



Resolution 2022-220

**BOARD OF COMMISSIONERS
SARPY COUNTY, NEBRASKA**

Revising the Existing Cash Reserve Policy as a Budgetary Reserve Policy with a Targeted Minimum Budgetary Reserve for the County as Two-Months (16.7%) of Adjusted Operating Expenses

Whereas, pursuant to Neb. Rev. Stat. §23-104(6)), the County has the power to do all acts in relation to the concerns of the County necessary to the exercise of its corporate powers; and,

Whereas, pursuant to Neb. Rev. Stat. §23-103, the powers of the County as a body are exercised by the County Board; and,

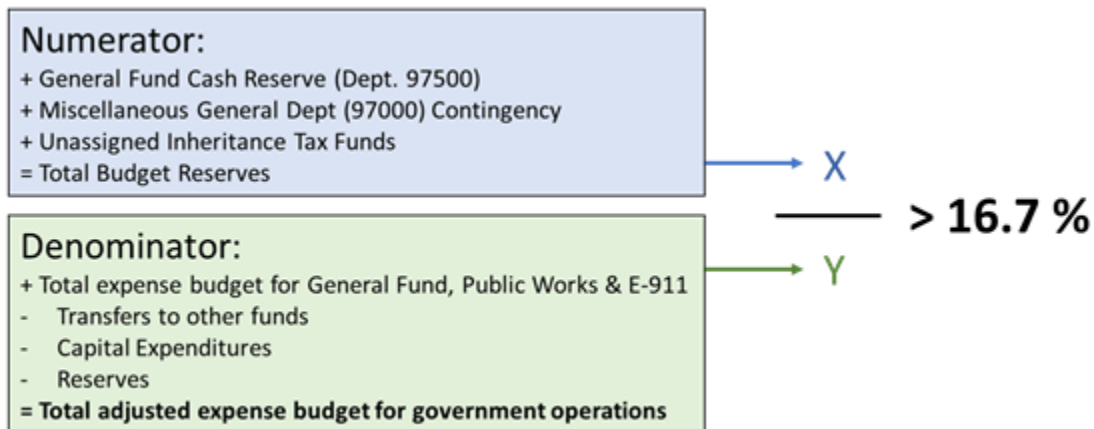
Whereas, cash balance reserves are an extremely important element of budgeting and provide a stable flow of cash during the fiscal year and provide a method of accommodating unexpected changes in financial conditions; and,

Whereas, Section 13-504 requires that the County’s budget document contain a cash reserve and further directs that the cash reserve shall not exceed fifty percent of the total budget adopted exclusive of capital outlay items; and,

Whereas, the Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments, regardless of size, maintain an unrestricted budgetary fund balance in their general fund of no less than two months (16.7%) of regular general fund operating revenues or general fund operating expenditures; and,

Whereas the County Board wishes to establish a minimum budgetary reserve for general government operations of no less than two months of operating expenditures; and replenish the reserve to target levels within three years, if the reserve level falls below the minimum (two months or 16.7%); and,

NOW, THEREFORE, BE IT RESOLVED by the Sarpy County Board of Commissioners that the Cash Balance Reserve Policy is hereby re-named the Budgetary Reserve Policy and a target minimum of 16.7% maintained in accordance with the following calculation methodology:



The above Resolution was approved by a vote of the Sarpy County Board of Commissioners at a public meeting duly held in accordance with the applicable law on the 23 day of August 2022

Attest:
SEAL



David R. Kelly

Sarpy County Chairman

Debra J. Houghtaling

Sarpy County Clerk/Register of Deeds



Recommendation to Modify Cash Balance Reserve Policy August 5, 2022

Background: A Government Finance Officers Association (GFOA) best practice is to have an established Fund Balance Guideline for the General Fund, as documented at: <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>.

Sarpy County adopted a Cash Reserve Policy on February 6, 2018 and modified it May 11, 2021. This whitepaper and recommendation propose further refinements to this important policy to protect the fiscal health of Sarpy County.

GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes. Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period.

To fully understand the need for a budget reserve, it is important to understand the basic mechanics of local government budgeting. Cash on hand at the beginning of the fiscal year flows into the current year budget. No reserves are set-aside outside of the budget process. Therefore, this beginning cash, plus projected revenues totals the budgeted expenses to provide a balanced budget. If, however, a county received revenues exactly as budgeted and spent funds exactly as budgeted, the county would end the year with no cash (unless a cash reserve is budgeted in the expenditure budget). This budgeted reserve needs to be adequate to maintain county operations in the event of an economic downturn or other financial crisis (weather event, casualty loss, legal judgement, etc.).

Appropriate Level: The GFOA best practice recommends that the adequacy of an unrestricted fund balance in the general fund should take into account each government's own unique circumstances:

GFOA recommends, at a minimum, that general-purpose governments, regardless of size, **maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures**. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances. Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

1. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
3. The potential drain upon general fund resources from other funds, as well as the availability of resources in other funds;
4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;
5. Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

County Comparisons: Of the cash reserve policies identified at other counties, most had an objective consistent with the GFOA guidance of 2 months of operating expenses (16.67%) with a minimum of one month (8.3%). Other counties have specific ranges (10-15%) or (15-20%) and one was 20%.

