



Midpeninsula Regional
Open Space District

R-16-79
Meeting 16-14
June 22, 2016

AGENDA ITEM 4

AGENDA ITEM

Annual Review of Restricted, Committed, Assigned, and Unassigned Reserves and Reserve Amounts

GENERAL MANAGER'S RECOMMENDATION

Approve (1) the elimination of the 2004 Bond Reserve Fund, (2) a \$10 million increase in the Infrastructure Fund, and (3) a \$1.9 million increase in the minimum required balance in the unassigned General Fund, as recommended by the District Controller.

SUMMARY

The District Fund Balance Policy, adopted on November 25, 2014, requires that the Board annually review the necessity for each reserve fund and the reserve amount. The District Controller recommends three changes from the designations made in November 2014 as described under the General Manager's recommendations and explained in more detail below.

DISCUSSION

In November 2014, the Board adopted the Fund Balance Policy to provide adequate funding to meet the District's short-term and long-term plans, provide funds for unforeseen expenditures related to emergencies such as natural disasters, strengthen the financial stability of the District against present and future uncertainties such as economic downturns and revenue shortfalls, and maintain an investment-grade bond rating. At that time, the Board approved the establishment of three restricted funds, three committed funds, and adopted a minimum balance for the unassigned general fund.

Restricted Funds

[1] 2004 Bond Reserve Fund; minimum amount \$1,393,435.

The 2004 Bonds were paid-off in January 2015 from the proceeds from issuance of the District's 2015 Refunding Promissory Notes and the liquidation of this reserve fund. **The fund is no longer required.**

[2] Retiree Healthcare Plan Fund. The FY2016-17 budget includes a \$250,000 annual contribution to this fund.

[3] Hawthorns Fund. The FY2016-17 budget authorizes a \$133,050 annual withdrawal from this fund.

Committed Funds

[1] Infrastructure Fund; initial amount of \$15.0 million.

As the planning for the expanded facilities required to implement Measure AA has progressed, it has become apparent that at least \$25 million will be spent on new office and field facilities over the next five years. Therefore, **it is recommended that the reserve requirement be increased by \$10 million to \$25 million.**

[2] Equipment Replacement Fund; initial amount of \$2.4 million.

No change is recommended.

[3] Natural Disaster Fund; initial amount of \$3.0 million.

No change is recommended.

Assigned Funds

None.

Unassigned Funds

Minimum Balance of General Fund; initial amount of \$10 million.

The minimum balance needs to adjust to the changing scale of the District's financial activity. The original \$10 million amount represented 28% of budgeted general fund tax revenue. **It is recommended that the minimum balance be adjusted annually to equal 28% of budgeted tax revenue - \$11.9 million for FY2016-17 (28% x \$42.55 million).**

The total recommended amount of Committed Reserves and Minimum General Funds is now \$42.3 million, an increase of \$11.9 million.

BOARD COMMITTEE REVIEW

This item was not specifically reviewed by Committee. Per Board policy, adjustments to fund balances must be approved by the Board as part of the annual budget process. Elements of the recommended fund balance adjustments were discussed with the Action Plan and Budget Committee during development of the budget and were further vetted in the recent annual Controller's Report.

FISCAL IMPACT

If approved, the revised reserve amounts will be shown in the District's Annual Financial Audit Report for the fifteen months ending June 30, 2016.

PUBLIC NOTICE

Public notice was provided pursuant to the Brown Act. No additional notice is required.

CEQA COMPLIANCE

The recommended action is not a project for purposes of the California Environmental Quality Act.

NEXT STEPS

None.

Prepared by:
Mike Foster, Controller