



## **Reserves Policy**

### **Obligated Fund Balances and Reserves Available to the General Fund**

#### **Introduction**

The County of Orange General Fund Reserves Policy provides guidance in the creation, maintenance and use of reserves. The policy covers formal and informal reserves, and includes provisions for reserves such as appropriations for contingencies, reserve-like appropriations, and reserve-like funds held by others such as the OCERS Investment Account. The policy also recognizes whether funds are legally required or discretionary, or have special restrictions.

The importance of having and maintaining healthy reserve balances was made evident during the Great Recession. Temporary use of fund balance or reserves was utilized to aid departments in offsetting decreases in revenue growth, funding reductions from various sources, and accommodating increased costs of doing business.

The General Fund Reserves policy is designed to provide flexibility to the County and offer:

- Resources to address unanticipated or cyclical economic conditions.
- Resources for emergencies and/or catastrophic events.
- Mitigation of the volatility of revenues and expenditures in managing temporary cash flow shortages.
- Capacity to cover unexpected large one-time expenses and opportunities.
- Capacity to fund capital investments.
- Capacity to minimize borrowing costs.
- Capacity to provide some level of protection against statutory changes to County revenues and impacts from Federal and State actions.

The County has a variety of reserve funds available to both the General Fund and Non-General Funds including:

- Fund Balance Assigned for Contingencies
- Fund Balance Assigned for Operations
- Fund Balance Assigned for Capital Projects
- Fund Balance Assigned for Construction and Maintenance
- Fund Balance Assigned for Teeter Loss Reserve
- Fund Balance Assigned for Reserve Target
- Reserve-like Funds
- Reserve-like Appropriations
- Department Type Reserves



All of the aforementioned are reserves customarily modified at the time of budget adoption (Government Code Section 29085) or at fiscal year-end (in accordance with GASB 54 requirements). Changes to reserve amounts at other times require a 4/5 vote of the Board of Supervisors in order to make such reserves available for appropriation to spend, if needed, during the fiscal year (Government Code Section 29130).

The County has provided for General Fund Obligated Fund Balances, developing specific targets for each reserve type based upon recommendations by the Government Finance Officers Association (GFOA) and best practices based upon review of reserve policies implemented by other local governments. The County’s policy follows GFOA’s current recommendation, which states that “at a minimum, general-purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures.”

As part of the 2010 Strategic Financial Plan, the Board granted the County Executive Office approval to implement GFOA best practice for funding reserves and to continue reviewing the management of those reserve funds. Reserves are monitored to ensure effective control and consolidation of resources, if appropriate, while maintaining proper designations and flexibility. No change to existing reserve policy is requested with this Strategic Financial Plan.

**Reserve Targets and Descriptions**

Under GFOA recommended practice, the County establishes an overall reserve target, and allocates the calculated target among the classes of obligated fund balances as appropriate. The County may fund more or less to each reserve class, for a variety of reasons such as current financial conditions, the need to set aside for particular goals or directives, the need to bridge one-time gaps, etc. The goal is to ensure a prudent reserve balance that is maintained and replenished on a regular basis.

In implementing the GFOA’s best practice, the County elected to establish a funding target based upon two months of General Fund operating revenues. As such, the current year target is set at two months (approximately 17%) of General Fund operating revenues as budgeted in FY 2017-18 as follows:

General Fund Budgeted Revenues FY 2017-18	\$3,350,670,097
Less: Non-Operating & One-Time Items	(417,902,068)
Net FY 2016-17 Operating Revenues	2,932,768,029
Target - 2 Months General Fund Operating Revenues	\$ 488,794,672



The following table summarizes the current targets by class. When compared to the overall target, total General Fund reserves are \$162,476,357 above target.

