

CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Sitting/Acting as (if applicable) Policy Session Worksheet

Presentation Date: 05/17/2022 **Approx. Start Time:** 11:00am **Approx. Length:** 30min

Presentation Title: Contingency and Reserve Policy

Department: Finance

Presenters: Sandra Montoya, Budget Manager

Other Invitees: Elizabeth Comfort, Finance Director

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

Finance is requesting approval of a new Contingency and Reserve Policy to replace the existing Reserve for Future Expenditure and Contingency Accounts Policy (Resolution 2012-14) adopted in February 2012.

EXECUTIVE SUMMARY:

The County's current Reserve for Future Expenditure and Contingency Accounts has been enhanced to provide clarity. This policy guides the development of contingency and reserve minimums, uses, and replenishment, which directly affect the County's financial plans, annual budget process, and debt financing. This policy reflects financial planning best practices as recommended by the Government Finance Officers Association (GFOA) and provides guidance on making those decisions.

Finance is recommending the replacement of the Reserve for Future Expenditure and Contingency Accounts Policy, with staff direction to plan future budgets and financial plans with guidance from this policy.

This policy will require BCC approval, as the previous Reserve for Future Expenditure and Contingency Accounts Policy was Board approved.

These documents have been reviewed and approved by the Policy Committee, the County's Executive Management Team, and the sent to the unions for comment.

FINANCIAL IMPLICATIONS (current year and ongoing):

Is this item in your current budget? YES NO

What is the cost? \$ N/A

What is the funding source? N/A

STRATEGIC PLAN ALIGNMENT:

- How does this item align with your Department's Strategic Business Plan goals?

Replacing the County's Reserve for Future Expenditure and Contingency Accounts Policy with the new policy will align with best practices and long-term financial sustainability goals.

- How does this item align with the County's Performance Clackamas goals?

This updated policy continues to build public trust as we exemplify good government and accountability by maintaining fund balances sufficient to operate efficiently over the long run.

LEGAL/POLICY REQUIREMENTS:

The Contingency and Reserve Policy requires Board approval.

PUBLIC/GOVERNMENTAL PARTICIPATION:

The Budget Committee reviewed the new Contingency and Reserve Policy on October 20, 2020.

OPTIONS:

1. Approve the new policy.
2. Direct staff to make modifications to the new policy.
3. Reject the new policy and continue with the current policy.

RECOMMENDATION:

Staff respectfully recommends Option 1: Approve the new policy.

ATTACHMENTS:

- 1) Draft Contingency and Reserve Policy

SUBMITTED BY:

Division Director/Head Approval EC

Department Director/Head Approval EC

County Administrator Approval _____

For information on this issue or copies of attachments, please contact Priscila Montoya @ 503-742-5457.



<input type="checkbox"/> Administrative Policy
<input type="checkbox"/> Operational Policy

Clackamas County Policy

Name of Policy	Contingency and Reserve Policy	Policy #	FIN 1.101
Policy Owner Name	Elizabeth Comfort	Effective Date	
Policy Owner Position	Finance Director	Approved Date	
Approved By		Last Review Date	
Signature		Next Review Date	

I. PURPOSE

Maintaining a balance in the General Fund and other funds is an important practice for the County to operate efficiently over the long run. This policy guides the development of contingency and reserve minimums, uses, and replenishment, which directly affect the County’s financial plans, annual budget process, and debt financing. This policy reflects financial planning best practices as recommended by the Government Finance Officers Association (GFOA) and provides guidance on making those decisions.

II. AUTHORITY

Establishing and use of contingency and reserve accounts is permitted under Oregon Local Budget Law (Budget Law) ORS 294.305-294.565. This policy supersedes the previous policy adopted by the Board of County Commissioners (BCC) Resolution 2012-14.

III. GENERAL POLICY

The County has established target levels for contingency and reserve accounts, and approve additions and use of the accounts within the funds to mitigate financial risks from unexpected revenue disruptions or unanticipated expenditures; hold financial resources for use in current and/or future fiscal year(s); manage resources and, maintain the County’s credit rating and compliance with debt covenants.

IV. DEFINITIONS

- A. Beginning Balance – a budget term that refers to the amount of funding available at the start of the fiscal year, prior to any new revenue or expenditures transactions have occurred. The beginning balance is the combined total of the prior year’s ending balances in contingency, reserves, and unappropriated fund balance, and year end operating.
- B. Contingency – a budget term that refers to a category of funds available for quick response to extreme events or unanticipated needs. While expensing of contingency is restricted, Budget Law allows a transfer of appropriations from contingency to a spendable category account, when the need is approved by BCC resolution.
- C. Fund Balance – an accounting term that refers to the cumulative excess of revenues over expenditures since the beginning of a fund’s existence. Fund balance includes amounts shown in the budget categories of contingency, reserves, and unappropriated fund balances. In the budget, fund balance is shown as the beginning balance figure in each fund. The best estimates of available fund balances are used when adopting annual budgets.

