

BOARD RECORDS
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RESOLUTION NO. 2006- 130

RESOLUTION OF THE BOARD OF COUNTY
COMMISSIONERS OF SARASOTA COUNTY, FLORIDA

BARBARA E. RUSSELL
CLERK OF CIRCUIT COURT
SARASOTA COUNTY, FL

RE: THE SARASOTA COUNTY FINANCIAL RESERVES POLICY

WHEREAS, The Sarasota Board of County Commissioners realize that it is essential for governments to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls, natural disasters, unanticipated expenditures, and to ensure stable tax rates; and

WHEREAS, Sarasota County's reserve policies are based on sound fiscal principles designed to allow the County to maintain continuity of operations in adverse conditions while being mindful of our fiduciary responsibility to taxpayers, both current and future generations; and

WHEREAS, the County realizes that adequate fund balance levels are an essential component of the County's overall financial management strategy and a key factor in external agencies' measurement of the County's financial strength; and,

WHEREAS, various bond rating agencies, particularly Fitch Ratings, recognizes that the best reserve policies provide both specificity and flexibility, accomplishing one or more of at least three main criteria: establishing a target level of reserves, or a reserve floor; specifying the appropriate circumstances for drawing down reserves; and directing the replenishment of reserves; and

WHEREAS, the Government Finance Officers Association of the United States and Canada (GFOA) recommends a minimum general fund reserve of no less than five to fifteen percent of operating revenues, or no less than one to two months of regular operating expenditures; and

WHEREAS, Sarasota County lies within a coastal zone highly susceptible to hurricane and storm damage; and

WHEREAS, there exists uncertainty in the economic markets around the world, in regards to the cost of construction materials, interest rates, personnel costs, medical insurance costs, and general inflation; and

WHEREAS, each sizable fund has been analyzed to determine the type of risk it may be exposed to, the duration of the risk, methods to mitigate that risk and the amount of funds needed to mitigate against that risk; and

WHEREAS, the County's aging infrastructure will require increasing repair and replacement; and

WHEREAS, the County wishes to mitigate other forms of uncertainty such as:

- Unanticipated changes in the tax and spending policies of federal and state governments;
- Imposition of mandates by federal and state governments or the courts;
- Financial impacts of labor agreements, particularly those stemming from collective bargaining; and,
- Unforeseen increases in energy costs; and

WHEREAS, clarification is needed as the terms fund balance, reserves, stabilization funds, and rainy day funds, are all used interchangeably, thus leading to misinterpretations.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF SARASOTA COUNTY, FLORIDA, AS FOLLOWS:

SECTION 1. The Sarasota County Board of County Commissioners hereby establishes the following Financial Reserves Policy:

SECTION 2. General Fund

The components of the General Fund Reserves should include, but not be limited to the following:

Budget Stabilization and Economic Uncertainty Reserve

The County should maintain a reserve of thirty to sixty days of General Fund operating expenditures to be used for short term cash flow purposes, unanticipated expenditures of a non-recurring nature, to meet unexpected immediate increases in service delivery costs, or to maintain service levels in the event that an economic downturn should cause a shortfall in revenues.

Contingency/Emergency/Disaster Relief Reserve

The County should maintain at a minimum, a reserve of ninety days of General Fund operating expenditures to be used in the case of a major storm or other unforeseen disaster that fundamentally alters the current tax base.

SECTION 3. Compensated Absences

The liability for Compensated Absences will be fully funded on a current basis in all funds unless deemed impractical or unavailable for accounting reasons by the County Administrator or designee.

SECTION 4. Other General Government Operating Funds

Planning and Development Services

The Planning and Development Services Funds should maintain a reserve of thirty to ninety days of operating expenditures. Inasmuch as Building Permit Fees and other charges for services are collected in advance of the work being performed, the fiscal year end financial statements should reflect deferred revenue to the extent the revenue is collected and the related service delivery has not yet been performed.

