

CECIL COUNTY GENERAL FUND BALANCE POLICY

Fund balance is a key element of financial resilience for any county or municipal organization. It helps to mitigate the impacts of unanticipated revenue shortfalls and provides a buffer for unexpected expenditure requirements. For these reasons, Cecil County (the "County") adopts the following General Fund Reserve Policy:

The County's General Fund Reserves shall be comprised of two separate Reserves:

Emergency Reserve (Rainy Day Fund)

The County establishes an Emergency Reserve that shall be maintained at a level of 10% of actual General Fund Revenues for the then current fiscal year. Emergency Reserves shall be held in the committed portion of the County's General Fund Balance and can only be utilized for major one-time events such as a natural disaster, unforeseen catastrophic event caused by human activity, severe economic recession, or federal mandates that cannot be managed with reserves from the Budget Stabilization Reserve. The Emergency Reserve will not be accessed to meet operating shortfalls or to fund new programs or personnel. This reserve may be expended only if an event is determined to be a public emergency by a two-thirds vote of the County Council, when such expenditures are necessary to ensure the safety of the County's residents and their property. The County Executive shall prepare a plan to restore the reserve back to policy limits, within two years following the fiscal year within which the drawdown occurred.

Budget Stabilization Reserve

The County also establishes a Budget Stabilization Reserve that shall be maintained at a level of 1% of actual General Fund Revenues for the then current fiscal year. Budget Stabilization Reserves will be held in the assigned portion of the General Fund Balance and will be utilized as a first line of defense to offset unexpected fluctuations in revenues and expenditures. The Stabilization Reserve may be used as a source of one-time funding for critical capital or operating needs. The purpose of this reserve is to provide budgetary stabilization and not to serve as an alternative funding source for new programs. Recommendations to appropriate from the Budget Stabilization Reserve will be brought forward by the County Executive and will require approval by a majority of the County Council. In the event this reserve falls below the amount established by this policy, the County Executive shall prepare a plan no later than one year from the reserve action to replenish the Budget Stabilization Reserve to the policy limit.

General Fund Reserve Calculations

In addition to the reserve requirements outlined above, the County shall maintain a Total Available Reserve (includes Emergency Reserve, Budget Stabilization Reserve, and Unassigned General Fund Balance) of no less than two months of actual General Fund revenues for the then current fiscal year.

Maintaining and adhering to a reserve policy is a good business practice recognized by the Government Finance Officers Association, and is among the factors considered by rating agencies when assessing the credit-worthiness of an organization. These reserve policies will remain in effect until such time as they are amended or repealed by subsequent County Council action, and will be presented to the Council every three years for update.