- D. Operating Budget (for purposes of calculating Contingency and Reserves) – a budget term that refers to amounts in the budget categories of Personnel Services, Materials & Services, Capital Outlay expenditures, and General Fund Support Transfers (both intrafund and interfund).
- E. Reserves – a budget term that refers to a non-spendable category of fund balance which is set aside to strengthen a fund’s financial health. Reserve account(s) may be for general purposes (e.g. reserve for future expenditures) or specific purposes (e.g. facility improvement, technology replacement, pension fund, etc.) within each fund.
- F. Unappropriated Fund Balance – a budget term that refers to the balance remaining in a fund that was not budgeted, typically due to timing differences between budget preparation and the close of the accounting year. The unappropriated fund balance is non-spendable, but may be re-allocated to a spendable budget category in the subsequent year.

V. POLICY GUIDELINES

A. Contingency

1. Contingency Levels

It is County policy to ensure continued service delivery by maintaining contingency account minimums at a sufficient level to meet unanticipated operating and cash flow needs during the fiscal year.

Fund Type	Contingency Target Days (Operating Budget/360 days)	Contingency Target % (Operating Budget x %)
General Fund	90	25%
Enterprise Fund	60	17%
All Other Funds	45	12.50%
Exceptions*	Set by Resolution	Set by Resolution

* BCC may set a fund’s target level based on industry standards, compliance requirements, or needs.

2. Contingency Use

Use of contingency is allowed for a transfer of appropriations from contingency to a spendable category account when the action is approved by Board of County Commissioners’ supplemental budget resolution.

B. Reserves

It is County policy to strategically plan for future needs by setting aside funds as they become available through annual savings, one-time revenue, or other revenue. Reserves are restricted to the following one-time or non-recurring expenditures:

1. Debt Reserves and Other Required Reserves: The Board of County Commissioners may approve the establishment of a reserve account as a part of a larger project or contract (e.g. bond covenants, loan agreement, development agreement, grant, etc.). A legally required reserve will be established and maintained in accordance with any such agreement.
2. Designated Reserves: The Board of County Commissioners may designate dollar amounts or percentage(s) for specific purposes, such as; future liabilities (e.g. pension fund, debt, etc.), future capital projects, and technology projects.

C. Use of Reserves per Oregon Budget Law

1. Emergency Event: The Board of County Commissioners may redirect funds to an allowable spending category in accordance with Oregon Budget Law.
2. Planned Use: The Board of County Commissioners may approve the planned use of reserve funds through the annual budget adoption process (i.e. appropriation of funds the following year). Oregon Budget Law limits unplanned use to declared emergency events and requires supplemental budget approval.

D. One-Time Resources Added to Reserves

Once contingency target levels are met, one-time funds will be directed towards reserve accounts designated by the Board of County Commissioners. If designated reserve goals have been met, the one-time resources may be allocated to projects or programs that will not require future financial commitments in the following proportions:

1. 50% will be allocated to major projects (e.g. capital, technology, facility, etc.);
2. 25% will be allocated to the County's unfunded PERS liability;
3. 25% will be allocated to projects, pilot programs, or innovative ideas resulting in long-term efficiencies or savings that do not require ongoing costs.

VI. PROCESS AND PROCEDURES

Establishing contingencies and reserves within a fund is part of the annual budget process and guided by Oregon Budget Law. The steps include development of a proposed budget, approval by the Budget Committee, adoption by the Board of County Commissioners, and amendments through supplemental budgets. Additional procedures are defined in the County's Budget Manual.

Upon the presentation of the annual audit to the Board of County Commissioners, Finance staff will calculate the net position (revenue less expenditures) by fund compared to the beginning balance estimated in the budget. Any remaining funds will be recommended to be split in the following priority until each category is met.

1. A fund's debt/required reserves: the unappropriated fund balance will be placed in the corresponding fund's required reserves until the requirement amounts are satisfied.
2. A fund's contingency account: the unappropriated fund balance will be placed in the corresponding fund's contingency account until the established level has been met.
3. A fund's designated reserve account(s): the unappropriated fund balance will be placed in the corresponding fund's designated reserve account(s) as directed by BCC.
4. A fund's projects/programs: the one-time resources may be allocated to projects or programs that will not require future financial commitments as stated in Section V.D.

VII. ACCESS TO POLICY

The Policy is available on the County's intranet [located here](#) as well as the [Finance Department intranet page](#).

