

BEFORE THE BOARD OF COUNTY COMMISSIONERS
Klickitat County, Washington

IN THE MATTER OF ADOPTING)
A FINANCIAL RESERVES POLICY) RESOLUTION # 17910
FOR KLICKITAT COUNTY)

WHEREAS, the Board of County Commissioners, meeting in regular session, and having before it the need to consider adopting a financial reserves policy for the county; and

WHEREAS, it is in the best interest of the County to set financial policy relating to the reserves of the County in order to meet statutory requirements, to provide adequate cash flow for timely payment of expenses, to ensure the provision of essential county services during economic downturns and emergencies, and to provide financial stability; and

WHEREAS, a policy is attached hereto which outlines various guidelines for the establishment and maintenance of various reserves.

NOW, THEREFORE, BE IT RESOLVED, that the attached Klickitat County Financial Reserves Policy is hereby adopted and shall be in effect for the 2011 and subsequent annual budgets of the County.

DATED this 28th day of December, 2010.

BOARD OF COUNTY COMMISSIONERS
Klickitat County, Washington



REX F. JOHNSTON, CHAIRMAN




DAVID M. SAUTER, COMMISSIONER



RAY THAYER, COMMISSIONER

ATTEST:



Clerk of the Board
Klickitat County, Washington

Klickitat County Financial Reserves Policy

I. Purpose

Adequate reserve levels are a necessary component of the County's overall financial management strategy and a key factor in external agencies' measurement of the County's financial strength. The Board of County Commissioners will determine the level of reserves it deems necessary, essential and fiscally prudent as well as the level of reserves required by law, ordinance and/or bond covenants to ensure service levels, sufficient cash flow, financial stability, and protection against economic downturns and emergencies. Prudent use of reserve funds enables the County to address future hidden or unanticipated costs, to take advantage of matching grant funds and to have flexibility in financial planning for future projects.

II. Reserve Types and Definitions

Throughout this policy, reserves shall be categorized according to Generally Accepted Accounting Principles (GAAP) as follows: *available*, *designated* and *restricted*. The total sum of these reserve types in the General Fund and the Cumulative Reserve Fund shall be defined as *total reserves*. The Board of County Commissioners shall determine the total reserve levels necessary for the General Fund and the Cumulative Reserve Fund.

Use of excess funds above these levels shall only be for one-time expenses and cannot be used for annually re-occurring funding expenses such as wage and benefit increases. Once these total reserve levels are met, if at any time the level of total reserves is projected to drop below the adopted levels, then the Board of County Commissioners will institute budgetary actions necessary to bring these total reserves up to the adopted level of reserves within the following two (2) subsequent annual budget cycles.

Such Board budgetary actions may include, but are not limited to, the following: preventing the future use of available reserves; prohibiting formation of new designated reserves; mid-year budget reductions; program reductions; freezing new hiring; freezing of all salaries and benefits; and/or implementing layoffs.

Available Reserves: Available reserves must be used to achieve the total reserve levels as determined by the Board of County Commissioners. Available reserves may only be used as determined by the Board of County Commissioners for one-time funding needs and cannot be used for annually re-occurring funding expenses such as wage and benefit increases.

Designated Reserves: Designated reserves are for specific projects or dedicated funding streams as determined by the Board of County Commissioners. Appropriations of these funds must not disrupt cash flow requirements of the fund. Designated reserves cannot be used for annually re-occurring funding expenses such as wage and benefit increases.

Restricted Reserves: Restricted reserves are either required to be set aside in accordance with GAAP or by state or federal requirements. Restricted reserves are therefore set by actions outside the Board of County Commissioners determination and are deemed to be a primary requirement in setting and maintaining the total reserve levels for a fund.

