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COUNTY RESERVE BALANCE ACCOUNTS

INTRODUCTION

On July 22, 1998, Am. Sub. House Bill 426 becomes effective. This act modifies current law relating to the establishment and use of county reserve balance accounts. The law also allows certain other funds to accumulate county money for future specified expenditures. The bill was sponsored by Rep. Patricia Clancy (R-Cincinnati) at the request of State Auditor Jim Petro, who worked with local government associations in developing the legislation.

A reserve balance account is a method to set county money aside for future use. H.B. 426 allows counties to establish three types of reserve balance accounts. These accounts may generally be established either within the general fund or by the creation of a separate internal service fund.

The law also allows counties to establish capital projects funds. The purpose of a capital project fund is to accumulate money for the future acquisition, construction or improvement of fixed assets.

In addition, the law authorizes counties to establish a special revenue fund to accumulate money to pay employees' accrued but unused vacation, sick leave, and compensatory time upon termination or retirement. This special fund can also be used to accumulate money over a period of years to pay for the twenty-seventh pay period counties experience every six or seven years.

Finally, the law allows for the establishment of non-expendable trust funds. The purpose of such a fund is for the deposit of donations or contributions that a donor requires to be maintained intact. This CAB will explain these provisions of the new law.

BACKGROUND

Counties were first authorized to establish reserve balance accounts (RBA's) in 1995. Am. H.B.86 of the 121st General Assembly enacted ORC Section 305.23 to authorize RBA's to accumulate funds from the general fund or from special funds for the following four specified purposes:

1. To construct, acquire, equip, or repair a detention facility;

2. To purchase road maintenance equipment;

3. To purchase equipment for use by the county sheriff;

4. To purchase equipment for providing ambulance or emergency medical services.

This section of the Revised Code has been repealed with the enactment of H.B. 426. Townships, on the other hand, had the authority to establish RBA's for police, fire, and road maintenance equipment prior to the enactment of H.B. 86. Townships originally sought authority to establish an RBA as an "internal savings account" in order to annually "set aside" money to purchase expensive equipment, such as a fire truck, without the need to borrow money. Townships could annually "set aside" up to ten percent of specified receipts in an RBA that had to be expended within five years.

Prior to townships being authorized to establish RBA's, some townships attempted to annually save monies from levy proceeds for the future outright purchase of such expensive equipment. At times this resulted in a large unexpended balance in a levy fund. However, these balances did not go unnoticed. Certain budget commissions, upon review of the levy fund and the township tax budget, reduced the rate of a levy because the township tax budget did not show the need for the full amount of the levy. As a result, the township was penalized for attempting to save monies for future expenditures.

To solve this problem, the township RBA law (ORC §505.83 & §505.831) included a provision prohibiting the budget commission from reducing a levy for a balance in an RBA. This essentially declared money in an RBA as encumbered money for purposes of review of the tax budget and certification of levies.

H.B. 86, as introduced, authorized municipalities to establish RBA's under the same terms and conditions as townships. Specifically, the bill provided municipalities with the same restriction on the county budget commission as for townships. In addition, the bill also included a provision that would remove the balance in an RBA from what was considered an unexpended balance for the purpose of determining relative need in the distribution of the Local Government Fund (LGF) and Local Government Revenue Assistance Fund (LGRAF).

CCAO was concerned that H.B. 86 as introduced would adversely affect county receipts from both local government funds. Under the proposal only townships and municipalities could establish RBA's. Given the fact that a balance in an RBA would not be considered an unexpended balance in determining relative need under the statutory distribution formulas for both the LGF and the LGRAF, the potential existed for some counties to lose local government funds.

In order to solve the problem, CCAO requested that counties be granted the authority to establish RBA's for certain specified purposes under the same terms and conditions as townships and municipalities. This resulted in the enactment of ORC 305.23 effective November 1, 1995. Auditor of State Bulletin 96-003, dated January 13, 1996, explains the provisions of H.B. 86 in more detail.

TYPES OF RESERVE BALANCE ACCOUNTS

The recently passed H.B. 426 authorizes the establishment of three types of reserve balance accounts (RBA). The following table summarizes these accounts.

