

Charlotte County Financial Reserve Policy

General Policy Statements:

- 1.) The Board of County Commissioners realizes 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 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.

d.) Future Capital Outlay Reserve

A reserve amount for the purpose of funding capital project expenditures that are part of the approved Capital Improvement Program and are held within the Capital Projects Fund. These dollars are restricted for approved capital projects using ad valorem revenues. Reserves in this area may be used as contingency on approved capital projects or future planned expenses on projects that are part of the Capital Needs Assessment.

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 50% 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 Self Insurance Funds include Health Benefits, Casualty, and Workers' Compensation Programs, and all maintain reserves for Outstanding Liabilities.

The Health Fund will endeavor to maintain approximately 90 days of claim payments based upon previous full year spending averages.

Minimum reserving for the Casualty Program, and the Workers' Compensation Program, shall not be less than the Annual Actuarial Report at the 70% undiscounted confidence level for Outstanding Liabilities.

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 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.

Reserves of the Utility funds are for the exclusive use and security of the Utility System. Any reserves of the Utility which are in surplus to minimum reserve policies of the Utility shall be maintained as reserve balances or utilized by the Utility to expedite maintenance of and capital investment in the Utility System. No transfer shall be made of any Utility reserves or other surplus funds outside of the various enterprise-controlled funds, and no expenditure shall be incurred against, or paid from, the Utility enterprise funds except for maintenance, capital outlay and expenditure for the account and benefit of the Utility.

Upon recommendation of the County Administrator and approval of the Board of County Commissioners, transfer of surplus reserve funds may be made, excluding connection fees, from a Utility enterprise fund (the lending fund) to another fund held by the County (the borrowing fund) provided that any such transfer shall be treated as a loan only.

Interest shall be paid by the borrowing fund to the lending fund in an amount equal to the interest lost by the lending fund as a result of the transfer. No transfer of funds shall be permitted which will hinder the lending fund's ability to fund authorized expenditures which are intended to be made within that particular fund of the Utility.

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.