



CLARK COUNTY STAFF REPORT

DEPARTMENT: County Auditor

DATE: November 18, 2013

REQUEST: Adopt the proposed General Fund-fund balance policy

CHECK ONE: X Consent CAO

BACKGROUND

One of Clark County's top priorities is to maintain its long-term financial stability. To achieve this priority, fiscal best practices indicate it is necessary to maintain an appropriate level of reserves in fund balance. Adopting a General Fund fund balance policy will help ensure that sound financial principles and practices are consistently applied from year-to-year.

The County's current practice is to follow industry guidance to establish an appropriate fund balance. Recent guidance recommends using a risk-based analysis to determine an entity specific fund balance level. The factors included in the risk-based analysis that are specific to Clark County include operational funding requirements, revenue volatility, and emergency reserves. The exact calculation will be adjusted each year based on the guidance provided in the fund balance policy.

COMMUNITY OUTREACH

These recommendations relate to an internal support matter. Community outreach or participation was not a consideration.

BUDGET AND POLICY IMPLICATIONS

There are no budget implications. The Board of County Commissioners has the authority to approve this policy.

FISCAL IMPACTS

Yes (see attached form) No

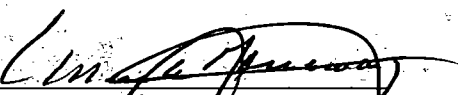
ACTION REQUESTED

Adopt the attached General Fund-fund balance policy [Attachment A]

DISTRIBUTION

Please distribute copies of this report to the following:

- County Auditor
- County Treasurer
- Office of Budget


 MARK GASSAWAY,
 FINANCE DIRECTOR

Approved:


 CLARK COUNTY
 BOARD OF COMMISSIONERS

DEC. 3, 2013

SR 242-13

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11/18/13*

FISCAL IMPACT ATTACHMENT

Part I: Narrative Explanation

I. A – Explanation of what the request does that has fiscal impact and the assumptions for developing revenue and costing information

Part II: Estimated Revenues

Fund #/Title	Current Biennium		Next Biennium		Second Biennium	
	GF	Total	GF	Total	GF	Total
Total						

II. A – Describe the type of revenue (grant, fees, etc.)

Part III: Estimated Expenditures

III. A – Expenditures summed up

Fund #/Title	FTE's	Current Biennium		Next Biennium		Second Biennium	
		GF	Total	GF	Total	GF	Total
Total							

III. B – Expenditure by object category

Fund #/Title	Current Biennium		Next Biennium		Second Biennium	
	GF	Total	GF	Total	GF	Total
Salary/Benefits						
Contractual						
Supplies						
Travel						
Other controllables						
Capital Outlays						
Inter-fund Transfers						
Debt Service						
Total						

Clark County, Washington General Fund-Fund Balance Policy

Policy

The General Fund-Fund Balance Policy is intended to establish and maintain appropriate reserve levels to ensure the continued delivery of County services, address emergencies, address temporary revenue shortfalls, and provide stability during economic cycles. This policy provides guidelines during the preparation of and deliberations of the County budget. Sufficient reserve funds will be managed to provide adequate cash flow, maintain the County's good standing with bond rating agencies, keep the County's interest rates as low as possible, and provide continuity in service delivery. The County shall maintain adequate cash reserves in each fund to maintain a positive cash position at any time during a fiscal year and at year-end.

General Fund Reserve

The County will maintain a General Fund unassigned reserve balance consisting of three measures: cash flow, revenue volatility, and emergency or one-time expenses. As a benchmark, best practices recommend governments maintain an unrestricted fund balance of 15% to 20% (60 days) of operating revenues.

Cash Flow

The reserve shall provide adequate cash flow so that the General Fund does not incur a negative balance in between property tax collection cycles. The cash flow reserve component shall be based on the lowest month three year average, cumulative net expenditure. (Latest three years average cumulative monthly revenue less expense beginning in January.)

Revenue Stability

Clark County revenues are generally stable. Its largest single revenue source (approximately 37%) is property tax. Property tax uses a base + new construction method of calculation. This method ensures a consistent source of revenue. The County's second largest revenue source (17%) sales tax is more volatile. It is influenced by economic conditions as was the case in the 2009-2010 recession when sales tax revenues declined \$5M and \$3M respectively. To provide stability from economic volatility, the General Fund shall maintain a reserve equal to the average of the two years largest decreases in sales tax. The Board of County Commissioners will begin to restore emergency reserves used under this policy within 12 months after their first use.

Emergency, One-time

On an annual basis, the General Fund is required to fund unfunded claims, emergency expenses, or one-time support to other funds. This amount varies from year-to-year, but on occasion can reach several million dollars. The amount of reserve established for this purpose should be based on the greater of 20 percent of the cash flow reserve component or the emergency reserve prior year's actual use. The County may use funds from the emergency reserve when an emergency has been declared by ordinance and after the General Fund's budgeted contingency is exhausted. The Board of County Commissioners will begin to restore emergency reserves used under this policy within 12 months after their first use.

Additional Fund Balance

In addition to unassigned fund balance, the General Fund will also maintain reserves equal to any amounts of non-spendable, restricted, committed, and assigned funds.

Authorized Uses of the General Fund Reserve

Prior to the use of General Fund reserve for either revenue stability or emergency purposes, the Finance Team (Deputy Treasurer, Finance Director, Budget Manager, and County Administrator) will prepare and distribute a report addressing the requirements for use of the reserve and the amount of funds requested. The report shall be presented to the Board of County Commissioners prior to the meeting at which a decision on use of General Fund reserve is made.

Responsibility

The Financial Team will manage and monitor the General Fund reserve. The Finance Director will report on the current and projected level of the reserve funds during each quarterly report.