

FUND BALANCES

A significant portion of the county budget consists of "fund balances." In fact, fund balance (also called cash brought forward or CBF, and sometimes referred to herein) amounts to \$653,664,941 for FY 99-00 and \$778,355,284 for FY 00-01.

A person unfamiliar with governmental accounting might not recognize fund balance as revenue, and from a strict accounting sense it is not so much revenue as a source of funds. Simply stated, fund balance is a revenue collected in a prior fiscal year, which was not spent, and therefore is available to fund expenditures in the current year. The accounting principles that provide for fund balance are unique to governmental and nonprofit accounting, but is essentially the same idea as "net worth" in either private sector accounting or personal finance. Fund Balance is the difference between current fund assets and current fund liabilities. A positive Fund Balance means the county's funds are solvent and money is available to meet current needs.

Fund balance arises in a variety of ways. For various reasons the county typically under-budgets its revenues and over-budgets its expenditures. First, the county may collect more revenue than estimated in its budget. This is especially true since Florida law requires local governments to budget expenditures at no more than 95% of anticipated revenue. That is, if the budget states our revenue will be \$100 we may only budget and spend \$95, since we cannot overspend an expenditure budget. That unspent \$5 is carried forward into the next year. Second, agencies typically do not spend every dollar approved in their budgets. Agencies must estimate their need for such variable costs as overtime, fuel and utilities and the cost of capital projects, such as roads, many months in advance of the actual expenditure. If the expenditures are less than estimated these funds are carried forward. Third, any funds encumbered in the prior year (that is, if a purchase order or contract is issued, but the goods or services are not yet received) roll over to the next fiscal year to provide funds to pay the vendors upon delivery. Finally, some fund balance comes from monies held in reserve accounts, which may be held to handle unforeseen needs or emergencies, such as natural disasters. Typically some of these monies will also go unspent and be carried forward.

A WORD ABOUT RESERVES

Sound fiscal policy dictates some level of reserves for a governmental entity. Because the county only levies its taxes once a year it must provide for unforeseen circumstances. The county could not tell its citizens there would be no clean up after a hurricane until the new tax year starts. The nature of the fiscal year in Florida counties is another example of why reserves are necessary. The fiscal year begins in October and property tax collections do not begin until the end of November. The budgeting of reserves insures that cash left at the end of a fiscal year will be carried into the next year funding programs before the property taxes begin to roll in. The reserve accounts are then replenished as taxes come in. The alternative would be to borrow money (issue tax anticipation notes), which would bear interest cost. The technique of budgeting reserves actually saves money, because instead of borrowing cash for short term needs and paying interest expense, the county earns interest on investments of reserved cash.

The county is also required to hold some money in reserve whenever we issue bonds (borrow money). A bond issue is sold to investors in a lump sum at the beginning of the contract, although the construction schedule for the project financed may stretch over several fiscal periods. These bond proceeds are held in reserve until they are needed to pay contractors. If a fiscal year ends, the books are closed and the new year begins with a Fund balance. Debt service reserves are also required by bond covenants as a safety mechanism to insure no interruption in bond payments should pledged revenues take an unexpected dip. Bondholders require different levels of security, but generally an amount equal to the largest annual debt service payment must be held in reserve until the debt is retired. The reserve is held by the borrower and earns interest until expended. This reserve is generally funded from the initial proceeds of the bond and becomes the final payment on the bond. In the case of either type of reserve arising from a bond issue, the county is allowed to invest the funds to offset the cost of borrowing more funds than are immediately needed. However, as a general rule, we may not earn more in interest than the cost of borrowing.

Other types of reserves are also held, some for fiscal management, some because of legal requirements and some simply to provide a safety net for unexpected expenses. Examples include building permit fees collected for building projects with multi-year schedules, landfill tipping fees held to close and provide long term maintenance for landfills that have reached capacity (a state mandate), self insurance reserves held in anticipation of claims, and monies held for overtime in the event of a hurricane or other natural disaster.

CASH BROUGHT FORWARD FOR FISCAL YEAR 1999-00 AND FISCAL YEAR 2000-01

FUND BALANCE BROUGHT FORWARD for the upcoming fiscal years represents approximately 25% of the county's available revenues for FY 99-00 and FY 00-01. The table below shows some of the county's largest funds, their budgeted fund balance, and how fund balance varies as a percentage of total budget.

<u>Fund Name</u>	<u>FY 99-00 Budgeted Cash Brought Forward</u>	<u>FY 99-00 Total Revenue Budgeted</u>	<u>CBF as % of Revenue Budget</u>
General Fund	\$58,500,000	\$448,796,429	13%
Convention Center	105,934,487	750,931,257	14%
Water/Wastewater Utility	47,650,270	180,830,055	26%
Sales Tax Trust Fund	41,400,000	147,360,000	28%
Fire Rescue	22,861,234	92,845,846	25%
Resource Recovery (Landfill)	70,944,462	94,659,454	75%
Special Tax MSTU (Sheriff Operations)	2,510,558	79,744,617	3%
Transportation Impact Fees	45,745,807	71,709,813	64%

The three largest property-tax-supported funds (General Fund, Special Tax MSTU and Fire Rescue) have relatively low fund balances compared to total revenue. As discussed earlier, these fund balances are needed to fund operations until property tax collections begin. The other large funds with significant fund balances reflect a mixture of liquidity, debt service reserves, and contingency reserves (Convention Center, Sales Tax Trust, Water/Wastewater and Resource Recovery).

The next table shows the budgeted cash balance forward for all funds for FY 99-00 and FY 00-01.