

General Fund Operating and Emergency Reserve Policy

I. **Authority:**

The Mayor and the Board of Commissioners are responsible for legislation, policy formulation, and overall direction setting of the government. This includes the approval of financial policies which establish and direct the operations of Government. The Administrator is responsible for carrying out the policy directives of the Board of Commissioners and managing the day-to-day operations of the executive departments, including the Finance Department. This policy shall be administered on behalf of the Administrator by the Finance Director.

II. **Purpose:**

The Government desires to maintain a prudent level of financial resources to guard its stakeholders against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. In addition, this policy is intended to document the appropriate Reserve level to protect the Government's credit worthiness. The General Fund Operating and Emergency Reserves are accumulated and maintained to provide stability and flexibility in response to unexpected adversity and/or opportunities. The Government desires to maintain a prudent level of financial resources to guard against services disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures in the General Fund. This policy serves as framework to provide the capacity to:

- 1) Provide sufficient cash flow for daily financial needs
- 2) Provide funds for unforeseen expenditures
- 3) Offset significant economic downturns and revenue shortfalls
- 4) Maintain stable tax/fee rates
- 5) Provide for renewal and replacement of long-lived assets, and
- 6) Secure and maintain investment grade credit ratings.

This policy establishes amounts the Government will strive to maintain in its General Fund Operating and Emergency Reserves, how the Reserves will be funded, and the conditions under which Reserves may be used.

III. **Applicability and Scope:**

This policy shall apply to the Augusta Georgia General Fund referred to combined as the "General Fund".

IV. **Policy:**

A. Reserve Levels - The Government seeks to maintain a minimum level of Unrestricted Fund Balance (per the annual comprehensive financial report (ACFR) on a modified accrual basis of accounting) in the General Fund equivalent to Five months of regular, on-going operating expenditures (including transfers out). Of this

five-month reserve, four-months will be maintained to meet general operating needs and to allow for budgetary uncertainty (named as the “Operating Reserve”) and one-month may be targeted to be assigned to provide resources during economic downturns or to address vulnerabilities to extreme events, and emergencies impacting public safety concerns (named the “Emergency Reserve”).

The two reserve categories are represented below as a percentage of regular, on-going operating expenditures (including transfers out):

- | | |
|-----------------------------|-----------------------|
| • Operating Reserve: | 33% (four-months) |
| • <u>Emergency Reserve:</u> | <u>8% (one-month)</u> |
| • Total Reserve Level | 43% (five-months) |

- B. Compliance** - The Government will measure its compliance with this policy as of December 31st each year, as soon as practical after final year-end account information becomes available as part of the annual financial audit. During the course of the year the Finance Department shall closely monitor the Government’s revenues and expenditures to ensure the Operating Reserve is not used beyond any planned. For the purposes of this policy, current year's actual expenditures will exclude significant Non-Recurring (one-time) Items. The Emergency Reserve is a target the Commission seeks to accumulate in the future 10 years.

If, based on staff’s analysis and forecasting, the target level of Operating Reserve is not being met or likely to not be met at some point within a ten-year time horizon, then during the annual budget process, Fund Balance levels will be provided to the Mayor and Board of Commissioners. Should the projected year-end Fund Balance be below the Operating Reserve amount established by this policy, a minimum of \$1,000,000 increase in unassigned fund balance will be included in the annual budget. Increases to fund balance will be allocated 80% to Operating Reserve and 20% to Emergency Reserve until reserves are in compliance with policy.

- C. Cash Balance** - To provide liquidity adequate to meet the demands of government service provision including budgetary uncertainty, unanticipated reductions in revenues or unplanned expenditure increases, Cash Balances will be maintained and managed through the Pooled Cash method in such a way as to minimize short-term borrowing. This reduces overall cost to taxpayers by minimizing interest expense. The four-month Operating Reserve is intended to support this effort and counterbalance the tax collection cycle.

- D. Funding the Reserves** - Funding of General Fund Reserve targets will generally come from excess revenues over expenditures or one-time revenues. The reserve will be funded in the following priority order: Operating Reserve followed by the Emergency Reserve.