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<input type="checkbox"/> Administrative Policy
<input type="checkbox"/> Operational Policy

Clackamas County Policy

Name of Policy	Contingency and Reserve Policy	Policy #	FIN 1.101
Policy Owner Name	Elizabeth Comfort	Effective Date	
Policy Owner Position	Finance Director	Approved Date	
Approved By		Last Review Date	
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II. AUTHORITY

Establishing and use of contingency and reserve accounts is permitted under Oregon Local Budget Law (Budget Law) ORS 294.305-294.565. This policy supersedes the previous policy adopted by the Board of County Commissioners (BCC) [Board Order xxx-xxResolution 2012-14](#).

III. GENERAL POLICY

The County has established target levels for contingency and reserve accounts, and approve additions and use of the accounts within the funds to mitigate financial risks from unexpected revenue disruptions or unanticipated expenditures; hold financial resources for use in current and/or future fiscal year(s); manage [the use of ongoing and one-time](#) resources and, maintain the County's credit rating and compliance with debt covenants.

IV. DEFINITIONS

- A. Beginning Balance – a budget term that refers to the amount of funding available at the start of the fiscal year, prior to any new revenue or expenditures transactions have occurred. The beginning balance is the combined total of the prior year's ending balances in contingency, reserves, and unappropriated fund balance, and year end operating.
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- C. Fund Balance – an accounting term that refers to the cumulative excess of revenues over expenditures since the beginning of a fund's existence. Fund balance includes amounts shown in the budget categories of contingency, reserves, and unappropriated fund balances. In the budget, fund balance is shown as the beginning balance figure in each fund. The best estimates of available fund balances are used when adopting annual budgets.

D. Operating Budget (for purposes of calculating Contingency and Reserves) – a budget term that refers to amounts in the budget categories of Personnel Services, Materials & Services, ~~and~~ Capital Outlay expenditures, and General Fund Support Transfers (both intrafund and interfund).

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Commented [MS1]: 5/10/21 updated language to capture GF Support transfers in the operating costs.

E. Reserves – a budget term that refers to a non-spendable category of fund balance which is set aside to strengthen a fund’s financial health. Reserve account(s) may be for general purposes (e.g. reserve for future expenditures) or specific purposes (e.g. facility improvement, technology replacement, pension fund, etc.) within each fund.

F. Unappropriated Fund Balance – a budget term that refers to the balance remaining in a fund that was not budgeted, typically due to timing differences between budget preparation and the close of the accounting year. The unappropriated fund balance is non-spendable, but may be re-allocated to a spendable budget category in the subsequent year.

V. POLICY GUIDELINES

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Exceptions*	Set by Resolution	Set by Resolution

* BCC may set a fund’s target level based on industry standards, compliance requirements, or needs.

2. Contingency Use

Use of contingency is allowed for a transfer of appropriations from contingency to a spendable category account when the action is approved by Board of County Commissioners’ supplemental budget resolution.

B. Reserves

It is County policy to strategically plan for future needs by setting aside funds as they become available through annual savings, one-time revenue, or other revenue. Reserves are restricted to the following one-time or non-recurring expenditures:

1. Debt Reserves and Other Required Reserves: The Board of County Commissioners may approve the establishment of a reserve account as a part of a larger project or contract (e.g. bond covenants, loan agreement, development agreement, grant, etc.). A legally required reserve will be established and maintained in accordance with any such agreement.
2. Designated Reserves: The Board of County Commissioners may designate dollar amounts or percentage(s) for specific purposes, such as; future liabilities (e.g. pension fund, debt, etc.), future capital projects, and technology projects.

C. Use of Reserves per Oregon Budget Law

1. Emergency Event: The Board of County Commissioners may redirect funds to an allowable spending category in accordance with Oregon Budget Law.
2. Planned Use: The Board of County Commissioners may approve the planned use of reserve funds through the annual budget adoption process (i.e. appropriation of funds the following year). Oregon Budget Law limits unplanned use to declared emergency events and requires supplemental budget approval. Use of reserves outside of the annual budget adoption process is limited to declared emergency events and requires supplemental budget approval.

D. One-Time Resources Added to Reserves

Once contingency target levels are met, one-time funds will be directed towards reserve accounts designated by the Board of County Commissioners. If designated reserve goals have been met, the one-time resources may may be allocated to projects or programs that will not require future financial commitments in the following proportions:

1. 50% will be allocated to major projects (e.g. capital, technology, facility, etc.)~~County technology and facility projects~~;
2. 25% will be allocated to the County's unfunded PERS liability;
3. 25% will be allocated to projects, pilot programs, or innovative ideas resulting in long-term efficiencies or savings that do not require ongoing costs.