Specific-Use Reserve Classification	Balance at 6/30/2017	Projected Change	Projected Balance at 6/30/2018	% of Total
Contingencies	\$ 62,300,000	\$ 2,700,000	\$ 65,000,000	10.0%
Reserve for Operations	110,000,000	(50,000,000)	60,000,000	9.2%
Reserve for Capital Projects	47,958,767	9,000,000	56,958,767	8.7%
Reserve for Maintenance & Construction	11,600,204	-	11,600,204	1.8%
Teeter Loss Reserve	46,653,312	-	46,653,312	7.2%
<b>Subtotal - General Fund (GF) Specific-Use Reserves</b>	<b>\$ 278,512,283</b>	<b>\$ (38,300,000)</b>	<b>\$ 240,212,283</b>	
<b>Target Reserve</b>				
Reserve Target	336,058,745	75,000,000	411,058,745	63.1%
<b>Grand Total - General Fund (GF) Total Reserves</b>	<b>\$ 614,571,028</b>	<b>\$ 36,700,000</b>	<b>\$ 651,271,028</b>	<b>100.0%</b>
<b>Overall Target</b>			<b>\$ 488,794,672</b>	<b>n/a</b>
Total GF Reserves Over/(Under) Target at 6/30/2018			\$ 162,476,357	n/a
Reserve Target Over/(Under) Target at 6/30/2018			\$ (77,735,927)	n/a

Although overall reserves are greater than the target, when specific-use reserves for items such as the VLFAA payment, Teeter Loss Reserve, and Capital/Construction Projects are taken into consideration, the remaining reserve balance is \$77,735,927 under target.

**General Fund Obligated Fund Balances**

Obligated Fund Balances are formal reserves and currently include: Fund Balance Assigned for Contingencies, Fund Balance Assigned for Operations, Fund Balance Assigned for Capital Projects, Fund Balance Assigned for Maintenance and Construction, Fund Balance Assigned for Teeter Loss Reserve, and Fund Balance Assigned for Target Reserve. The reserves defined in the following pages are General Fund Obligated Fund Balances or specific fund types that can be utilized for General Fund operations.



**Contingencies**

This reserve was established through the Strategic Financial Plan process for the purpose and use of covering unanticipated and severe economic downturns, major emergencies, or catastrophes that cannot be covered with existing appropriations. In particular, the recent wildfires in Northern California and Orange County highlight the reality of catastrophic events that can occur.

Target	15% of ongoing annual General Purpose Revenues (excluding FBA, transfers & other one-time revenue) or, currently, \$113,356,174
Projected Balance @ June 30, 2018	\$65,000,000 (8.2% of ongoing General Purpose Revenues)
Variance from target	\$48,356,174 below target

This compares to Government Finance Officers Association (GFOA) guidelines for funding contingencies at 15% or higher. A review of surrounding counties found contingency targets were set from 5% to 15%.

Please see the following table for specific details of the contingency reserve:

<b>Contingencies</b>	
Fund Number	100
Authority	Government Code Section 29085
When established	Budget Adoption
Budgeted	Schedule 3 of the County Budget
Board approval required	4/5 vote to change amount during the year or to appropriate and make available for use during the year (Government Code Section 29130)
Expiration Date	Ongoing
Interest Earnings	Credited to General Fund



<b>Contingencies (continued)</b>	
Plan for reducing the variance	This Strategic Financial Plan recommends no change to this reserve; however, additional contributions to the reserve will be recommended when fund balance is available and allocated through the First Quarter Budget Report.

**Assigned for Operations**

This reserve was established in the FY 2015-16 First Quarter Budget Report approved by the Board in November 2015. The purpose and use of this reserve is to provide flexibility in dealing with one-time expenses and opportunities, and some level of protection against statutory changes to County revenues. Repayment of the remaining \$55 million in VLFAA revenue to the State may require drawdown of obligated fund balances for payment during FY 2018-19. Recommendation for use of or changes to this reserve may be made as funds are needed or become available, or as part of the FY 2018-19 annual budget process.

