



Knox County Government

Department of Finance

General Fund Operating Reserve Policy

I. Purpose:

Fund balance measures the net financial resources available to finance expenditures of future periods. Rating agencies consider fund balance when evaluating the overall economic health and the credit quality of the County.

The County desires to maintain a prudent level of available financial resources to help protect its taxpayers from service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. In addition, this policy is intended to document the appropriate Reserve level to protect the County's credit worthiness. The General Fund Operating Reserves are accumulated and maintained to provide stability and flexibility to respond to unexpected adversity and/or opportunities.

This policy establishes the amounts the County will plan to maintain in its General Fund Operating Reserve, how this Reserve will be funded, and the conditions under which the Reserve may be used.

II. Definitions:

- A. **Fund Balance** – Fund Balance is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in a governmental fund.
- B. **General Fund** – The General Fund (a governmental fund) serves as the County's chief operating fund. The General Fund is used to account for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in another fund.
- C. **Reserve** – Reserve refers only to the portion of Fund Balance that is intended to provide stability and respond to unplanned events or opportunities.
- D. **Unassigned Fund Balance** – The difference between total Fund Balance in a governmental fund and its nonspendable, restricted, committed, and assigned components.

III. Policy:

- A. Reserve Levels – The County will maintain, as of each fiscal year ending June 30, a minimum level of Unassigned Fund Balance in the General Fund equivalent to three months or 25 percent of regular, on-going operating expenditures (including transfers out). The County will measure its compliance with this policy as soon as practicable after final year-end accounting information becomes available. During the course of the year the Department of Finance shall closely monitor the County's revenues and expenditures to ensure that Reserves are not being used beyond any budgeted planned use.

If, based on staff's analysis and forecasting, the target level of Reserves is not being met or is likely not to be met at some point within a five-year time horizon, then during the annual budget process, Fund Balance levels will be provided to the Commission. Should the projected year-end Fund Balance be less than the minimum Reserve amount established by this policy, a plan to replenish the Reserve would be established based on the requirements outlined in this policy.

- B. Funding the Reserve – Funding of General Fund Reserve targets will generally come from excess revenues over expenditures, or from one-time revenues.
- C. Conditions for Use of Reserves – It is the intent of the County to limit use of General Fund Reserves to address unanticipated, non-recurring needs. Reserves should not be used to support recurring annual operating expenditures outside of the current fiscal year. Reserves may, however, be used to allow time for the County to restructure its operations in a deliberate manner (as might be required in an economic downturn).
- D. Authority over Reserves – The Unassigned General Fund Balance can only be appropriated by a resolution of the Commission.
- E. Assigning Fund Balance – The County Mayor and Senior Director of Finance, collectively, are hereby authorized to assign Fund Balance for specific purposes.
- F. Replenishment of Reserves – In the event Reserves are used to provide for temporary funding needs (e.g., natural disaster), the County shall prepare a plan to restore the Reserves to their minimum level within an appropriate time. The plan shall be prepared by County management and presented to Commission for approval.
- G. Excess of Reserves – In the event Reserves exceed the minimum balance requirements, the excess generally may be retained. If management and Commission deem appropriate, portions of the excess may be used for the following: to provide funds for "Pay as you go" capital expenditures, to pay one-

time expenditures that do not increase recurring operating costs that cannot be funded through current revenue, or to prepay existing County debt and/or pension obligations.

H. Periodic Review of the Targets – At a minimum, during the budget process staff shall review the current and projected Reserves to ensure that they are appropriate given the economic and financial risk factors the County is subject to.

IV. Quality Control and Quality Assurance:

It is the responsibility of the Senior Director of Finance to ensure the presence of procedures that provide sufficient guidance to affected County personnel to fulfill the intent of this policy.

These policies will be reviewed at least annually and updated on an as-needed basis.