



General Fund Reserves Policy Recommendations

Presented to the Board of Supervisors

on

Tuesday, March 23, 2004



Background

- Policy recommendations requested by Supervisor Campbell, 3rd District.
- Informal policies followed in the Strategic Financial Plan and the Budget.
 - e.g. Contingency provision set at 5% of general purpose revenues.
- Reserves – can be official or they can be “reserve like” funds, e.g. Special Designated Revenue Fund 15S – used for cash flow and future infrastructure improvements.

Potential Application of Reserves Policies

- 2004 Strategic Financial Plan, May 2004
- Fiscal Year 2004-05 Budget – balancing actions, May 2004
- Mitigation of State Budget impacts, July 2004 (est.)

Reserve Type and Current Available Balances

Held by the County

- Contingency \$ 27 M
- Cash Flow 13 M
- Strategic Priorities 90 M
- Debt Reduction 94 M
- Misc. Agency 18 M
- **Total Held by the County \$242 Million**
- **Retirement – held by OCERS \$145 Million**

Scope of Recommendations

➤ **What is included:**

- General Fund only
- Operation contingencies
- Capital and Technology Improvements
- Unanticipated Expense
- Cash flow

➤ **What is not included – Phase 2**

- Insurance type reserves, e.g. property & casualty
- Program reserves, e.g. Realignment for Health
- Non-general fund, e.g. Flood Control Improvements

Why have Reserves?

- Catastrophes
- Economic Downturns
- Large Unanticipated Expenditures
- Statutory changes to County revenue stream
- Save money for large future improvements (e.g. a new building)
- Protect against predicable risks
- Cyclical revenue

Guiding Principles

- Government Finance Officers Association (GFOA) – Budget practice 4.1
 - Minimum & maximum levels.
 - Policies should be publicly available.
 - Address temporary situations.
 - Provide flexibility.
 - Respond to unanticipated opportunities.
 - Legally required or legally restrained.
 - Use tied to external factors, e.g. indicators of an economic downturn.

Reserve Policy Recommendations

- 1A. Provision for catastrophic event, e.g. storms like we had on 1969, 1978 and 1983; provide funds for cash transactions. **\$5 million in Agency 099.**
- 1B. General fund revenue interruption, similar to current year vehicle license fee situation.
- Assume one major source is interrupted for 3 months.
 - Build contingency reserve to **\$50 million.**
Adopted 03-04 budget included \$18 million.

Reserve Policy

Recommendations

(continued)

1C. Capital Improvements – Board approved Deferred Maintenance strategy in 1998 & 1999 SFPs. Create reserve with \$10.3 million in FY 2004-05 and incrementally increase – use as work progresses.

1D. Information Technology – funds currently set aside in general reserve, \$18.8 million:

Assessment Tax System \$9.2 million

CAPS \$5.0 million

Mainframe Upgrade \$4.6 million

Reserve Policy

Recommendations

(continued)

- 1E. Investment Account, \$145 million, held by the Orange County Retirement System (can only be used for retirement related expenses) – develop strategies in the 2004 SFP for optimum use.
2. Cash flow provision – Fund 15S, Designated Special Revenue used for cash flow purposes (with back-up sources) is being drawn down for planned deferred maintenance projects, now down to \$13 million

Reserve Policy Strategies

(continued)

3. Bankruptcy Debt Prepayment – Use excess Fund Balance Available (if there is any) to annually augment Debt Prepayment Fund 14V. Consider using savings for further debt prepayment and to reduce impact of the end of the diverted revenues in 2015.

Next Steps

- Board discussion at the May 7, 2004 Special Meeting for the 2004 Strategic Financial Plan.
- Develop strategies and policies for program reserves as well as non-general fund reserves and present during the June 2004 Budget Hearings.