Consideration may also be given to the establishment of reserves to be used in case of natural or man-made disaster where revenue streams are interrupted but inspection and permitting work increases due to damage to structures throughout the County.

Emergency Services

The Emergency Services Funds will maintain a reserve of thirty to ninety days of operating expenditures. In addition they should maintain a rate stabilization reserve to mitigate the unforeseeable effects of collective bargaining contracts and increased operating or capital costs.

Reserves for new fire stations, improvements to existing fire stations, new ambulances or fire trucks, will be established as available and as deemed appropriate by the Board of County Commissioners during the annual budget process. This guidance further clarifies language contained in BCC Resolutions 2005-132, 2005-133, and 2005-134, to establish balances during the annual budget adoption process.

All Other General Government Operating Funds

All other general government operating funds other than the General Fund and those identified above should seek the goal of reserving thirty to ninety days of operating expenditures. These reserves will be used in case of man-made or natural disaster or a significant downturn in the local economy. Funds will be replenished as quickly as prudently possible. Consideration will be given to the unique risks and threats associated with each fund through the annual budget development process.

SECTION 5. General Government Debt Service Funds

Debt Service Funds

Debt Service reserves will be maintained as required by bond covenants or other debt obligations. Excess Debt Service Fund balances should be returned to the general or special revenue fund where the pledged revenue stream is collected.

SECTION 6. General Government Capital Funds

Capital Funds

Capital Funds should maintain fund balance budgeted in reserves if allowable by type of Fund. Many of the Capital Funds are time limited revenues, such as Infrastructure Surtax, and those funds will be expended as available and allowable. Other Capital Funds have time limitations,

such as Impact Fees that are required to be spent within five years; those funds will be expended as soon as possible within allowable parameters. Excess funds should be returned to the general or special revenue fund where the appropriated revenue stream is collected.

SECTION 7. Enterprise Funds

Utility System

The Utility System should maintain a retained earnings reserve of sixty to ninety days of operating expenditures, plus fifty percent of one year's senior lien debt service interest.

The reserve will be used in the case of a major interruption of the current revenue stream due to unforeseen circumstances, such as natural or man-made disaster, or significant economic downturn.

Recovery of these reserves after drawdown for the specified purposes will be accomplished through the use of customer rates, assessment revenues, and/or the net income of the system.

Solid Waste

The Solid Waste System should maintain a retained earnings reserve of sixty to ninety days of operating expenditures, plus fifty percent of one year's senior lien debt service interest.

The reserve will be used in the event of a major interruption to the current revenue stream due to unforeseen circumstances, such as natural or man-made disaster, or significant economic downturn.

Recovery of these reserves after drawdown for the specified purposes will be accomplished through the use of customer rates, assessment revenues, and/or the net income of the system.

In addition, the System should maintain a reserve of twenty-five to fifty million dollars for the estimated out-of-pocket cost for debris removal in the case of a major disaster. This amount should be adjusted annually based on current estimates of the debris removal, short term debt service costs, and the expected reimbursement rates from Federal and State Agencies. This reserve should only be used in the case of a major disaster and will be replenished as quickly as prudently possible after the disaster.

Stormwater

The Stormwater System should maintain a retained earnings reserve of sixty to ninety days of operating expenditures plus, fifty percent of one year's senior lien debt service interest.

The reserve will be used in the case of a major interruption to the current revenue stream due to unforeseen circumstances, such as natural or man-made disaster, or significant economic downturn.

Recovery of these reserves after drawdown for the specified purposes will be accomplished through the use of assessment revenues, and/or the net income of the system.

SECTION 8. Internal Service Funds

Automotive Resources

Automotive Resources should maintain a reserve of sixty to ninety days of operating expenditures, plus a Fixed Asset Replacement Reserve equal to the estimated replacement cost of assets to be funded from user departments over the expected useful life of the asset. The reserve will be used in the event of a major interruption to the current revenue stream due to unforeseen circumstances, such as natural or man-made disaster. The Fixed Asset Replacement Reserve will be used for the replacement of assets currently in service.