TYPES OF RESERVE BALANCE ACCOUNTS

Title of Reserve Balance Account	Purpose	Fund	ORC Section
Budget Stabilization "Rainy Day"	To accumulate currently available resources. To stabilize budgets against cyclical changes in revenues and expenditures.	Within General Fund	5705.13 (A)
Self-Insurance	To provide payment of claims under self insurance program. This includes health and liability self insurance programs but does not include risk sharing pools.	Within General Fund or by Establishment of Internal Service Fund	5705.13 (A)
Workers Compensation Retrospective Rating	To provide for payment of claims under a workers compensation retrospective rating plan.	Within General Fund or by Establishment of Internal Service Fund	5705.13 (A)

ESTABLISHMENT AND ELIMINATION OF RESERVE BALANCE ACCOUNTS

A reserve balance account is established by resolution of the county commissioners. The resolution must include:

1. The purpose for which the account is established;

2. The fund in which the account is to be established;

3. The total amount of money that is to be reserved in the account.

Likewise, an RBA can be eliminated or reduced at any time. In the case of an RBA for self insurance or for a retrospective rating plan, the money that has accumulated in these accounts must be transferred back to the fund or funds from which the money was originally transferred.
It should be noted that the establishment of an RBA, whether it be in the general fund or by the establishment of an internal service fund, does not require prior authorization of the State Auditor.

GENERAL GUIDELINES ON RESERVE BALANCE ACCOUNTS

A county may not have more than three reserve balance accounts at any time. In addition, not more than one RBA may be established for each of the permitted purposes. Once a reserve balance account is established, money in the account may only be expended for the purpose for which the account was established. In addition to these general guidelines that apply to all reserve balance accounts, the following table includes provisions of the law that relate to the different types of RBA's.

RESERVE BALANCE ACCOUNT GUIDELINES

Title of Reserve Balance Account	Fund Type	Amount To Be Reserved & Restrictions
Budget Stabilization "Rainy Day"	General Fund	Amount to be reserved can not exceed 5% of general fund revenue for the preceding year.
Self-Insurance	General Fund or Internal Service Fund	Amount to be reserved must be based on sound actuarial principles. Amount to be reserved may be expressed in dollars or as the amount determined to be an adequate reserve according to sound actuarial principles. May rescind account. If rescinded money in account, money must be transferred to fund(s) of origin.
Workers Compensation Retrospective Rating Plan	General Fund or Internal Service Fund	Amount to be reserved must be based on sound actuarial principles. May rescind account. If rescinded money in account, money must be transferred to fund(s) of origin.

OTHER FUNDS THAT MAY BE ESTABLISHED UNDER H.B. 426

In addition to the establishment of RBA's, H.B. 426 allows for the creation of one or more capital projects funds to accumulate money for fixed assets, including motor vehicles. Thus, while the terminology has changed, the authority continues to exist and the types of fixed assets for which a capital projects fund can be established has been expanded.

In addition, the law also allows counties to establish a special revenue fund for the payment of certain accrued but unused employee termination or retirement costs. It can also be used to accumulate money to meet payroll during "any fiscal year when the number of pay periods exceeds the usual and customary number of pay periods." For counties this is usually when there is a 27^{th} pay period. Likewise, the law provides for the establishment of a non-expendable trust fund for contribution or donations made to a county. The following table summarizes the new funds.

NEW FUNDS AUTHORIZED FOR SPECIFIC PURPOSES

Type of Fund	Purposes	ORC Section
Special Revenue Fund	To accumulate resources to pay sick leave, vacation leave, and compensatory time entitlements to employees upon termination of employment or retirement. To accumulate resources to pay salaries during any year when there are 27 pay periods.	5705.13 (B)
Type of Fund	**Purposes**	**ORC Section**
Capital Project(s) Funds	To accumulate resources for the acquisition, construction, or improvement of fixed assets including motor vehicles.	5705.13 (C)
Non-Expendable Trust Fund	To receive donations or contributions that must be maintained intact.	5705.131

GENERAL GUIDELINES ON OTHER FUNDS THAT MAY BE ESTABLISHED UNDER H.B. 426

The following table summarizes various guidelines, restrictions, and procedures relating to the establishment of other funds authorized by H.B. 426.

