Fund Balance, General Fund Reserve, and Debt Management Policy

Policy Scope

This Policy provides for the classification priority and use of fund balances, the parameters and funding methods the County will utilize to establish and maintain a prudent level of General Fund Reserves, contingencies, and the use of fund balances including but not limited to debt management.

Background

This policy applies to the County General Fund and is consistent with Governmental Accounting Standards Board Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, (GASB 54).

The maintenance of a General Fund Reserve is a sound business practice to protect the fiscal solvency of Lake County. A prudent General Fund Reserve level is a critical measure of a government's ability to manage risk. Risk comes in many forms, often unforeseen and a reserve fund is a key tool in meeting the financial challenges when they may occur.

Government Finance Officers Association's (GFOA) recommends a minimum reserve level of two months (16.6%) of your revenues/expenditures. With the County's risk factors in mind the GFOA recommends a minimum reserve of between two to three months (17-25%) of revenues/expenditures.

Supporting Government Codes

Government Code § 29085. "The budget for each fund may contain non-spendable, restricted, committed, or assigned fund balance classifications in such amounts as the board deems sufficient. General reserves and stabilization arrangements may also be included as part of the restricted, committed, assigned, and unassigned fund balance."

Government Code § 29086. "Except in cases of a legally declared emergency, as defined in Section 29127, the general reserve may only be established, canceled, increased, or decreased at the time of adopting the budget as provided in Section 29088. The general reserve may be increased any time during the fiscal year by a four-fifths vote of the board."

Government Code § 29127. "After adopting a resolution stating the facts constituting an emergency by a four-fifths vote of the board at any regular or special meeting, the board may appropriate and make the expenditure necessary to meet an emergency in any of the following cases:

(a) Upon the happening of an emergency caused by war, fire, failure or the imminent failure of a water system or supply, flood, explosion, storm, earthquake, epidemic, riot, or insurrection.

(b) For the immediate preservation of order or of public health.

(c) For the restoration to a condition of usefulness of any public property, the usefulness of which has been destroyed by accident.

(d) For the relief of a stricken community overtaken by calamity.

(e) For the settlement of approved claims for personal injuries or property damages, exclusive of claims arising from the operation of any public utilities owned by the county.

(f) To meet mandatory expenditures required by law."

Government Code § 29084. "The budget may contain an appropriation or appropriations for contingencies in such amounts as the board deems sufficient."

Policy

It is the policy of the Board of Supervisors that the County will maintain reserves and contingencies in the General Fund to support fiscal health and stability. This policy contains three distinct sections to separately address the Fund Balance, General Fund Reserve, and Debt Management as follows.

1. Fund Balance

When adopting the annual budget for the General Fund, the Board of Supervisors will provide direction to the County Auditor-Controller to reconcile the difference between the General Fund's estimated and actual Fund Balance Available (FBA) at the beginning of the budget period. If the Fund Balance Available is less than estimated the County Auditor-Controller may be directed to reduce the General Fund Appropriation for Contingencies and/or Department specific appropriations. If the actual Fund Balance Available is greater than estimated (Excess Fund Balance), the County Auditor-Controller may be given specific direction, generally within the following parameters:

a. Debt Service payments

b. Funding pension 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 years

c. Unmet building or maintenance requirements

d. One-time expenditures that do not increase recurring operating costs that cannot be funded through current revenues. Emphasis will be placed on on-time uses that reduce future operating costs

e. Start-up expenditures for new programs, provided that such action is approved by the Board of Supervisors and is considered in the context of multi-year projections of revenue and expenditures

Unreserved Fund Balance – The County will maintain sufficient fund balances in the General Fund to provide adequate working capital and to accommodate required adjustments to other reserve accounts, including advances to other funds. Appropriations or use of funds from Unreserved Fund Balances will require approval by the Board of Supervisors.

Other Assignments or Commitments of the General Fund – Establishment of these policies do not preclude the Board of Supervisors from setting aside additional funds for a specific project, program, or capital item.

2. General Fund Reserve

The goal of the Board of Supervisors is to build and maintain General Fund Reserves of seventeen to twenty five percent (17%-25%) of the prior fiscal year's actual General Fund operating expenditures.

