of financial resources to meet specific purposes. The purpose of these policies is to establish criteria for determining how financial resources will be set-aside. Specifically, the policies are intended to achieve the following objectives:

- Prudently plan for and fund future expected costs
- Establishing fund amounts for anticipated mismatches between revenues and expenditures
- Meeting legal, contractual or existing policy requirements
- Clarifying fund level decision-making around uncertainty

III. Definitions

Restricted fund balance: The portion of fund balance that has externally enforceable limitations on use. Limitations are imposed by creditors, grantors, contributors, or laws and regulations of other governments.

Committed fund balance: The portion of fund balance whose use is constrained by limitations that the County imposes upon itself. Limitations are imposed at the highest level of decision making that requires formal action at the same level to remove.

Assigned fund balance: The portion of fund balance that has intended uses. The uses can be established by the governing body itself or established by a body or an official delegated by the governing body.

Unassigned fund balance: The excess portion of fund balance over nonspendable, restricted, committed and assigned components. A positive unassigned balance is only allowed in the general fund.

Unplanned unassigned fund balance: The portion of general fund unassigned balance that is not planned to be maintained in a reserve as identified on the general fund financial plan.

Unrestricted fund balance: The combined balances of committed, assigned and unassigned fund balance.

General Fund: The County's primary governmental fund that is used to account for all financial resources of the county not required to be accounted for in some other fund.

Special Revenue Funds: A governmental fund that is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Debt Service Funds: A governmental fund that is used to account for the accumulation of resources that are restricted, committed or assigned for, and the payment of, general long-term debt principal and interest.

— **Enterprise Funds:** A fund that is used to account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds: A fund that is used to account for the provision of goods or services by one department or agency to other departments or agencies of the county on a cost-reimbursement basis.

Capital Project Funds: A governmental fund that is used to account for financial resources that are restricted, committed, or assigned to expenditures for the acquisition and construction of major capital facilities.

Permanent Fund: A governmental fund that is used to account for resources that are restricted to the extent that only earnings, and not principal, may be used for the benefit of the government and its residents.

Expenditure Reserves: Reserves set aside to pay for specific activities or future costs including replacement of equipment, capital expenditures, facility moves, prepaid expenditures, and new debt service.

Cash-Flow Reserves: Fund balance set aside to offset anticipated imbalances between the timing of expenditures and the timing of revenues.

Mandated Reserves: Fund balance set aside to meet contractual or legal requirements or to stabilize rates.

Rate Stabilization Reserves: Cash reserves to manage or moderate the pattern of future increases in rates or fees charged.

Rainy Day Reserves: Fund balance set aside to meet unexpected changes in revenues or expenditures.

Undesignated Fund Balance: Fund balance remaining after all other reserves are funded.

IV. General Reserve Policies

General

1. The County's fund-specific financial policies identify the various funds that have policies on maintaining reserves, set-asides and other fund balances. These include approved motions and code requirements and shall determine acceptable reserve levels if conflicting with the policies herein.
2. For all funds, sub-funds and accounts, the Office of Performance, Strategy and Budget (PSB) in consultation with departments and Council shall periodically review fund balance accumulations and the uses thereof.
3. Except as otherwise approved by PSB, financial planning for reserves and fund balance shall comply with written guidance provided by PSB.
4. Financial planning for all King County operating funds should aim to establish an ending fund balance of zero unless stipulated elsewhere.
5. Where fund balance deficits exist, a gradual correction of the problem over a multi-year period may be preferable to a large one-time increase.
6. Factors to consider in establishing reserves include:
 1. Future expenditures
 2. Cash flow requirements to support operating expenses
 3. Legal or regulatory requirements affecting revenues, disbursements, and fund reserves
 4. Credit worthiness and capacity to support debt service requirements for enterprise funds
 5. Relative rate stability from year to year
 6. Susceptibility to financial risks, revenue shortfalls or emergency or unanticipated expenditures

Fund Reserves

1. The Rainy Day Reserves in the County's safety and claims and risk funds shall reflect 100% of the actuarial determined amounts for those funds, unless otherwise directed by an auditor or risk management committee. If the reserve is more or less than this value, the financial plan shall reflect a multi-year plan to match the actuarial or recommended amount.
2. The Incurred But Not Reported (IBNR) reserve in the employee benefits fund shall be considered a Rainy Day Reserve and be maintained at 100% of the actuarial projection.
3. The Rainy Day Reserves for Facilities Management Division internal service fund shall be maintained at 3% of revenues, as reflected in the financial plan adopted by the council in the annual budget process.

4. Expenditure reserves such as equipment replacement reserves, reserves for future activities and labor reserves shall be based on an analysis of need.
5. Labor liabilities such as compensated absences are typically funded on a pay as you go basis. Expenditure reserves for labor liabilities may be used if a fund is expected to close and the reserve is to ensure sufficient funding for close out labor costs or if a large increase is anticipated due to contract negotiations or other cost drivers.
6. Special levy funds (funds whose major revenues are based on voter approved levies) should plan for a rainy day reserve at the end of the levy period equal to 90 days of expenditures.
7. Cash flow reserves for operating funds shall be maintained at levels so the timing lags between revenues and expenditures are normally covered without any fund incurring negative cash balances.
8. The size of any rate stabilization fund balance shall depend on a specific analysis and legal requirements.
9. Funds should plan for future pension liabilities if they are expected to increase significantly. This should include the establishment of a reserve for the purpose of meeting this expected liability.
10. For Internal Service Funds, only the Facilities Management Division, Benefits, Safety and Claims, and Risk funds may have Rainy Day Reserves.

Unassigned Fund Balance

King County's financial planning should provide for an anticipated year-end unplanned unassigned General Fund Balance between six percent and eight percent of estimated annual revenues less intergovernmental receipts and interfund transfers, in order to: maintain the County's credit rating, meet seasonal cash flow shortfalls, help maintain services during short periods of economic decline, and meet emergency conditions.

Should the estimated balance fall below six percent of revenues, a plan for expenditure reductions and/or revenue increases shall be submitted to the Council.

In the event the anticipated balance is above eight percent, the difference may be used to fund the following activities, in order of preference: (1) one-time capital expenditures which do not increase ongoing county costs; (2) other one-time costs; and (3) ongoing or new County programs, provided that such action be considered in the context of a multi-year projection of revenues and expenditures.

If the actual year-end unassigned fund balance falls below six percent of annual revenues, the County should rebuild the balance to at least six percent within one year.