- E. Conditions for Use of Reserves** - It is the intent of the Government to limit use of General Fund Operating Reserve to address unanticipated, Non-Recurring (one-

time) needs. Reserves shall not normally be applied to recurring annual operating expenditures. Reserves may, however, be used to allow time for the Government to restructure its operations in a deliberate manner (as might be required in an economic downturn or an emergency), but such use will only take place in the context of an adopted long-term financial plan.

The Emergency Reserve may be used at the discretion of the Board of Commissions to:

- Provide resources to meet emergency expenditures in the case of flood, fire, tornado or other natural disaster.
- Provide resources to make up for temporary decreased revenues resulting from loss of major revenue sources or economic uncertainties.

F. Authority over Reserves - The Board of Commissioners may authorize the use of Reserves.

G. Fund Balance Classification - The Government desires to establish a fund balance classification policy consistent with the needs of the Government, and in a manner consistent with governmental accounting standards. The following classifications serve to enhance the usefulness of fund balance information. It shall be the policy to reduce restricted fund balance first, followed by unrestricted fund balance. For unrestricted fund balance, committed amounts should be reduced first, followed by assigned amounts, followed by unassigned amounts.

Restricted Fund Balance

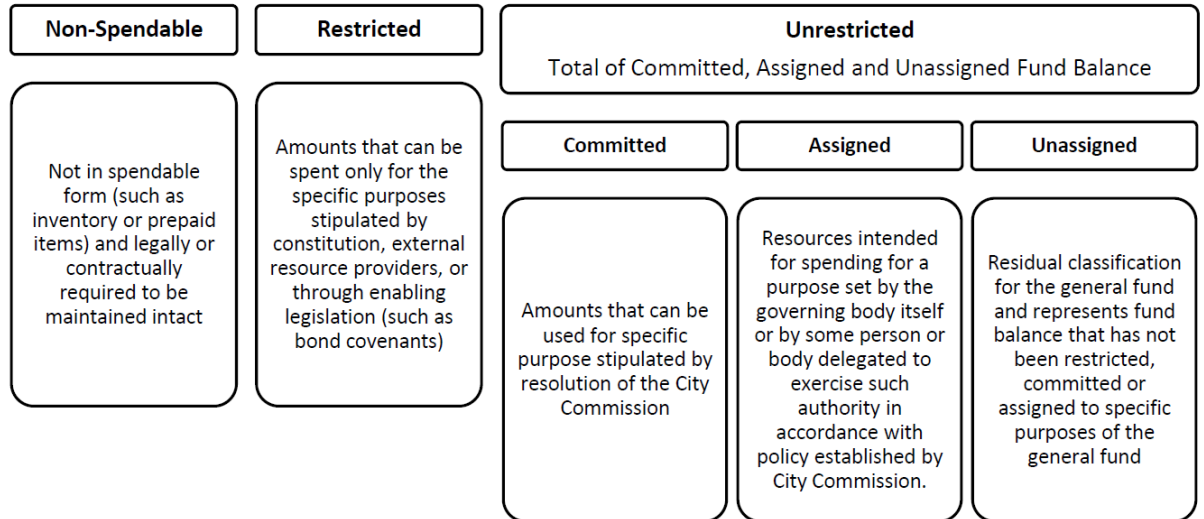
- a) *Non-spendable Balance*: Assets legally or contractually required to be maintained or are not in spendable form. Such constraint is binding until the legal requirement is repealed or the amounts become spendable.
- b) *Restricted Balance*: Assets with externally imposed constraints, such as those mandated by creditors, grantors and contributors, or laws and regulations. Such constraint is binding unless modified or rescinded by the applicable external body, laws, or regulations.

Unrestricted Fund Balance

- c) *Committed*: Assets with a purpose formally imposed by resolution by the Governing Body of the Government, binding unless modified or rescinded by the Governing Body.
- d) *Assigned*: Assets constrained by the government's intent as expressed by the Governing Body, Administrator or designee. Encumbrances shall be considered as assigned, unless they specifically meet the requirements to be committed or restricted.
- e) *Unassigned*: All amounts not included in other fund balance classifications.