A. If the General Fund Reserve for the upcoming budget year is less than twenty five percent (25%) of the prior fiscal year's actual General Fund operating expenditures, the Board of Supervisors will consider increasing the General Fund Reserve during the public hearings on the Recommended and/or Final Recommended Budget in the following circumstances:

   a. When one-time, unanticipated, discretionary revenues exceeding $250,000 with no offsetting expenditures were received in the prior fiscal year.

   b. When projected General Fund tax revenue receipts for the upcoming fiscal year are expected to increase by more than four percent (4%) over the prior fiscal year actuals.

B. During the public hearing on the Recommended and/or Final Recommended Budget, in response to a fiscal emergency or as part of a multiyear plan to adjust to revenue losses, the Board of Supervisors may consider reducing the amount set aside in the General Fund Reserve.

C. Emergencies: Government Code § 29127 stats "After adopting a resolution stating the facts constituting an emergency by a four-fifths vote of the board at any regular or special meeting, the board may appropriate and make the expenditure necessary to meet an emergency in any of the following cases:

   a. Upon the happening of an emergency caused by war, fire, failure or the imminent failure of a water system or supply, flood, explosion, storm, earthquake, epidemic, riot, or insurrection.

   b. For the immediate preservation of order or of public health.

   c. For the restoration to a condition of usefulness of any public property, the usefulness of which has been destroyed by accident.

   d. For the relief of a stricken community overtaken by calamity.

   e. For the settlement of approved claims for personal injuries or property damages, exclusive of claims arising from the operation of any public utilities owned by the county.

   f. To meet mandatory expenditures required by law."

D. Review of the General Fund Reserve Goal: At a minimum, during the budget process staff shall review the current and five-year projected Reserves to ensure that they are appropriate given the economic and financial risk factors the County is subject to.

E. If funds are removed from the General Fund Reserve, there shall be a plan in place to restore the funding within 3-5 fiscal years.

Contingencies

When the County Auditor-Controller and the County Administrative Officer determine additional working capital is needed in the General Fund for cash flow of the County, the Board of

Supervisors will consider contributing the calculated amount needed to cover cash flow demands to the General Fund Appropriation for Contingencies.

Responsibilities

The County Administrative Officer, Assistant County Administrative Officer, and Auditor-Controller, collectively, are hereby authorized to assign Fund Balance for specific purposes in accordance with the intent and actions of the Board of Supervisors

3. Debt Management

This Debt Management Policy (the “Policy”) of the County of Lake was approved by the County’s Board of Supervisors on July 16, 2024. The Policy may be amended by the Board of Supervisors as it deems appropriate from time to time in the prudent management of the debt of the County. This Policy applies to the County and all subordinate entities of the County for which the Board of Supervisors serves as the governing board.

State Legislative Requirements

California Senate Bill 1029, which amended California Government Code section 8855(i), was enacted in September 2016 and became effective January 1, 2018. SB 1029 mandated tracking of State and local government borrowing and spending of bond proceeds in an effort to increase transparency. Among other requirements, SB 1029 requires a report of proposed debt issuance be submitted to the California Debt and Investment Advisory Commission (CDIAC) not later than 30 days prior to a bond sale, including a certification by the County that it has adopted local debt policies concerning the use of debt and that the contemplated debt issuance is consistent with those local debt policies.

This Policy is written to ensure that the County’s policies and procedures comply with the requirements of the California Government Code. Specifically, this Policy contains the following elements as required under Senate Bill 1029:

a. The purposes for which the debt proceeds may be used.
b. The types of debt that may be issued.
c. The relationship of the debt to, and integration with the County’s capital improvement plan or budget, if applicable.
d. Policy goals related to the County’s planning goals and objectives.
e. The internal control procedures that the County has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

Purposes and Use of Debt

The Lake County Board of Supervisors has approved a separate Debt Advisory Committee Policy on July 16, 2024. All proposals to issue debt must be evaluated by the DAC to consider the impact on the County financial condition and the ultimate cost of the debt. No financing will be undertaken to finance an operating deficit or an ongoing operational cost.