Projected Balance @ June 30, 2018	\$60,000,000
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Please see the following table for specific details of the operations reserve:

<b>Assigned for Operations</b>	
Fund Number	100
Authority	Approved Quarterly Budget Report
When established	November 17, 2015
Budgeted	Schedule 4 of the County Budget
Board approval required	4/5 vote to change amount during the year or to appropriate and make available for use during the year
Expiration Date	N/A
Interest Earnings	Credited to the General Fund



**Assigned for Capital Projects**

This reserve was established through the Strategic Financial Plan process. The purpose and use of this reserve is the funding of future capital projects, including information technology projects.

Funds would be withdrawn from this reserve and appropriated in the fiscal year in which the projects are expected to be encumbered or expended.

Target	\$50,000,000
Projected Balance @ June 30, 2018	\$56,958,767
Variance from target	\$6,958,767 above target

Planned uses of Capital Projects reserves include \$2,000,000 per year in FYs 2018-19 and 2019-20 for the Sheriff Closed Circuit TV system for the jails; and \$12,336,870 in FY 2019-20 and \$1,306,736 in FY 2020-21 for repayment of the loan from OC Waste & Recycling for the Animal Care Center construction. Additional draws from the Capital Project reserve are anticipated in FY 2018-19 based on known requests from departments during the 2017 SFP development process; however, those projects have yet to be submitted for approval by the Board. The planned uses of capital projects reserves in FY 2018-19 without replenishment will result in an estimated balance at June 30, 2019 of \$54,958,767, which is \$4,958,767 above target.

Please see the following table for specific details of the capital projects reserve:

<b>Reserve for Capital Projects</b>	
Fund Number	100
Authority	Adopted Strategic Financial Plan (SFP)
When established	June 20, 2004
Budgeted	Schedule 4 of the County Budget
Board approval required	4/5 vote to change amount during the year or to appropriate and make available for use during the year



<b>Reserve for Capital Projects (continued)</b>	
Expiration Date	Upon completion of designated projects
Interest Earnings	Credited to the General Fund
Plan for reducing the variance	This Strategic Financial Plan recommends no change to this reserve; however, additional contributions to the reserve will be recommended when fund balance is available and allocated through the First Quarter Budget Report.

**Assigned for Maintenance and Construction**

This reserve was established through the quarterly budget report process. The purpose and use of this reserve is for funding of future construction and maintenance projects. Funds would be withdrawn from this reserve and appropriated in the fiscal year in which the projects are expected to be encumbered or expended.

Projected Balance @ June 30, 2018	\$11,400,204
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Please see the following table for specific details of the maintenance and construction projects reserve:

<b>Reserve for Maintenance and Construction</b>	
Fund Number	100
Authority	Approved Quarterly Budget Report
When established	November 17, 2015
Budgeted	Schedule 4 of the County Budget
Board approval required	4/5 vote to change amount during the year or to appropriate and make available for use during the year



<b>Reserve for Maintenance and Construction (continued)</b>	
Expiration Date	Upon completion of designated projects
Interest Earnings	Credited to the General Fund
Plan for reducing the variance	This Strategic Financial Plan recommends no change to this reserve.

**Assigned for Teeter Loss Reserve**

This reserve was established through Board Resolution 14-096 on October 28, 2014 for the purpose of maintaining a balance not less than 25% of the total delinquent secured taxes and assessments for participating entities in the County as calculated by the Auditor-Controller at the end of each fiscal year. This reserve provides flexibility to cover losses that may occur if tax-defaulted property is sold for less than the amount necessary to cover outstanding tax and assessment liens on that property. In addition, this reserve may be used to pay down note purchases or cash finance the Teeter plan in the future.

