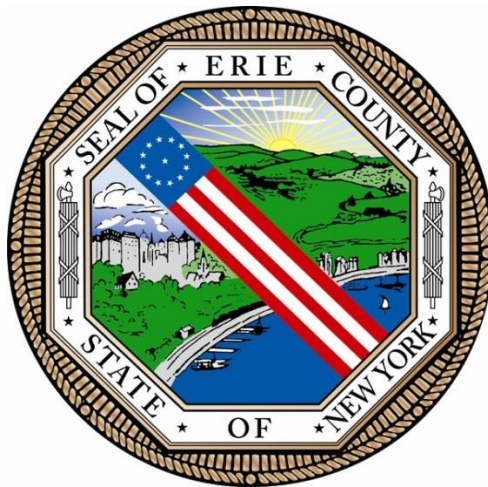


**June 2020**

## **A Report on Historical Fund Balance**



**STEFAN I. MYCHAJLIW**  
**ERIE COUNTY COMPTROLLER**

---

**HON. STEFAN I. MYCHAJLIW**  
**ERIE COUNTY COMPTROLLER'S OFFICE**  
**DIVISION OF AUDIT & CONTROL**  
**95 FRANKLIN STREET**  
**BUFFALO, NEW YORK 14202**

**June 2, 2020**

Erie County Legislature  
92 Franklin Street 4<sup>th</sup> Floor  
Buffalo, New York 14202

Dear Honorable Members:

The fund balance is a pool of money accumulated when revenues exceed expenses for any given year. That money can be accessed to fund spending priorities of the legislature. It can also be used to balance a budget that becomes out of balance during the fiscal year. As such, it is sometimes referred to as a “rainy day fund.”

Given the current COVID-19 pandemic and resulting fiscal distress, it may be helpful to examine Erie County’s fund balance and the availability of funds to make intra-year adjustments to the budget.

As a result of this report, we reiterate our past recommendations to immediately plan for reduced revenue from various sources and at various levels. We further recommend that use of fund balance be considered as a tool to maintain a balanced budget.

## Table of Contents

Background .....	4
Required Fund Balance Level .....	5
Historical Fund Balance.....	6
Impact of Fund Balance .....	8
Conclusion.....	8

## Background

Each year that there is an excess of revenue over expenditures, the excess funds are eligible to be placed into a pool of money known as fund balance. This money is separate from the general fund and cannot be accessed without approval of the legislature. If approval occurs during the annual budget approval process, a majority vote of the legislature is required. Otherwise, a super-majority vote of the legislature is required.

The fund balance is separated into two categories: undesignated fund balance and total fund balance. Total fund balance includes all of the amounts assigned to excess funds, including amounts that have been designated to be spent on items approved by the legislature. The undesignated fund balance represents the total amount which remains available to be allocated by the legislature. Because of this, total fund balance is typically greater than undesignated fund balance.

In recent history, the undesignated fund balance was actually negative as of December 31, 2004. That year ended with a total fund balance of \$4,933,000, and an undesignated fund balance of -\$10,774,000. The reason for this is that general fund expenditures significantly exceeded general fund revenues to the point whereby the expenditures exceeded revenues by an amount greater than the amount remaining in undesignated fund balance. It has grown most years since that time at various rates.

When reviewing total fund balance compared to undesignated fund balance, it is helpful to be aware of the rate of change in these amounts. If the total fund balance is rising at a rate higher than undesignated fund balance, this is typically an indication of legislature actions to spend fund balance on specific items, rather than allowing the funds to exist in something akin to an accessible savings account. This frequently occurs due to spending decisions made during the year end budget balancing process.

However, the opposite is not true. A lower rate of growth of total fund balance compared to undesignated fund balance does not indicate an increased commitment to saving over spending. Instead, it is an indicator that designated funds have been actually expended, as opposed to merely committed, and no longer reside in fund balance. Mirrored increases in the amount of total fund balance and undesignated fund balance may indicate a preference for saving over spending, but it may also indicate that amounts were committed to designated projects at the same amount that funds were expended to change items from committed to completed.