III. General Fund Reserves

The General Fund accounts for those activities and services of the County which are funded largely by general purpose dollars. These services include, but are not limited to law and justice, financial, public health, legislative, and general government. In order to protect the ongoing provision of these services, the General Fund total reserves shall be the maximum allowed by State law as described in RCW 36.40.090 or shall be amended by the State Legislature. Currently, this limit allows an unbudgeted balance equal to \$1.25 per thousand dollars of assessed value of the County. As noted below, the cash flow reserve for the General Fund is set at \$1,250,000. Each year, the Board of County Commissioners in setting the annual budget shall ensure the General Fund increases its reserves until the total reserve amount is achieved. Once achieved, should the level of total reserves be projected to drop below the total reserve level, then the BoCC will institute budgetary actions necessary to bring the total reserves up to adopted level of reserves within the following two (2) subsequent annual budget cycles. Whenever, the total reserve levels are projected to be exceeded in a given budget year, the Board of County Commissioners shall designate their use only for one-time expenses and not for re-occurring expenses such as wage and benefit increases.

IV. Cumulative Reserve Fund Reserves

The Cumulative Reserve Fund as defined by Resolution #04793 and amended by Resolution #22697 provides funding for the following specific purposes: emergency and disaster relief, capital programs, economic development, and community development.

A designated reserve within the Cumulative Reserve Fund was established by Resolution #04793 that requires each year \$250,000 be set aside for emergencies.

Within the Cumulative Reserve Fund is a restricted reserve derived from the distressed counties sales tax established by the State Legislature in RCW 82.14.370. These funds can only be used for public facilities as defined by statute. The Board of County Commissioners shall determine the funding allocations of these reserves in setting or amending the annual budget. Each year a portion of this reserve should be held for unexpected economic development opportunities that may arise after the budget is adopted.

The total reserve level for the Cumulative Reserve Fund shall be \$20,000,000. It will take a few years to achieve. Each year, the Board of County Commissioners in setting the annual budget shall ensure the Cumulative Reserve Fund increases its reserves until the total reserve amount is achieved. Once achieved, the Board may

elect to spend any surplus from interest earnings or other revenue stream to the fund for one-time expenses and not for re-occurring expenses such as wage and benefit increases.

Within the available reserves, the Board of County Commissioners shall maintain reserves equal to or greater than the outstanding debt of the County. This will provide protection to future taxpayers should the revenue streams of the County (particularly landfill revenues) unexpectedly and suddenly be drastically reduced or eliminated. Of the available revenues remaining, the Board of County Commissioners should leave some portion unallocated in the annual budget for unexpected opportunities that may arise after setting the annual budget.

V. Commissioners Vehicle Fund Reserves

The Commissioners Vehicle Fund purchases new and replacement vehicles used by various departments of the County except for the Road Fund and a few other departments funded with dedicated revenues. Each year, the departments pay a rental fee for each vehicle they operate based on a formula defined in the Klickitat County Fixed Asset Policy adopted December 23, 2002. Each vehicle is tracked separately with the rental fee being applied to its replacement balance. Each year the rental rates are adjusted based on the life expectancy of each vehicle and its estimated cost at replacement. Each year in setting the annual budget, the Board of County Commissioners shall set aside a portion of the available balance (that is not already tied to vehicle replacements) for unexpected costs during the year such as a vehicle being totaled in an accident, major engine or other repairs that would warrant replacement ahead of schedule, or expansion of the fleet for some new County service or program.

VI. Cash Flow Reserves

Resolution #10606 established designated reserves for various funds to maintain adequate cash balance in order to pay expenses timely as some funds may not receive sufficient revenues particularly early in a new budget year ahead of when expenses are incurred, especially those reliant on landfill revenues, grant reimbursements or the collections of property taxes. These designated cash flow reserves and others that may be designated in the future shall be recorded in the financial system of the County for easy tracking at year end.

If a fund's total reserves fall below a level that does not meet the cash flow requirement, the Board of County will take budgetary actions to restore the cash flow reserve which may include, but not be limited to the following: reduction of the expenditure allocations of the fund; increase of revenues to the fund without a corresponding increase to expenditures; or lowering of the cash flow reserve should it be determined that the reserve level is not necessary for timely payment of expenses. The Board of County Commissioners may direct the reduction of the annual allocation of landfill revenues to any fund that has available reserves above the cash flow requirement.