

Chapter 24. Reserves and Fund Balance Policy¹

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24.001 Purpose

The purpose of this chapter is to provide guidance on appropriate reserve levels and annual fund balance goals to maintain a stable financial environment for the County's operations. The County wishes to establish prudent reserve levels and maintain a financially healthy fund balance to protect the County against unexpected revenue or expenditure fluctuations and to minimize borrowing costs by maintaining high credit ratings. The County recognizes that maintaining a fund balance is fiscally advantageous to the County and the taxpayer. The County maintains reserves in the General Fund and other funds to plan for future expenditures and/or to offset unexpected revenue or expenditures fluctuations.

24.002 Chapter Review

- (a) The Planning and Budget Office reviews this chapter annually to assess and report on the County's financial compliance with this chapter.
- (b) The Commissioners Court reviews this chapter at least once every five (5) years to ensure the chapter is relevant and up to date.

24.003 Definitions

In this chapter:

- (1) "Available Fund Balance" means the amounts composed of the assigned and unassigned fund balance categories, in the aggregate, as shown in the County's Comprehensive Annual Financial Report.
- (2) "Budgeted Reserves" mean the adequacy of current funds set aside in specific line item accounts identified in the budget as "reserves" and as measured on a prospective basis during the annual budgeting process.

¹ Chapter 24 was adopted by Travis County Commissioners Court on January 8, 2019, Item 16.

- (3) “CAFR” means Comprehensive Annual Financial Report, and is a set of financial statements for a governmental entity in compliance with the accounting requirements established by the Governmental Accounting Standards Board (GASB).
- (4) “Earmarks” mean funds set aside in a reserve for a potential future expenditure.

24.004 Authorization

The County maintains reserves that comply with this chapter, the law, and any applicable bond covenants. Commissioners Court shall approve all expenditures drawn from reserve accounts.

24.005 General Fund Budgeted Reserves Guidelines

Travis County has four (4) primary categories of Budgeted Reserves in the General Fund: the Unallocated Reserve, the Allocated Reserve, Other General Purpose Reserve, and Special Purpose Reserves.

- (1) Unallocated Reserve
 - (A) The County’s goal is to maintain an Unallocated Reserve equal to no less than 11% of the total budgeted operating expenses for the General Fund as defined in the CAFR.
 - (B) The Unallocated Reserve is only intended to be used for a serious public calamity or other emergency during the fiscal year. It is intended to establish the County’s fiscal soundness and is a key part of the criteria used in establishing the County’s bond rating.
 - (C) Under special circumstances, the Commissioners Court may adopt a reimbursement resolution that allows a temporary transfer from the Unallocated Reserve that will be reimbursed from bond or Certificate of Obligation proceeds.
 - (D) All permanent expenditures funded from this reserve will be reported in detail in the CAFR.
- (2) Allocated Reserves
 - (A) The Commissioners Court establishes an Allocated Reserve for unforeseen operating expenditures occurring after the Commissioners Court adopts the budget. The Allocated Reserve may also include funds for potential expenditures approved as Earmarks for future discussion. The Commissioners Court expects that some or all of this reserve will be expended, depending upon needs that emerge during the fiscal year. This is a fund source to be used sparingly, and only after all other alternatives have been fully explored.

- (B) The Commissioners Court establishes the amount of the Allocated Reserve during the budget process. The size depends on the degree to which mid-year needs are known and the amount of budget flexibility the Commissioners Court approves. As a general guideline, the target amount for this reserve will be between 0.5% and 1.0% of total General Fund budgeted expenditures, excluding Earmarks.
- (3) Other General Purpose Reserves
 - (A) The Commissioners Court may establish other General Purpose Reserves to ensure funding is available for expenditures related to emergencies that may arise during the fiscal year and to fund known or potential operating and capital expenditures.
 - (B) The Planning and Budget Office evaluates the General Purpose Reserve levels annually during the budget process.
- (4) Special Purpose Reserves
 - (A) The Commissioners Court may also establish specialized reserves when it is known that a major future expenditure is expected to occur in one or more subsequent years, to ease the impact on the future tax rate and/or to reduce the likelihood of sharp changes in revenue requirements.
 - (B) These specialized reserves anticipate major improvements in technology or facilities; unusually large anticipated staffing requirements, either legally required or as part of an approved plan; other expenditures known to be large enough that they are better phased over time, and for anticipated contractual obligations for which the amount has not been finalized when the Commissioners Court adopts the budget.

24.006 Debt Service Fund Reserves Guidelines

A debt service reserve of at least 11% of total debt service requirements for the current fiscal year is maintained to ensure availability of funds to meet the debt service payments in the event of tax revenue shortfalls.

24.007 Internal Service Funds Reserves Guidelines

- (a) Internal Service Funds are proprietary funds used to account for financing goods or services provided by one department to other departments of the County on a cost reimbursement basis.
- (b) Reserves in these funds are established at a level appropriate for the program. This level ensures that the unrestricted net position remains at a level sufficient to pay the balance of unpaid claims' liabilities plus approximately 10% of operating expenditures at fiscal year-end.

24.008 Capital Project Funds Reserves Guidelines

The Commissioners Court establishes reserves within Capital Project funds in accordance with any relevant bond covenants or other legal or chapter restrictions.

24.009 Special Revenue Funds Reserves Guidelines

- (a) Special Revenue Funds may establish reserves for a variety of reasons. Reserves in other funds are intended to be used to address unanticipated, non-recurring needs or to execute a long-term plan.
- (b) Reserves shall not generally be applied to recurring annual operating expenditures.
- (c) (Reserves will be reviewed annually during the County's budget process.

24.010 Replenishment of Reserves

If reserves fall below levels stated in this Chapter, the Planning and Budget Office will prepare and submit a plan for either expenditure reductions, revenue increases, or both that are necessary to restore the reserve to the minimum level within two (2) fiscal years. The Commissioners Court will discuss and approve this plan during the budget process. If the reserve cannot be restored within two (2) years without severe hardship to the County, then the Commissioners Court will establish an approved plan with a different time period.

24.011 Fund Balance Guidelines

- (a) The Commissioners Court is mindful of the financial importance of maintaining a healthy Available Fund Balance. A healthy fund balance assists the County in:
 - (1) Providing sufficient cash flow for daily operations year round.
 - (2) Maintaining a strong bond rating.
 - (3) Offsetting the impacts of economic downturns or sharp revenue reductions.
 - (4) Providing funds for unforeseen emergencies.
- (b) The County's goal is to have a stable Available Fund Balance from year to year.
 - (1) In the General Fund, the County strives to maintain an Available Fund Balance of no less than two (2) months of regular General Fund operating expenditures recommended in guidelines from the Government Finance Officers Association (GFOA).
 - (2) The Available Fund Balance is derived from the budgeted Unallocated Reserve as well as unspent but budgeted funds remaining at the end of the current fiscal year.

24.012 Replenishment of Available Fund Balance

- (a) (a) If the Available Fund Balance falls below the guidelines in Section 24.011, the Planning and Budget Office will prepare and submit a plan for either expenditure reductions, revenue increases, or both that are necessary to restore the amount of Fund Balance, including replenishing any related reserves, to the minimum level within two (2) fiscal years. The Commissioners Court will discuss and approve this plan during the budget process.
- (b) If the Available Fund Balance cannot be restored within two (2) years without severe hardship to the County, then the Commissioners Court will establish an approved plan with a different time period.