Debt may be issued for the following reasons:

a. Finance needed for equipment, facilities or infrastructure identified by the County's adopted budget or capital improvement plan;

b. Refunding existing debt when a reasonable overall net savings can be realized; and

c. Fund short-term cash flow deficits in anticipation of tax and revenue receipts, to be repaid within 13 months from date of issuance, or to advance funds to be reimbursed from other sources, such as state or federal grants.

The use of debt for long-term financing is limited to those uses authorized by law and allowed by the provisions of a particular debt issue. Generally, these limitations will allow for paying costs of planning, design, land, construction or acquisition of buildings, permanent structures, attached fixtures and/or equipment, movable furniture and equipment, and the costs of planning and issuing the debt.

Types of Debt and Debt Issuance

For purposes of this Policy, "debt" shall be interpreted broadly to mean bonds, notes, certificates of participation, financing leases, or other financing obligations. The use of the term "debt" in this Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt in contravention of any statutory or constitutional debt limitation.

Types of Debt. The following types of debt shall be evaluated under this Policy:

a. General Obligation Bonds

b. Bond Anticipation Notes and Grant Anticipation Notes

c. Lease Revenue Bonds, Certificates of Participation and Lease or Lease-Purchase transactions

d. Revenue Bonds, including Installment Purchase Certificates of Participation

e. Tax and Revenue Anticipation Notes

f. Pension Obligation Bonds

g. Tobacco Securitization Asset Backed Bonds

h. Revolving Credit Facilities

i. Tax increment financing, to the extent permitted under state law

j. Conduit financings, such as financings for affordable rental housing and qualified 501c3 organizations

k. Land secured financings, such as Mello Roos and Assessment District bonds

The County may from time to time find that other forms of debt would be beneficial to further its public purposes and may not approve such debt without an amendment of this Debt Policy.

Method of Sale. The County may use a competitive, negotiated, or private placement (direct purchase) method of sale to issue debt, with the appropriate method determined on a case-by-case basis. Factors impacting the method of sale could include credit rating, size of transaction, market access, amongst other factors. The County prefers utilizing a competitive method of sale for public offerings and shall consult with a Municipal Advisor to help determine the optimal method of sale for each transaction. If a negotiated sale is recommended, rationale justifying the use of negotiated sale shall be provided.

Credit Rating. The County seeks to maintain the highest possible credit rating in order to minimize the borrowing cost and maintain market access. The number of credit ratings and which rating agency to solicit for each transaction will be determined on a case-by-case basis.

Use of a Municipal Advisor: The County shall engage a registered Municipal Advisor to provide independent analysis to the County and DAC. The Municipal Advisor will assist in evaluating financing options, structuring debt, make recommendations as to the method of sale, conduct competitive bond sales, and assist with negotiated bond sales, including assisting in the procurement of an underwriter and pricing oversight activities.

Relationship of Debt to Capital Improvement Program and Budget

The County is committed to long-term capital planning. The County intends to issue debt for the purposes stated in this Policy and to implement decisions incorporated in the County's capital budget and the capital improvement plan.

The County shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the County's public purposes.

The County shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The County shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

Policy Goals Related to Planning Goals and Objectives

The County is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The County intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the County's annual operations budget. The County will strive to meet the following priorities:

a. The county will utilize its ability to borrow for infrastructure and facilities that have a general benefit to County residents, while recognizing the County's ability to borrow has legal, financial, and administrative limitations (i.e., County administration facilities, court houses, health facilities, safety facilities, etc.).

b. The County will utilize its administrative capacity, authority to levy taxes and assessments, and borrowing ability to aid County residents who are property owners/taxpayers to pursue public infrastructure projects which have a special benefit (i.e., undergrounding utilities, septic tank to sewer conversion, etc.).

c. The County will utilize its debt capacity for public infrastructure desired by landowners to enhance a land development project with public benefit beyond that which would otherwise occur (i.e., delivery system for water, sewer system, traffic, regional parks, libraries, etc.).

d. The County will utilize its debt capacity for public infrastructure which is required as a condition of development when doing so will aid the development process in such a way as to produce a public benefit of a substantial nature (i.e., roads, bridges, fire stations, affordable housing, etc.).