GUIDELINES FOR OTHER FUNDS

Type of Fund	**Guidelines and Restrictions**
Capital Project(s) Fund(s)	Established by resolution of county commissioners. Resolution must identify: 1.Source of money; 2.The amount of money to be accumulated; 3.The period of time over which the money is to be accumulated; 4.The specific fixed assets the county intends to acquire, construct or improve (fixed assets may include motor vehicles). Money in fund may not accumulate for more than five years after establishment of fund. Establishment of fund does not require approval of State Auditor. County may transfer money to capital projects fund from any other county fund that may be lawfully used for the specific fixed asset without following normal transfer procedures in ORC 5705.14-.16. More than one capital projects fund may exist at any time. Commissioners may rescind a capital projects fund at any time. If rescinded, money is transferred back to fund(s) from which it originated. If county has not entered into a contract for the fixed asset before the end of five years after establishment of the fund, the county auditor must transfer all money that has accumulated to the fund(s) from which it originated.

Type of Fund	Guidelines and Restrictions
Special Revenue Fund For Payment of Employee Termination and Retirement Costs and for the 27th Pay Period	Established by resolution of county commissioners. Establishment of fund does not require approval of State Auditor. May transfer money to the special revenue fund from any other fund for which these payments may lawfully be made without following normal transfer provisions of ORC 5705.14-.16. Commissioners may rescind the special fund at any time. If rescinded, money is transferred back to fund(s) from which it originated. Only one special revenue fund for all authorized purposes may be created.
Non-expendable Trust Fund for Donations or Contributions	Established by resolution of county commissioners to receive donations or contributions that donor requires to be maintained intact. Establishment of fund does not require approval of State Auditor. Investment earnings on the principal must be credited to the trust fund.

PROVISIONS RELATING TO REDUCTION IN TAXES AND DETERMINATION OF UNEXPENDED BALANCES FOR LOCAL GOVERNMENT FUND(S) PURPOSES

Under current law, the county budget commission has certain limited authority to modify the rates of property taxes levied by the tax authorities if it determines that revenues will exceed budgeted expenditures. The bill prohibits a county budget commission from reducing the taxing authority of a subdivision as a result of the creation of a reserve balance account, if the commission considers the amount accumulated in the accounts to be a reasonable amount. The commission may require documentation of the reasonableness of the reserve balance held in any reserve balance account (ORC 5705.29 (G)). The bill also directs budget commissions and fiscal officers not to consider either of the following as unencumbered (“available to spend”) balances for purposes of determining revenues and expenditures:

1. Any reserve balance in an account for budget stabilization, and

2. the principal and any additional to the principal arising from sources other than the reinvestment of fund earnings in a non-expendable trust fund (ORC 5705.35 (A) and 5705.36).

The county budget commission also oversees the allocation of Local Government Fund (LGF) and Local Government Revenue Assistance Fund (LGRAF) among subdivisions in a county. In determining the allocation for subdivisions that apply the statutory distribution formula, the commission must assess the "relative need" of each subdivision. "Relative need" is a measure of the expenditures made by a subdivision, less certain deductions specified in statute (ORC 5747.51), relative to expenditures (less those deductions) by other subdivisions in the county. One of the deductions specified is for estimated end-of-year unencumbered balances.

The bill specifies that neither of the following is to be considered an unencumbered balance for these purposes:

1. a reserve balance account established by a county, township, or municipal corporation, to the extent the county budget commission considers the amount accumulated in the account to be a reasonable amount; and

2. the principal and any additions to the principal arising from sources other than the reinvestment of the fund's investment earnings in a non-expendable trust fund. Certain amounts in the reserve balance account and those portions of the non-expendable trust fund, therefore, may not be deducted in the computation of relative needs. This has the effect of preventing a county, township, or municipal corporation's level of relative need--and, therefore, its share of LGF and LGRAF money–from being reduced by virtue of the accumulation of certain amounts in those funds. (ORC 5705.29 (G) and 5705.51)

CONCLUSION

H.B. 426 provides additional options for a board of county commissioners to better plan for the future financial needs of the county. The use of reserve balance accounts, including a rainy day fund; capital projects funds; and a special revenue fund for sick, vacation, and compensatory time cost when an employee leaves county employment should allow for the availability of money when needed without a strain on the annual appropriation. The bill also allows counties to accumulate money each year to meet the 27th pay period which should level annual cash needs of the county. The bill also includes fair and reasonable provisions to assure that tax levies are not reduced or local government funds redistributed within a county unless a political subdivision abuses the use of the new budgetary tools.

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