





East County Fire and Rescue Standard Operating Guidelines

Title Financial Reserves	SOG # 1.3.9
Policy Adoption 	Date 6/18/2024
Standard Operating Guideline Adoption 	Date 6/18/2024

Purpose

This standard operating guideline (SOG) defines district policies and procedures related to establishment and maintenance of adequate financial reserves and fund balances.

Scope

This SOG applies to the district's general fund and contingency, compensated absences fund, and capital projects fund and any other reserve fund or fund for which a minimum set-aside or balance is established by the board of fire commissioners.

Policies

East County Fire and Rescue has adopted the following policies related to use of district resources:

- The board of fire commissioners shall be responsible for establishing and managing all district fund accounts, minimum fund set-asides and minimum balances. Changes to set asides and fund balances require action by the board of fire commissioners.
- The district shall strive to maintain adequate fund balances and reserves to provide cash flows to meet operating and capital expenses, while also providing the financial ability to address economic downturn and system emergencies. Operating expenditures shall include salaries, benefits, supplies, services, intergovernmental and interfund expenses, capital outlays and transfers.
- ECFR will maintain a beginning general fund balance of at least 33% of budgeted maintenance and operations expenditures to provide funds for operation prior to receipt of subsequent year's tax revenue.
- ECFR will maintain a contingency beginning balance in the amount of 5% of budgeted maintenance and operations expenditures. Contingency will be used for unanticipated or exceptional unbudgeted expenditures only with the approval of the board of fire commissioners.
- An adequate balance will be maintained in the capital projects fund to provide for scheduled replacement of district vehicles and capital equipment at the end of their useful lives.

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- ECFR will maintain sufficient balance in the leave accrual fund to meet anticipated payout requirements for unused compensated leave balance. The annual contribution rate to this fund shall be based on current salary, anticipated unused leave balances, and potential retirement date based on employee age, years of service, or announced retirement date.
- For employees hired after January 1, 2024, the district will fund compensated absence liability over the duration of the employee’s career with payout anticipated on retirement eligibility based on age and years of service.
- At each fiscal year end the remaining dollars left in each fund that are undesignated and unencumbered constitute available reserves of the district. These fund balances will be included in the annual budget as the beginning fund balances.

Procedure

Financial reserves are a key component of the district’s financial risk management strategy (also see Standard Operating Guideline (SOG) 1.3.12 Financial Risk Management (ECFR, 2024a)). East County Fire and Rescue faces the following revenue and expense risks:

- Expense of maintaining current service levels exceeding the 1% constitutional limitation on the district’s lawful levy.
- Loss of assessed value and statutory limits on the district’s levy rate.
- Loss of assessed value and related revenue due to annexation by neighboring cities.
- Losses related to extreme natural hazards events such as earthquake, tsunami, or pandemic.

Reserves help make sure that ECFR can support vital public services when revenue does not keep pace with rising cost of service or if revenue declines. This SOG describes how the district uses reserves to manage risk and ensure continued service to the community.

Financial Reserves

The unappropriated balance of the general fund serves as a general operating reserve for the district. Contingency is a committed portion of the general fund balance that has been reserved by the board of fire commissioners to address non-recurring and unanticipated or unplanned expense of an urgent nature.

The general operating reserve provided by the unappropriated general fund balance is essential to managing the divergence between operating expense and property tax revenues over time resulting from the community’s desire to maintain service levels and the constitutional 1% limit on increases to the general levy. This allows the district to manage the frequency with which the district’s voters need to be presented with a levy lid lift to maintain or improve service delivery levels.

Reserve funds are mechanisms for accumulating cash for future capital outlays and other allowable purposes. The practice of planning ahead and systematically saving for capital acquisitions and other

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contingencies is considered prudent fiscal management. The district maintains two reserve funds, the capital projects fund, and compensated absences fund.

The district examines and provides a report to the board of fire commissioners on the adequacy of reserves on an annual basis as part of its budget process. In addition, a more comprehensive examination of reserves is conducted on a biannual basis through update and revision of the district's long-term financial plan.

Acceptable Use of Reserves

The general operating reserve provided by the unappropriated general fund balance is drawn down as it is appropriated through the district's annual budget process. However, this balance may not be reduced below the minimum fund balance specified by board policy (detailed in the policies and fund balance sections of this SOG). General fund contingency is intended to address non-recurring and unanticipated or unplanned expense of an urgent nature. The reserve funds, capital projects and compensated absences are only used for the intended purpose of the specified fund.

Reserves should not be used for recurring annual operating costs. An exception is poor economic conditions or events that disrupt East County Fire and Rescue's revenues. In such cases, the board of fire commissioners may use general fund contingency or an interfund loan from the reserve funds to the general fund to meet immediate fiscal needs. Use of reserves in this case should be a short-term option providing time for adjustment of operations.

Authorization for Use of Reserves

Use of contingency and expenditure of funds from the capital projects fund or compensated absences fund requires approval of the board of fire commissioners.

Developing and Maintaining Reserves

The board of fire commissioners adopts the district's long-term financial plan and implements that plan through the annual operating and capital budget by resolution. The long-term financial plan and annual budgets provide the basis for developing adequate reserves (if not fully funded) and maintaining adequate reserves required by board policy.

The fire chief is responsible for developing and presenting the long-term financial plan, annual budget for board adoption and presenting required interfund transfers to the board for approval to develop and maintain the district's reserves.

Minimum Fund Balances

Unrestricted fund balance available in the general fund is viewed by rating agencies (such as Standard and Poor's) as a general, high-level indicator of a government's financial health. The Government Finance Officers Association (GFOA) recommends that, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of

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no less than two months of regular general fund operating revenues or regular general fund operating expenditures (GFOA, 2020b).

The East County Fire and Rescue Board of Fire Commissioners have minimum fund balances for the general fund and general fund contingency by resolution (ECFR, 2023) as illustrated in Table 1.

Table 1. Minimum Fund Balance

Fund	Minimum Beginning Balance
General Fund	33%
General Fund Contingency	5%
Total General Fund	38%

No minimum fund balances have been established for other funds. Minimum beginning fund balances in the compensated absences and capital projects fund are required to be adequate to meet cash flow demands based on anticipated expenditures and amortized future expenditures.

References

East County Fire and Rescue (ECFR). (2023). *Resolution 319-05162023 Establishing a minimum set aside for general fund beginning balance and contingency*. Camas, WA: Author.

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Government Finance Officers Association (GFOA). (2015). Best practices: fund balance guidelines for the general fund. <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>.

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