



## Appropriate Level of Unrestricted Fund Balance in the General Fund

### Background.

Fund balance is intended to serve as a measure of the financial resources available in a governmental fund. It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures). Fund balance levels are a crucial consideration, too, in long-term financial planning.

In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance (i.e., the total of the amounts reported as committed, assigned, and unassigned fund balance) in the general fund.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

### Recommendation.

**GFOA:** The Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund. Such a guideline should be set by the appropriate policy body and provide both a temporal framework and specific plans for increasing or decreasing the level of unrestricted fund balance, if it is inconsistent with that policy.

The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, **GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted 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.<sup>6</sup> 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:

- 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);



- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- The potential drain upon general fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require that a higher level of unrestricted fund balance be maintained in the general fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the general fund);
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained); and
- 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).

Furthermore, 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. Any policy addressing desirable levels of unrestricted fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints.

#### SNHD:

The General Fund Reserve will be maintained to provide the District with sufficient working capital and a comfortable margin of safety to support one-time costs for the following purposes:

- When the District is faced by natural disaster or any other emergency.
- When the District experiences unexpected declines in revenue and/or when unpredicted large one-time expenditures arise.
- Should not be used to support recurring operating expenditures.

The Health District's staff recommends **at a minimum, to maintain unrestricted fund balance in the general fund of between two to three months or 16.6% to 25% of general fund operating expenses.**

This recommendation is based on the following hypotheses:

- County's Allocation of \$24,942,525 represents 49% of the Health District's FY 2010 Budgeted Revenue (net of Environmental Health revenue of \$18,991,844). This represents a decrease of \$3,240,425 or 12% from FY 2009. The funding is based on the assessed valuation of all taxable property in the County. Due to the economic downturn, it is predicted that property tax valuations will continue to decrease for a number of years. In addition, local government will be limited to collecting lesser taxes from property owners even if median property values increased because of the 3% annual cap on residential properties and 8% cap on commercial properties based on 2004 levels. During the last legislative session, portion of the County property tax was re-allocated to the State.



- Based on the Review Journal’s report, the State is projecting a \$3Billion shortfall for the next biennium. Approximately \$9,120,528 or 18% of the District’s revenue (net of Environmental Health revenue) is sub-grants from the State and Federal Funds distributed by State. Nevada is spending only \$3.76 per capita on public health – the lowest in the nation. The state of Nevada is number 51 in ranking of the 51 states surveyed. In addition, the Governor just issued a memorandum reducing State contracts by 15%. It is uncertain at this time that the sub-grants will be affected but the State determines the funding formula.
- As the sole Public Health Authority for Clark County, the Health District must maintain a reserve in case of emergency, disaster, and/or State budget cuts. The District has had to respond to emergencies such as H1N1 and the Hepatitis C outbreak.
- This funding level would allow the Health District to address unanticipated expenditures, prevent severe service cuts, hikes in fees, and address unforeseen contingency situations in some circumstances.