VI. **PROCESS AND PROCEDURES**

Establishing contingencies and reserves within a fund is part of the annual budget process and guided by Oregon Budget Law. The steps include development of a proposed budget, approval by the Budget Committee, adoption by the Board of County Commissioners, and amendments through supplemental budgets. Additional procedures are defined in the County's Budget Manual.

Upon the presentation of the annual audit to the Board of County Commissioners, Finance staff will calculate the net position (revenue less expenditures) by fund compared to the beginning balance estimated in the budget. Any remaining funds will be [recommended to be split](#) in the following priority until each category is met.

1. A fund's debt/required reserves: the unappropriated fund balance will be placed in the corresponding fund's required reserves until the requirement amounts are satisfied.
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Reserve and Contingency Policy Comparison (Updated April 2022)

		2012 Policy	2021 Policy
Contingency	General Fund	Target at least 5% of the overall County General Fund budget. May budget for and use with Board Approval.	Target 90 days of operating cash flow needs or 25% of operating budget. May budget for and use with Board Approval.
Contingency	Enterprise Funds	Not Applicable	Target 60 days of operating cash flow needs or 17% of operating budget. May budget for and use with Board Approval.
Contingency	All Other funds	May budget for and use only with approval by the Board of County Commissioners.	Target 45 days of operating cash flow needs or 12.5% of operating budget. May budget for and use with Board Approval.
Contingency	One-Time Resources Added to Reserves	Not Applicable	Once contingency target levels are met, one-time funds will be directed towards reserve accounts designated by the Board of County Commissioners and allocated to projects in the following proportions: <ul style="list-style-type: none"> 1. 50% to major County projects (e.g. technology, facilities, etc); 2. 25% to the County's unfunded PERS liability; 3. 25% to projects, pilot programs, or innovative ideas resulting in long-term efficiencies that do not require ongoing costs.
Reserves	General fund	Target at least 10% of the overall General Fund budget, less resources dedicated to particular uses according to law. Cannot exceed 15% of the total General Fund budget.	<u>Debt Reserve and Other Required Reserves:</u> The board may designate for legally required reserves as part of a larger project or contract. <u>Other Designated Reserves:</u> The board may designate for specific purposes such as future capital and technological projects.
Reserves	Enterprise Funds	Not Applicable	
Reserves	All Other funds	May budget when required by law, by source, or by a commitment of the Board of County Commissioners.	<u>Emergency Event:</u> The board may redirect funds in according with Budget Law.

**BEFORE THE BOARD OF COUNTY COMMISSIONERS
OF CLACKAMAS COUNTY, STATE OF OREGON**

A Resolution Adopting a Contingency
and Reserve Policy



Resolution Order No. _____
Page 1 of 2

WHEREAS, the annual budget for Clackamas County totals \$1.4 billion dollars and the breadth of programs and activities overseen by the Board of County Commissioners; and

WHEREAS, the responsible allocation of these sums requires that the budget reflect an annual financial and operational plan that clearly reflects County priorities as established by the County Commissioners; and

WHEREAS, the budget shall be a balanced budget for each fund, requiring that budgeted expenditures plus contingencies and reserves be met by an equal amount of budgeted resources; and

WHEREAS; the budget is a measure of the performance of departments, with accountability determined in the context of performance within the budget;

NOW, THEREFORE, BE IT RESOLVED that in order to best attain the Vision, Mission, Principles, and Areas of Focus of the annual budget, and to articulate the budget according to a strategic plan and budget priorities, the Board of County Commissioners declares its Policy as to the Contingency and Reserve accounts to be as follows:

**Clackamas County Policy on
Reserve for Future Expenditure and Contingency Accounts**

I. GENERAL POLICY

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Resolution Order No. _____
Page 1 of 2

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**BEFORE THE BOARD OF COUNTY COMMISSIONERS
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and Reserve Policy



Resolution Order No. _____

Page 1 of 2

2. Contingency Use

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2. Designated Reserves: The Board of County Commissioners may designate dollar amounts or percentage(s) for specific purposes, such as; future liabilities (e.g. pension fund, debt, etc.), future capital projects, and technology projects.

C. Use of Reserves

1. Emergencies and Debt: The Board of County Commissioners may redirect funds to an allowable spending category in accordance with Oregon Budget Law.
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**BEFORE THE BOARD OF COUNTY COMMISSIONERS
OF CLACKAMAS COUNTY, STATE OF OREGON**

A Resolution Adopting a Contingency
and Reserve Policy



Resolution Order No. _____

Page 1 of 2

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Resolution Order No. _____
Page 2 of 2

BE IT FURTHER RESOLVED, that any budget policy
contrary to the aforesaid declaration shall be replaced by this statement of the County's policy
on Reserve for Future Expenditure and Contingency accounts.

DATED this

BOARD OF COUNTY COMMISSIONERS

Chair

Recording Secretary