Nebraska state statute 13-504 provides that a county can establish a cash reserve that "shall not exceed fifty percent of the total budget adopted exclusive of capital outlay items". <https://nebraskalegislature.gov/laws/statutes.php?statute=13-504>

Reason for Change: The County's current Cash Reserve Policy can be improved by:

1. Simplifying the calculation.
2. Ensuring that it provides for carryover cash for the County to meet unanticipated financial needs. **The current methodology considers current general fund cash balance as reserve cash, even though there are commitments on this cash in the upcoming budget.**
3. Preventing implied and often multiple spending commitments on reserve cash, which have the impact of overstating the true cash reserve on hand.
4. Providing a mechanism to plan for achieving the desired minimum cash reserve.

Calculation: The table in Exhibit A (below) shows the recommended Cash Balance Reserve methodology.

Replenishment: The County will plan to replenish the general fund cash reserve to target levels within three years, if the level falls below the minimum level.

Recommendation: Adopt this modification to the Cash Reserve Policy to establish a target Budgetary Reserve of two months (16.67%) of adjusted operating expenses, as shown below.

Sarpy County						Exhibit A
General Fund Cash Reserve - Recommended Policy: Minimum of two Months of Expenses						
						LEVEL 4
		2019	2020	2021	2022	2023 B
TOTAL EXPENSE BUDGET						
General	O100	\$ 77,287,512	\$ 79,664,784	\$ 87,815,810	\$ 102,681,091	\$ 112,785,749
Public Works	O200	\$ 10,745,430	\$ 8,643,006	\$ 8,220,849	\$ 8,886,818	\$ 9,319,037
E-911 Communications	O941	\$ 5,052,562	\$ 5,011,226	\$ 5,267,629	\$ 5,528,790	\$ 5,648,351
Total		\$ 93,085,504	\$ 93,319,016	\$ 101,304,288	\$ 117,096,699	\$ 127,753,137
TRANSFERS (to other funds, included above)						
General	O100	\$ 8,447,338	\$ 8,528,472	\$ 5,660,000	\$ 7,800,000	\$ 8,500,000
Public Works	O200	\$ 1,650,490	\$ 670,132	\$ -	\$ -	\$ -
Total		\$ 10,097,828	\$ 9,198,604	\$ 5,660,000	\$ 7,800,000	\$ 8,500,000
CAPITAL EXPENDITURES						
General	O100	\$ 3,525,038	\$ 3,659,102	\$ 5,035,953	\$ 12,475,009	\$ 10,997,636
Public Works	O200	\$ -	\$ 966,485	\$ 985,912	\$ 1,559,389	\$ 1,777,030
E-911 Communications	O941	\$ 282,431	\$ 365,997	\$ 130,459	\$ 275,731	\$ 297,049
Total		\$ 3,807,469	\$ 4,991,584	\$ 6,152,324	\$ 14,310,129	\$ 13,071,715
GENERAL FUND CASH RESERVES (included in above)						
Cash Reserve (Dept 97500)	O100	\$ 6,873,807	\$ 6,873,807	\$ 6,873,807	\$ 6,873,807	\$ 9,500,000
Misc. General Contingency (Dept 97000)	O100	\$ 1,704,961	\$ 1,238,858	\$ 1,396,189	\$ 1,751,348	\$ 1,503,889
Total		\$ 8,578,768	\$ 8,112,665	\$ 8,269,996	\$ 8,625,155	\$ 11,003,889
Total budget expense less transfers, CapX and reserve		\$ 70,601,439	\$ 71,016,163	\$ 81,221,968	\$ 86,361,415	\$ 95,177,533
TOTAL RESERVES						
General Fund reserves (from above)		\$ 8,578,768	\$ 8,112,665	\$ 8,269,996	\$ 8,625,155	\$ 11,003,889
Unassigned Inheritance Tax Funds (551401)	2700	\$ 3,365,545	\$ 3,963,000	\$ 6,164,554	\$ 4,256,668	\$ 4,422,316
Total		\$ 11,944,313	\$ 12,075,665	\$ 14,434,550	\$ 12,881,823	\$ 15,426,205
Reserve Fund Percentage		16.9%	17.0%	17.8%	14.9%	16.2%
Minimum Reserve (Two months, or 16.67%)		\$11,766,907	\$11,836,027	\$13,536,995	\$14,393,569	\$15,862,922
Cash Reserve Fund Surplus or [Deficit]		\$ 177,407	\$ 239,638	\$ 897,555	\$ (1,511,746)	\$ (436,717)



AGENDA ITEM REQUEST 22-372

Board Meetings - Aug 23 2022

Resolution

ITEM DESCRIPTION

Resolution to revise the existing Cash Reserve Policy as a Budgetary Reserve Policy with a targeted minimum budgetary reserve for the County as two-months (16.7%) of adjusted operating expenses.

SPEAKER

Bill Conley, CFO

SUMMARY AND BACKGROUND

The County's current Cash Reserve Policy can be improved by simplifying the calculation and only considering reserve cash within the budgetary process, as outlined in the attached recommendation whitepaper.

STAFF RECOMMENDATION

Approve.

FISCAL IMPACT

Fiscal Year

FY 2023 & forward

Total County cost of project:

TBD on an annual basis

Is Item in current year budget?

Yes No

Does this item commit the County to future expenses beyond this amount?

Yes No

ATTACHMENTS

[Resolution 2022-220 - Revising Cash Reserve Policy \(1\)](#)

[Whitepaper on Cash Balance Reserve Policy - 8-5-2022](#)

Submitted by: Bill Conley, CFO