Because undesignated fund balance serves as a sort of savings account, some refer to it as a "rainy day fund." It can be a useful tool to address unanticipated revenue shortfalls or unexpected spending needs. However, use of fund balance should only be made upon certain fiscal and legal considerations.

## Required Fund Balance Level

The reason for maintaining a fund balance is clear. Emergency situations or unanticipated situations are not uncommon occurrences. Whether it be unanticipated cost increases at the time of budgeting, an unexpected adverse legal settlement, or, at the present time, a global pandemic. Governments that maintain an adequate fund balance are better positioned to deal with adversity when it arises.

The Erie County Charter requires that certain levels of fund balance be maintained and includes procedures for allocating fund balance. Specifically, section 2505 states:

- a. In presenting the tentative budget, the County Executive shall report on the amount of the balance contained in the General Fund including non-spendable, restricted, committed, assigned or unrestricted funds. Such report for each fund shall be current as of the County's last audited financial statements.
- b. The County shall maintain an unassigned Fund Balance in the General Fund equal to or greater than five percent of the amount contained in the adopted budget of the General Fund of the County's last audited financial statements. For the purposes of this section, the total General Fund calculation shall not include sales and compensating use tax revenue shared with local governments and school districts. Fund balance may be included as revenue in an approved budget of the General Fund provided that there shall remain an unassigned balance of at least five percent as provided in the first sentence of this paragraph.
- c. If the proposed County budget appropriates unassigned fund balance in the General Fund reducing the unassigned General Fund balance below five percent as described in subsection (b), the County Executive shall present a separate resolution to the County Legislature parallel with the proposed County budget requesting approval of the appropriation. The County may only approve unassigned General Fund balance below the five percent level upon a two-thirds super-majority vote of the County Legislature. A budget that is approved without a vote of the County Legislature shall not appropriate any fund balance revenue in the General Fund in excess of the amount provided in this subsection. The County Executive's tentative budget shall indicate equivalent deletions in the tentative budget that shall be executed if the use of fund balance permitted by this paragraph is not approved by the County Legislature.
- d. Following approval of the annual budget, no additional unassigned General Fund balance shall be appropriated as revenue during the fiscal year without the affirmative vote of at least two-thirds of the total membership of the County Legislature.

At the end of fiscal year 2018, the unassigned General Fund balance was \$102,489,618. This equated to 6.59% of the \$1,554,964,341 contained in the adopted 2020 General Fund budget.

In 2015, the county's external auditors recommended that the county evaluate the five percent fund balance required in the Charter. The impetus for this recommendation was that the Government Finance Officers Association states that "at a minimum, that general purpose

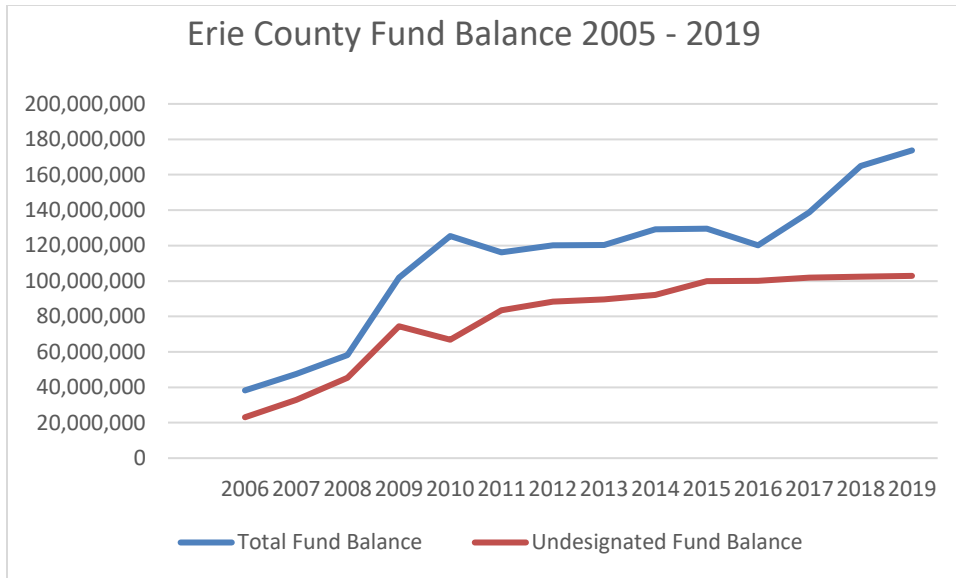
governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.” GFOA notes that lower levels of fund balance may be appropriate for states and America’s largest governments. Based on a formula of 1/6 of the general fund, two months operating expenditures is equal to \$250,160,724. This recommendation was reiterated by the Erie County Audit Committee in its report to the legislature. However, according to the Erie County Charter, the minimum fund balance that should be maintained for the 2020 budget is \$77,748,217.