Target	Varies with fluctuations in delinquent secured taxes and assessments, but could include the following: \$33.5 million possible transfer back to Fund 656 in the event of an economic downturn; \$33.5 million to pay down notes; \$33.5 million for future cash financing of Teeter plan
Projected Balance @ June 30, 2018	\$46,653,312





Please see the following table for specific details of the Teeter Loss reserve:

<b>Assigned for Teeter Loss Reserve</b>	
Fund Number	100
Authority	Board Resolution No. 14-096 in accordance with R&T Code 4703.2
When established	October 28, 2014
Budgeted	Schedule 4 of the County Budget
Board approval required	4/5 vote to change amount during the year or to appropriate and make available for use during the year
Expiration Date	N/A
Interest Earnings	Credited to the General Fund

**Assigned for Reserve Target**

This reserve was established through the quarterly budget report process. The purpose and use of this reserve is to ensure prudent reserve levels that are maintained and replenished on a regular basis. The current year target is based on the GFOA’s best practice and set at two months (approximately 17%) of General Fund operating revenues as budgeted in FY 2016-17.

Target	\$488,794,672
Projected Balance @ June 30, 2018	\$386,058,745
Variance from target	\$102,735,927 below target



Please see the following table for specific details of the Target reserve:

<b>Reserve for Target</b>	
Fund Number	100
Authority	Approved Quarterly Budget Report
When established	November 17, 2015
Budgeted	Schedule 4 of the County Budget
Board approval required	4/5 vote to change amount during the year or to appropriate and make available for use during the year
Expiration Date	N/A
Interest Earnings	Credited to the General Fund
Plan for reducing the variance	This Strategic Financial Plan recommends no change to this reserve; however, additional contributions to the reserve will be recommended when fund balance is available and allocated through the First Quarter Budget Report.

**Appropriated Reserve-type Funds**

These are informal reserve amounts annually appropriated in the budget such as the Miscellaneous Contingency Reserve and Annual Leave Payouts.

**Miscellaneous Contingency Reserve & Annual Leave Payouts**

This appropriation is maintained in the Budget Control 004 Miscellaneous Fund budget within the County General Fund. The purpose and use of this reserve is to provide additional appropriations to General Fund Departments through the end of the fiscal year for budgetary shortfalls, unanticipated one-time expenditures, emergencies, and opportunities. The appropriations are typically distributed during the quarterly budget report process and require a 4/5 Board of Supervisors vote for transfers of these funds per Government Code Section 29125(a)(2). The FY 2017-18 beginning balance is



\$4,797,340 with an additional \$1,000,000 earmarked by the Board on November 23, 2010 to establish funding for unanticipated annual leave payouts impacting small departments (approximately 100 employees or less). In addition, approximately \$6 million was added during the FY 2017-18 First Quarter Budget Report to fund potential department budget shortfalls. Five to ten million dollars is typically budgeted each year. Future Strategic Financial Plans may recommend changes to the current balance as funds are needed or become available.

Please see the following specific details of the Miscellaneous contingency reserve and Annual Leave Payouts:

<b>Miscellaneous Contingency Reserve &amp; Annual Leave Payouts</b>	
Fund/Budget Control Number	100-004
Authority	Board adoption of the Final Budget
Budgeted	Yes
Board approval required	4/5 Board of Supervisors vote to transfer funds
Target	\$10,000,000
Expiration Date	Re-budgeted annually
Interest Earnings	Credited to the General Fund

**Reserve Type Funds - OCERS Retirement Investment Account**

This is a reserve held by the Orange County Employees Retirement System (OCERS) on behalf of the County which was established with the proceeds of the 1994 Pension Obligation Bonds. The purpose and use of this account includes the offset of County retirement expenses and reducing the County’s share of the retirement system unfunded liability. Use of this account to offset the County’s retirement expenses may free up existing or future General Fund resources for other purposes. The balance of this account at June 30, 2017 was \$125,875,588. The assets held in the Investment Account are invested with the OCERS portfolio. As such, the balance in the account will change based on the performance of the investment assets.



Projected Balance @ June 30, 2018	\$137,191,006, including projected net investment earnings/<losses>
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Please see the following table for specific details of the OCERS Investment Account:

<b>Retirement Investment Account</b>	
Fund Number	Held by OCERS
Authority	Board agreement with OCERS
When established	1994
Interest Earnings	Credited to this account