The County shall comply with the following goals when issuing debt:

a. The final maturity of any debt obligation issued to fund capital improvements shall not exceed 120% of the expected average useful life of the assets being financed, consistent with federal tax law for the issuance of tax-exempt debt.

b. The County shall strive to have General Fund lease debt service be less than 8.0% of General Fund Expenditures. The County shall work with a Municipal Advisor to create and maintain a Debt Affordability Model with ratios recalculated at the time of a new debt issuance to ensure compliance with this threshold.

c. When refinancing debt on a current basis, it shall be the policy goal of the County to realize net present value debt service savings equal to or greater than 3.0% of the refunded principal amount. When refunding debt on an advance basis the minimum savings net present value debt service savings shall be equal to or greater than 5.0%. The County shall not extend the final maturity of any debt via refunding. In certain cases, the County shall be permitted to issue refunding bonds with savings below the above thresholds in order to modify or change terms of the County's outstanding debt.

d. Debt shall be issued as fixed rate debt unless the County makes a specific determination that the issuance of variable rate debt would be beneficial to the County in a specific circumstance. The County shall strive to limit the amount of variable rate debt to no more than 20% of its overall portfolio.

The County shall consider adopting the following additional policies in the future:

a. If the County will consider land-secured financings, the County shall adopt a separate Policy for Land Secured Financings, which shall contain certain parameters regarding the use and management of such products and shall be approved by the County Board of Supervisors.

b. If the County is considering entering into any type of financial derivative product (i.e., interest rate swap, etc.), the County shall adopt a separate Financial Derivatives Policy which shall contain certain parameters regarding the use and management of such products and shall be approved by the County Board of Supervisors.

c. Disclosure policies.

Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Policy, the County shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The County will periodically review the requirements of and will remain in compliance with the following:

a. Any continuing disclosure undertakings under SEC Rule 15c2-12 or annual disclosure obligations under Government Code section 8855(k),

b. Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and

c. The County investment policies as they relate to the investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee, which will disburse such proceeds to the County upon the submission of one or more written requisitions, or (b) by the County, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the County.

Definitions

Appropriation for Contingencies. An amount appropriated for unanticipated expenditure requirements. Appropriation for Contingencies is adopted as part of the Budget with a majority vote of the Board of Supervisors and can be used during a fiscal year with a 4/5th vote of the Board of Supervisors transferring the appropriation to elsewhere in the budget. The Appropriation for Contingencies expires July 30th of each fiscal year to be reestablished the following year.

Fund Balance Available. The amount of General Fund balance that is available for financing expenditures and other funding requirements after deducting non-spendable, restricted, committed, and assigned fund balance. Also referred to as the unobligated or unassigned fund balance.

Excess Fund Balance Available. The amount, if any, of actual General Fund balance that is available, after the close of fiscal year accounting, exceeding the estimated General Fund Balance Available used in the Recommended Budget. This difference, if any, is considered when finalizing the annual Adopted Budget.

Fund Balances. Fund balances represent the net assets of each fund. Net assets generally represent a fund's assets (cash, receivables, etc.) less its liabilities. Portions of a fund's balance may be non-spendable, restricted, assigned or committed for future expenditure as a result of County policy, terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions, which the County cannot unilaterally alter.

General Fund. The main operating fund that provides general county-wide services.

General Fund Reserve. The portion of the General Fund balance assigned by the Board of Supervisors as the General Fund Reserve. It is not available for appropriation during the fiscal year except in cases of a legally declared emergency, as the funds are held for future years in anticipation of limited duration budget shortfalls and to ensure sufficient working capital for cash flow. Government Code Section 29086 provides as follows, "Except in cases of a legally declared emergency…the general reserve may only be established, canceled, increased or decreased at the time of adopting the budget…" The General Fund Reserve is not a budgetary appropriation and so does not expire at year end. It can be added to or reduced with each year's budget.

Unrestricted Fund Balance. The portion of the General Fund balance made up of the committed, assigned and available (unassigned) fund balance. The unrestricted fund balance is not restricted by law for a specific purpose.