If reserve balances exceed their requirements, the County should adjust rates charged to the other County operating funds.

Recovery of these reserves after drawdown for the specified purposes will be accomplished through the use of internal service charges to other County operating funds. Annual funding of the Asset Reserve will be through the annual budget process and will be in an amount equal to the annual rental revenues charged to the users departments.

Information Technology

Information Technology should maintain a reserve of sixty to ninety days of operating expenditures, plus a Fixed Asset Replacement Reserve equal to the estimated replacement cost of assets and anticipated enhancements and improvements to the technology infrastructure to be funded from user departments over the expected useful life of the asset.

The reserve will be used in the event of a major interruption to the revenue stream due to unforeseen circumstances, such as natural or man-made disaster.

The Fixed Asset Replacement Reserve will be used for replacement, enhancements or improvement of technology assets.

Recovery of these reserves after drawdown for the specified purposes will be accomplished through the use of internal service charges to other County operating funds. Annual funding of the Asset Reserve will be through the annual budget process and the annual revenues charged to the user departments.

Risk Management

Risk Management should maintain a minimum reserve equal to the 80% to 90% undiscounted confidence level of the annual actuarial study to ensure financial viability. In addition, should a claim be made against the County that is identified subsequent to the actuarial report and prior to the issuance of the Comprehensive Annual Financial Report that is financially material to the

fund and highly likely to succeed, additional reserves should be established to provide adequate funds in reserve. Reserves will be funded through the premium rates charged to the covered entities.

The Risk Management Fund encompasses risk programs including automotive liability, general liability, and property claims. Additional miscellaneous liabilities include aviation, underground storage tanks, and professional liability for the Board of County Commissioners and other Elected Officials. Because of the inherent risk of catastrophic losses associated with the operation of vehicles and heavy equipment, construction work, jail operations, among others, a conservative approach should be taken when establishing the amount of reserves. Insurance and safety industry best practices will be employed to mitigate against these risks.

Medical Benefits

The Medical Benefits Fund should maintain a reserve in accordance with the annual actuarial analysis to ensure financial viability. The State of Florida reserve standard for self-insured plans is two months (or 16.67%) of projected claims. This will serve as the County's absolute minimum. The County will procure an actuarial study annually and will take a conservative approach when establishing the amount of reserves required.

The Medical Benefits Fund will charge premiums to the covered entities in adequate amounts to establish and maintain the above reserves.

Workers Compensation

The Workers Compensation Fund should maintain a reserve equal to the 80% - 90% undiscounted confidence level of the annual actuarial study to ensure financial viability. Due to the nature of workers compensation claims, i.e., extended time frames and uncertainty regarding resolution, the actuary must develop recommended reserves for the fund based on percentage levels of confidence (70%, 80%, and 90%). The County holds to the conservative side of the recommendations, 80%.

The Workers Compensation Fund will charge premiums to the covered entities in adequate amounts to establish and maintain the above reserves.

Additional Information

All corresponding calculations and interpretation of calculations of a definitive nature will be determined by the County Administrator or his designee.

The Fund Balances will be Designated Fund Balance or Retained Earnings on the balance sheet of each fund in the official financial records of the County.

This policy will be reviewed internally every three years or when deemed necessary by the Office of Financial Planning for the possibility of amendments to be presented to the Board.

PASSED AND DULY ADOPTED BY THE BOARD OF COUNTY COMMISSIONERS OF SARASOTA COUNTY, FLORIDA, this 7th day of JUNE, 2006.

BOARD OF COUNTY COMMISSIONERS OF SARASOTA COUNTY, FLORIDA

By: *David P. Mills*
Chairman

**ATTEST:
KAREN E. RUSHING, Clerk of the Circuit Court and Ex-Officio Clerk of the Board of County Commissioners of Sarasota County, Florida**

BY: *Candice J. Spade*
Deputy Clerk