Fund Balance

As defined by the Governmental Accounting, Auditing and Financial Reporting of the Government Finance Officers Association, fund balance is "The difference between assets and liabilities reported in a governmental fund."



H. Assigning Fund Balance - The Administrator and Finance Director, collectively, are hereby authorized to assign Fund Balance for specific purposes in accordance with the intent of the Administration and actions of the Board of Commissioners. This policy expresses the intent to assign one-month of regular, on-going operating expenditures (including transfers out) for the "Emergency Reserve" to address vulnerabilities to extreme events, emergencies impacting public safety concerns or to temporarily offset unanticipated reduced revenues during economic downturns.

I. Replenishment of Reserves - In the event that Reserves are used resulting in a balance below the four-months minimum, a plan will be developed and included in the formulation of the five-year forecast presented during the annual budget process.

J. Excess of Reserves - In the event Reserves exceed the minimum balance requirements, at the end of each fiscal year, any excess Reserves may be used in the following ways:

- a) Fund accrued liabilities, including but not limited to debt service, workers' compensation benefits, pension, employee health benefits and other post-employment benefits as directed and approved within the long-term financial plan and the annual budget resolution. Priority will be given to those items that relieve budget or financial operating pressure in future periods;

- b) Appropriated to lower the amount of outstanding general obligation bonds, temporary notes or contributions needed to fund capital projects in the Governments' CMIP;
- c) One-time expenditures that do not increase recurring operating costs that cannot be funded through current revenues. Emphasis will be placed on one-time uses that reduce future operating costs; or
- d) Start-up expenditures for new programs, provided that such action is approved by the Board of Commissioners and is considered in the context of multi-year projections of revenue and expenditures as prepared by the Finance Department.
- e) Property tax mill rate and/or charges for services fee reductions.

K. Periodic Review of the Targets - Compliance with this section will be reviewed in conjunction with the annual budget process. At a minimum, during the annual budget process staff shall review the current and five-year projected Reserves to ensure they are appropriate given the economic and financial risk factors to which the Government is subject.

V. Quality Control and Quality Assurance:

It is the responsibility of the Finance Director to ensure the presence of procedures that provide sufficient guidance to affected Government personnel to fulfill the intent of this policy.

These policies will be reviewed at least annually and updated on an as-needed basis.

VI. Metrics:

To be developed and managed accordingly.

VII. Definitions and Acronyms:

A. Capital Maintenance and Improvement Plan (CMIP) - A plan that describes the capital projects and associated funding sources the Government intends to undertake in the current year plus five additional future years, including the acquisition or construction of capital facilities, equipment and assets, and the maintenance thereof.

B. Cash Balance - The sum of cash and Cash Equivalents of an accounting fund.

- C. Cash Equivalent - In the context of cash flows reporting, short-term, highly liquid investments that are both 1) readily convertible to known amounts of cash and 2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. For this purpose, "original maturity" means maturity as of the date the investment is acquired.
- D. Fund Balance - Fund Balance is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in a governmental fund as reported in the Annual Comprehensive Financial Report (ACFR).
- E. Fund Balance (Budgetary) – Fund Balance for Budgetary Purposes begins with the beginning of the year unencumbered fund balance as reported in the ACFR's Schedule of Budgetary Accounts, Budget and Actual Budgetary Basis (non-GAAP) for the respective fund, plus revenues less all expenditures recorded on a cash basis for the respective fiscal year.
- F. General Fund - One of five governmental fund types. The General Fund typically serves as the chief operating fund of a government. The General Fund is used to account for all financial resources not accounted for in some other fund.
- G. Non-Recurring Item - An expenditure that has not occurred in the previous two years and is not expected to occur in the following year.
- H. Pooled Cash - The sum of unrestricted cash and investments of several accounting funds that are consolidated for cash management and investment purposes. Investment income or expenditure is allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
- I. Reserve - Reserve refers only to the portion of Fund Balance that is intended to provide stability and respond to unplanned events or opportunities.
- J. Unrestricted Fund Balance - The difference between total Fund Balance in a governmental fund and its nonspendable and restricted components.