

## **Charlotte County Financial Reserve Policy**

### **General Policy Statements:**

- 1.) The Charlotte Board of County Commissioners realize that it is essential for governments to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls, natural disasters, unanticipated expenditures, and to ensure stable tax rates; and other unforeseen situations after exhausting all other funding options.
- 2.) Charlotte County's reserve policies are based on sound fiscal principles designed to allow the County to maintain continuity of operations in adverse conditions while being mindful of our fiduciary responsibility to taxpayers, both current and future generations.
- 3.) The County realizes that adequate fund balance levels are an essential component of the County's overall financial management strategy and a key factor in external agencies' measurement of the County's financial strength.
- 4.) Various bond rating agencies recognize that the best reserve policies provide both specificity and flexibility, accomplishing one or more of at least three main criteria: establishing a target level of reserves, or a reserve floor; specifying the appropriate circumstances for drawing down reserves; and directing the replenishment of reserves.
- 5.) The Government Finance Officers Association of the United States and Canada (GFOA) recommends a minimum general fund reserve of no less than five to fifteen percent of operating revenues, or no less than one to two months of regular operating expenditures.
- 6.) Charlotte County lies within a coastal zone highly susceptible to hurricane and storm damage.
- 7.) There exists uncertainty in the economic markets around the world, in regards to the cost of construction materials, interest rates, personnel costs, medical insurance costs, and general inflation.
- 8.) Each sizable fund has been analyzed to determine the type of risk it may be exposed to, the duration of the risk, methods to mitigate that risk and the amount of funds needed to mitigate against that risk.
- 9.) The County's aging infrastructure will require increasing repair and replacement.
- 10.) The County wishes to mitigate other forms of uncertainty such as:
  - Unanticipated changes in the tax and spending policies of federal and state governments;
  - Imposition of mandates by federal and state governments or the courts;
  - Financial impacts of labor agreements, particularly those stemming from collective bargaining; and,
  - Unforeseen increases in energy costs.
- 11.) The fund balance definitions will be reported in accordance with generally accepted

governmental accounting principals

**SECTION 1.** The Charlotte County Board of County Commissioners hereby establishes the following Financial Reserves Policy that includes guidelines for the use of reserve funds, the level of funding (minimum and maximum) for reserve funds and the time period over which reserve funds should be accumulated, and procedures for reporting and managing reserve funds.

**SECTION 2. Ad Valorem Reserves**

The components of the Ad Valorem Reserve are the combined reserves of the General Fund, Capital Projects Fund, and Law Enforcement Fund and should include, but not be limited to the following:

**a.) Reserve for Contingencies**

The purpose of Reserve for Contingencies is to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls, unanticipated expenditures, and to ensure stable tax rates; and other unforeseen financial situations after exhausting all other funding options. The County should strive to maintain a balance not less than 5% and not greater than 10% percent of the total of the budget. Budget is defined as the amount available to spend to include beginning balance and revenues.

**b.) Cash Carried Forward**

A reserve amount for the purpose of paying expenses from October 1 of the ensuing fiscal year until the time when the revenues for that year are expected to be available. The County should strive to maintain a balance not less than 5% or greater than 10% percent of the total revenue receipts and balances (beginning balance) of the budget.

**c.) Fiscal Stabilization Reserve**

The County should strive to maintain a balance not less than 15% percent of the total of the General Fund budget. Budget is defined as the amount available to spend to include beginning balance and revenues to meet unexpected immediate increases in service delivery costs, or to maintain service levels in the event that an economic downturn should cause a shortfall in revenues or for expenditures associated with a major storm or other unforeseen disaster that fundamentally alters the current tax base.

**SECTION 3. Other General Government Operating Funds**

**I. Tourism Development Budget**

The components of the Tourism Development Reserves should include, but not be limited to the following:

**a.) Reserve for Contingencies**

The purpose of Reserve for Contingencies is to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls, unanticipated expenditures, and to ensure stable tax rates; and other unforeseen financial situations after exhausting all other funding options. The County should strive to maintain a

balance not less than 5% and not greater than 10% percent of the total of the budget. Budget is defined as the amount available to spend to include beginning balance and revenues.

**b.) Cash Carried Forward**

A reserve amount for the purpose of paying expenses from October 1 of the ensuing fiscal year until the time when the revenues for that year are expected to be available. The County should strive to maintain a balance not less than 5% or greater than 10% percent of the total revenue receipts and balances (beginning balance) of the budget.

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**II. Municipal Service Benefit Units (MSBU)**

The components of Municipal Service Benefit Units (MSBU) reserves should include, but not be limited to the following:

**a.) Reserve for Contingencies**

The purpose of Reserve for Contingencies is to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls, unanticipated expenditures, and to ensure stable tax rates; and other unforeseen financial situations after exhausting all other funding options. The County should strive to maintain a balance not less than 5% and not greater than 10% percent of the total of the budget. Budget is defined as the amount available to spend to include beginning balance and revenues.