## Historical Fund Balance

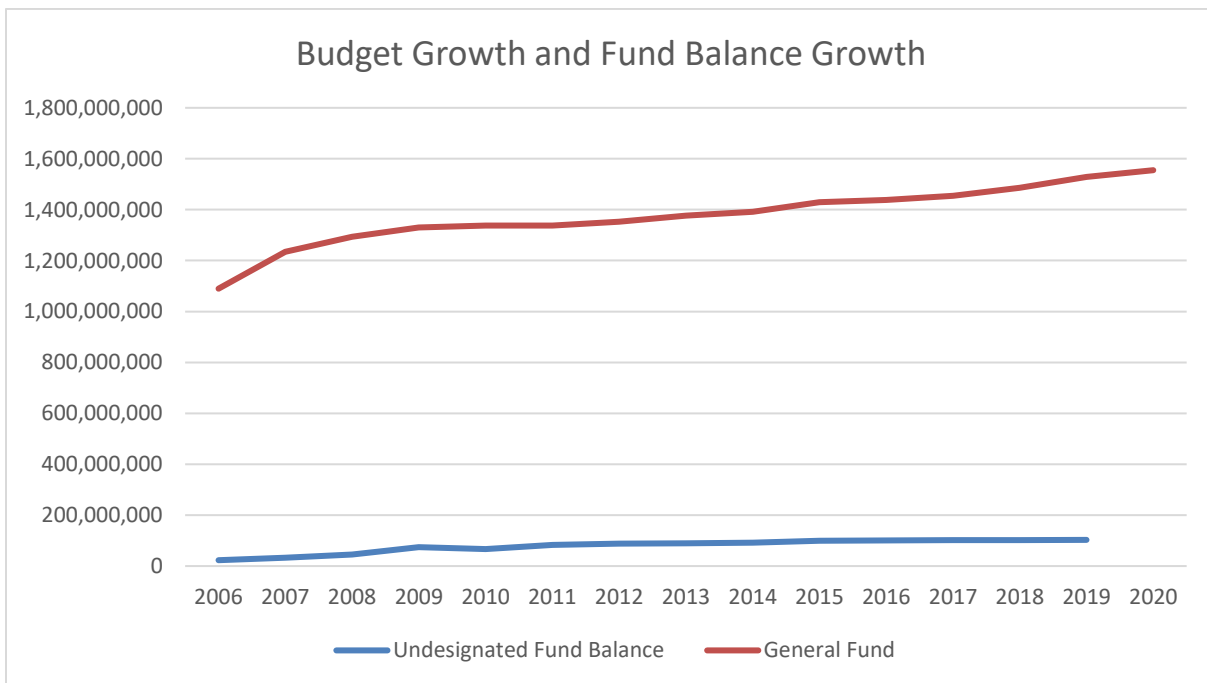
Between December 31, 2005 and December 31, 2019, the unassigned fund balance has grown from \$4,646,934 to \$102,898,785. This is an increase of \$97,843,000. Please note that the 2019 fund balance amounts are at this time unaudited. The total and undesignated fund balances for this time period were:

Year	Total Fund Balance	Undesignated Fund Balance
2005	14,408,094	4,646,934
2006	38,232,946	23,068,986
2007	47,540,841	32,960,569
2008	58,191,179	45,389,357
2009	101,838,557	74,044,894
2010	125,312,829	66,904,031
2011	116,135,348	83,490,024
2012	120,141,487	88,332,480
2013	120,368,049	89,649,901
2014	129,165,302	92,218,273
2015	129,500,097	99,859,292
2016	120,112,283	100,154,592
2017	138,776,150	101,939,737
2018	164,883,641	102,489,618
2019	173,749,601	102,898,785

Presented graphically, so as to view the growth of the fund balance over this time period:



Since 2016, the Erie County General Fund budget has grown by 8.13%, or a total of \$116,909,504. Over that same time period, the fund balance grew 2.74%. Budget increases which grow at a faster rate than fund balance will eventually lead to a decrease of undesignated fund balance as a percentage of general fund expenditures to below the 5% threshold described in the Charter. Graphically, the growth of the respective funds appear as:



## Impact of Fund Balance

The use of fund balance is often an effective alternative to severe cuts in services or tax hikes in order to address unforeseen situations. At the time of passage of the 2020 Erie County budget, the emergence of COVID-19 was not widely known. Certainly, the global pandemic was, at the time, an unforeseen situation.

It should be noted that the Charter requirement of a 5% minimum fund balance contemplates fund balance dropping to levels below 5%. Section 2505 (b) states that the use of fund balance which would result in levels below 5% must be approved by a super-majority of the legislature. As such, utilization of the fund balance at levels up to \$102,898,785 could be authorized by the legislature.

Such a utilization of fund balance could impact the county's ability to borrow. The county's current credit rating is based, in part, on its level of fund balance. Large undesignated reserves serve as an indication of the county's ability to repay its obligations, even in times of unanticipated fiscal strain. On the other hand, a fund balance that is maintained at too high of a level could be an indication of a government that is taxing beyond its needs.

When deciding on the use of fund balance to address unforeseen circumstances, it may be necessary to weigh the further-term impact of a lower fund balance on the cost of borrowing against the immediate need of an emergency situation.

## Conclusion

The COVID-19 worldwide pandemic has hit the United States particularly hard. New York is an epicenter of the virus in the United States. Erie County has suffered a significant amount of both physical and fiscal pain as a result of this virus. Budgets that may have been balanced when passed are no longer balanced.

The Comptroller's Office has offered its rationale for declaring a \$206 million deficit. It is understood the current situation is fluid and could change, for better or worse, at any time. As such, the legislature should immediately address the deficit with plans that offer flexibility. The plan should have the ability to be changed as circumstances change.

There are many tools available to address deficits that materialized due to actions initiated to combat COVID-19. The Comptroller's Office has submitted several of these tools to the legislature for its consideration and, if it chooses to, action.

One of the enumerated tools was use of the fund balance. The fund balance is a pool of money reserved by governments to address circumstances unforeseen at the time of budget passage. The COVID-19 pandemic certainly qualifies as such a circumstance.



Erie County has a total fund balance of \$173,749,601. This represents an accumulation of revenues over the past 15 years. However, the entire \$173,749,601 cannot be used to address the current deficit. The legislature has already prioritized and allocated \$70,850,825 for other spending initiatives. Rather, only the undesignated fund balance can be used to address the budget deficit.

The Erie County Charter requires the maintenance of a 5% undesignated fund balance, as compared to the General Fund budget. This equates to \$77,748,217. Given an undesignated fund balance totaling \$102,898,785, at least \$25,150,578 would be available to address revenue shortfalls while still maintaining the 5% threshold. However, the entire undesignated fund balance could be utilized to address this situation, if so desired.

As such, WE RECOMMEND that the Legislature strongly consider use of fund balance to address the deficit as declared by the Comptroller.