



2017-18 Budget Fund Balance & Reserves January 10, 2017

Neil T. Sanders
Assistant Superintendent for Business

Fund Balance

- End of year surplus in the General Fund due to lower expenditures than anticipated and/or greater revenues than projected that may accumulate over time.
- May be used like an emergency savings account to compensate for unforeseen expenses or losses in revenue that occur during the year.
- Legally, the maximum amount in a given fiscal year should not exceed 4% of the following year's budget.
- Some or all may be “appropriated” as a source of revenue in the development of the annual budget.

Parallel Example to Fund Balance

Analogous to a financial advisor's recommendation to maintain an emergency fund to cover 3 to 6 months of expenses in the event of unforeseen job loss or other catastrophic event.



Reserve Funds

- Amounts that may be set aside from year end operating surpluses to fund one or more of 13 legally permissible, reasonably anticipated expenses.
- Specific rules govern the mechanism by which each reserve fund is established, funded, spent, and closed. In some instances, voter approval is required.
- May be “appropriated” as a source of revenue in the development of the annual budget.

Parallel Example to Reserve Funds

Analogous to establishing a retirement savings account to set aside money to meet an anticipated specific need in the future.



Advantages of Fund Balance and Reserve Accounts

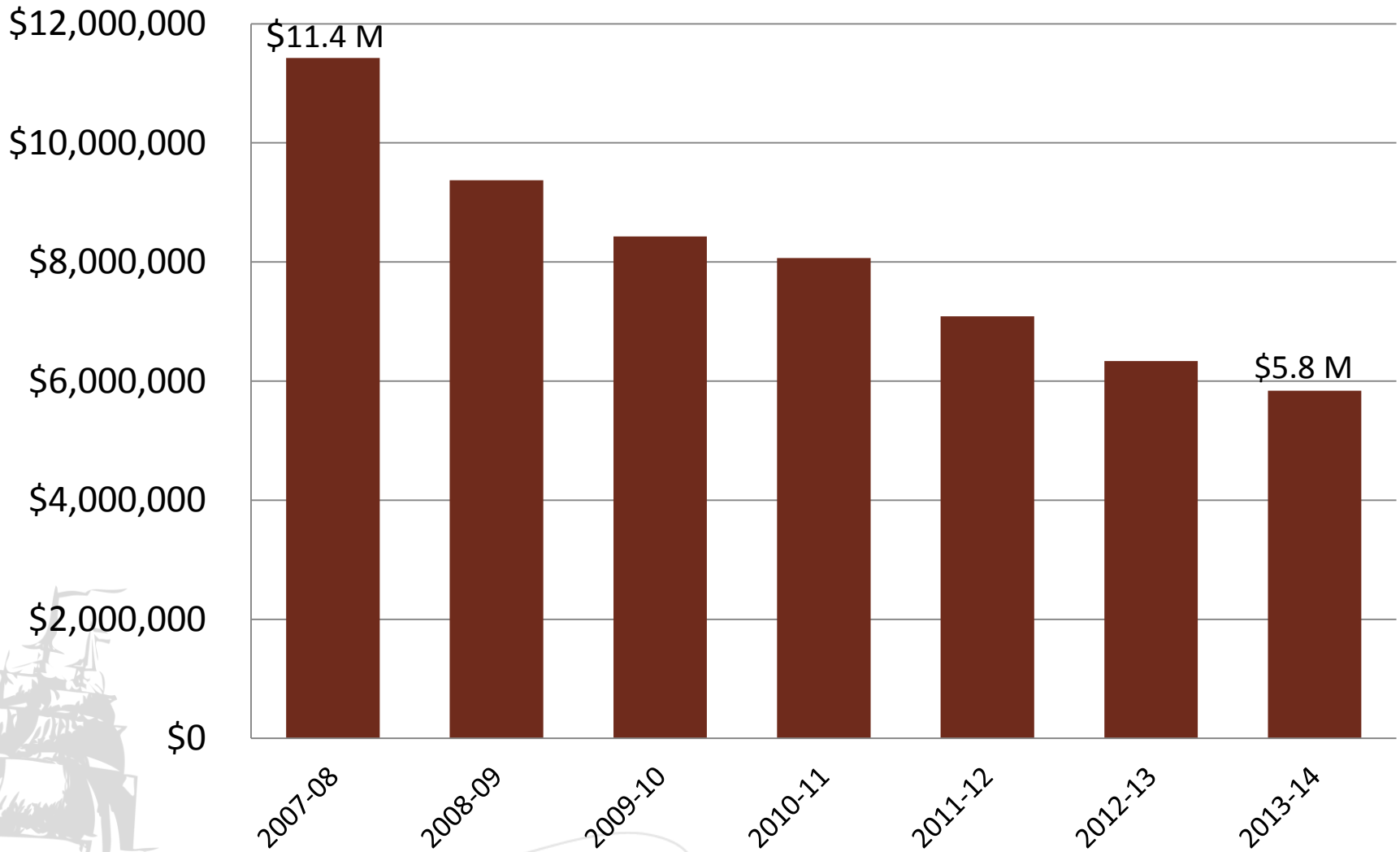
- Provides flexibility to weather short term financial instability
- Cash readily available to meet both unanticipated and likely needs; no need to borrow and pay fees and interest
- Large cash reserves result in a higher credit worthiness leading to lower rates when borrowing thereby saving money, especially over the long term
- Contributes to yearly budget and tax rate stability

Pitfalls in using Fund Balance and Reserve Accounts to balance budget

- Cannot be sustained as a reoccurring source of revenue
- Continued use over time will create a revenue gap that will require cuts to balance the budget
- Unanticipated increases in expenditures or loss of revenues may need to be funded through borrowing or a budget freeze



Use of Fund Balance and Reserves During the Recent Financial Crisis



Impact on GCSD from lowered fund balance and reserves

- Susceptible to Fiscal Stress Designation
- Lower Bond Rating = Higher Borrowing Costs
- Less options for balancing the budget. Property tax levy growth is capped, limiting options to compensate for revenue loss in other areas, forcing budget expenditure reductions.

2017-18 Budget Priorities

Board of Education

Board member responses to a survey regarding comfort level in using fund balance as a revenue source in the 2017-18 budget:

Comfort Level	Responses
None or As Little as Possible	6
Same as current year	3
More than current year	0