**b.) Cash Carried Forward**

A reserve amount for the purpose of paying expenses from October 1 of the ensuing fiscal year until the time when the revenues for that year are expected to be available. The County should strive to maintain a balance not less than 5% or greater than 10% percent of the total revenue receipts and balances (beginning balance) of the budget.

**c.) Future Capital Outlay**

Any reserve amount accumulated for the purpose of funding capital projects must be spent on such project within 6 years from the date it was assessed or collected.

**III. All other Special Revenue Funds**

Except where prohibited by funding source, the components of Special Revenue funds reserves should include, but not be limited to the following:

**a.) Reserve for Contingencies**

The purpose of Reserve for Contingencies is to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls, unanticipated expenditures, and to ensure stable tax rates; and other unforeseen financial situations

after exhausting all other funding options. The County should strive to maintain a balance not less than 5% and not greater than 10% percent of the total of the budget. Budget is defined as the amount available to spend to include beginning balance and revenues.

**b.) Cash Carried Forward**

A reserve amount for the purpose of paying expenses from October 1 of the ensuing fiscal year until the time when the revenues for that year are expected to be available. The County should strive to maintain a balance not less than 5% or greater than 10% percent of the total revenue receipts and balances (beginning balance) of the budget.

**IV. Internal Service Funds**

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County, or to other governmental units, on a cost-reimbursement basis. These funds are generally intended to operate on a break-even basis. There shall be appropriated, in each of the internal service funds, a reserve for cash balance to be carried over in an amount necessary to ensure that balances in the fund as of the end of each fiscal year is greater than or equal to zero. This reserve shall be in addition to all other, including but not limited to amounts reserved for claims incurred but not paid. In any fiscal year when it is projected that the actual amount of balances will be less than or equal to zero at year end, it will be necessary to either increase the rates charged or reduce expenses or both. In any fiscal year when it is projected that the actual amount of balances will be greater than zero at year end, consideration will be given to reducing the rates charged, or to using the accumulated surplus for any legal purpose.

**V. Risk Management**

Risk Management should maintain a minimum reserve equal to the 70% undiscounted confidence level of the annual actuarial study to ensure financial viability. In addition, should a claim be made against the County that is identified subsequent to the actuarial report and prior to the issuance of the Comprehensive Annual Financial Report that is financially material to the fund and highly likely to succeed, additional reserves should be established to provide adequate funds in reserve. Reserves will be funded through the premium rates charged to the covered entities.

The Risk Management Fund encompasses risk programs including automotive liability, general liability, and property claims. Additional miscellaneous liabilities include aviation, underground storage tanks, and professional liability for the Board of County Commissioners and other Elected Officials. Because of the inherent risk of catastrophic losses associated with the operation of vehicles and heavy equipment, construction work, jail operations, among others, a conservative approach should be taken when establishing the amount of reserves. Insurance and safety industry best practices will be employed to mitigate against these risks.

## **SECTION 4. General Government Debt Service Funds**

### **Debt Service Funds**

Debt Service reserves will be maintained as required by bond covenants or other debt obligations. Excess Debt Service Fund balances should be returned to the general or special revenue fund where the pledged revenue stream is collected.

## **SECTION 5. General Government Capital Funds**

### **Capital Funds**

Capital Funds should maintain fund balance budgeted in reserves if allowable by type of Fund. Many of the Capital Funds are time limited revenues, such as Infrastructure Surtax, and those funds will be expended as available and allowable. Other Capital Funds have time limitations, such as Impact Fees that are required to be spent within six years; those funds will be expended as soon as possible within allowable parameters. Excess funds should be returned to the general or special revenue fund where the appropriated revenue stream is collected.

## **SECTION 6. Enterprise Funds**

### **I. Charlotte County Utility**

The Utility should strive to maintain a minimum balance in the renewal and replacement fund equal to the lesser of one-twelfth (1/12) of five percent (5%) of the prior year's gross revenue or \$2,000,000. The Utility shall strive to maintain an unrestricted operating reserve fund balance equal to an average of ninety (90) to one hundred and twenty (120) days of the Utilities operating and maintenance expenses as established during its annual budget.

### **II. Solid Waste**

The Solid Waste System should strive to maintain a reserve of sixty (60) to ninety (90) days of operating expenditures, plus fifty percent of the five year Capital Improvement Plan funding. In addition, all reserves required by Florida Department of Environmental Protection Administrative Code associated with landfill operations will be maintained.

### **III. Sanitation District**

The Sanitation District should strive to maintain a reserve of sixty (60) to ninety (90) days of operating expenditures. The reserve will be used in the event of a major interruption to the current revenue stream due to unforeseen circumstances, such as natural or man-made disaster, or significant downturn.

### **Additional Information**

All corresponding calculations and interpretation of calculations of a definitive nature will be determined by the County Administrator or his designee.

Reserve funds will be accumulated over a period that is deemed appropriate by the Board of County Commissioners given the complexity and consideration of a variety of economic conditions.

Reserve funds will be reported and approved by the Board of County Commissioners annually during the budget process. Related to the management of reserve funds, all

uses and transfers from reserve accounts must be approved by the Board of County Commissioners.

This policy will be reviewed and approved by the Board of County Commissioners annually.