
CONTINGENCY/FUND BALANCE

POLICY ISSUE/SITUATION:

Attached are BSD policies relevant to a Contingency and Fund Balance discussion:

- DBA General Fund Contingency Appropriation
- DBDB Fund Balance

BACKGROUND INFORMATION:

Policy DBA General Fund Contingency Appropriation states the District is required to maintain a five percent appropriation for contingency, and the ending fund balance will be at least equal to the amount of the appropriation for contingency. A contingency is appropriated to enable the District to address unforeseen emergencies or financial needs. Board action is required to transfer funds from contingency to spend in any other appropriation level.

Policy DBDB Fund Balance states the Superintendent is to manage the adopted budget to ensure ending fund cash balance of at least five percent of total actual revenues. A fund balance is a measure of the financial resources available to the District.

In an era of a global recession affecting the world economy, the District has experienced unprecedented loss of State School Revenue. In the past four years, the District has spent down reserves in an effort to manage the highest quality programs for students. During the 2012-13 budget process, the District has budgeted for a three and a half percent contingency and until strong state funding returns to the District, staff recommends building reserves on the following schedule:

2012-13	3.5 – 3.9%
2013-14	4.0 – 4.4%
2014-15	4.5 – 4.9%
2015-16	5.0%+

The Beaverton School District recognizes the diversity and worth of all individuals and groups. It is the policy of the Beaverton School District that there will be no discrimination or harassment of individuals or groups based on race, color, religion, gender, sexual orientation, gender identity, gender expression, national origin, marital status, age, veterans' status, genetic information or disability in any educational programs, activities or employment.

It is recommended both policies be maintained at the current percentage to avoid erosion to a new norm lower than the five percent level. While the District is currently under the policy minimum, the District is committed to growing and maintaining reserves to a minimum of five percent in general fund.

The Government Finance Officers Association (GFOA) states it is essential to maintain adequate levels of fund balance in the General Fund for the following reasons:

- To mitigate current and future revenue shortfalls or unanticipated expenditures.
- To support long range financial planning.
- When issuing bonds, credit rating agencies monitor levels of fund balance in a government's general fund to evaluate a government's continued creditworthiness.

GFOA recommends maintaining fund balance in the general fund of no less than one to two months or five to fifteen percent of regular general fund operating revenues or regular general fund operating expenditures.

RECOMMENDATION:

It is recommended the School Board review the Contingency and Fund Balance policies.

Code: DBA
Adopted: 12/13/93
Readopted: 3/10/97,
2/10/03
Orig. Code: 3171

GENERAL FUND CONTINGENCY APPROPRIATION

This policy will help enable the Board to maintain financial stability for program continuity and public confidence, as well as assuring budget and financial compliance with Oregon Revised Statutes and Oregon Administrative Rules.

A minimum 5% appropriation for contingency will be established by the Board to responsibly enable the district to meet unforeseen financial needs due to emergencies and changing district needs. The Board will establish this contingency level during the budget development process. All transfers from the appropriation for contingency must receive Board approval.

By establishing an appropriation for contingency, the Board is projecting that the minimum ending fund balance will be at least equal to the amount of the appropriation for contingency. Prior to the ending fund balance becoming less than projected, the Board will be notified by staff of the possibility that the ending fund balance may fall below the minimum targeted level. The Board may then consider possible options to address the situation.

END OF POLICY

Legal References:

ORS 294.305 – 294.565
OAR 150 – 294.352(8)

Fund Balance

The board recognizes its responsibility to establish an unreserved fund balance¹ in an amount sufficient to:

1. Protect the District from unnecessary borrowing in order to meet cash-flow needs;
2. Provide prudent reserves to meet unexpected emergencies and protect against catastrophic events;
3. Meet the uncertainties of state and federal funding; and
4. Help ensure a District credit rating that would qualify the District for lower interest costs and greater marketability of bonds that may be necessary in the construction and renovation of school facilities.

Consequently, the Board directs the Superintendent to manage the currently adopted budget in such a way as to ensure ending fund cash balance of at least five (5) percent of total actual revenues.

In determining an appropriate unreserved fund balance, the Board will consider a variety of factors with potential impact on the District's budget including the predictability and volatility of its expenditures²; the availability of resources in other funds as well as the potential drain upon general fund resources from other funds³; liquidity⁴; and designations⁵. Such factors will be reviewed annually.

END OF POLICY

¹ The Government Finance Officers Association (GFOA) recommends, at a minimum, that general purpose governments, regardless of size, maintain an unreserved fund balance in their general fund of no less than 5 to 15 percent of regular general fund operating revenues, or of no less than one or two months of regular general fund operating expenditures. The Oregon Association of School Business Officials recommends, at a minimum, an unreserved ending fund balance of no less than 3 to 8 percent of the general fund budget. In general practice, levels of fund balance, typically, are less for larger governments than for smaller governments because of the magnitude of the amounts involved and because the diversification of their revenues and expenditures often results in lower degrees of volatility.

² Higher levels of unreserved fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile.

³ The availability of resources in other funds may reduce the amount of unreserved fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unreserved fund balance be maintained in the general fund.

⁴ The 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.

⁵ The need to maintain a higher level of unreserved fund balance to compensate for any portion of unreserved fund balance already designated for a special purpose.

Legal References:

ORS 294.331 (18)

ORS 3294.371

ORS 332.107