



Midpeninsula Regional
Open Space District

R-16-138
Meeting 16-26
October 26, 2016

AGENDA ITEM 7

AGENDA ITEM

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

GENERAL MANAGER'S RECOMMENDATION

Adopt a resolution amending the Fund Balance Policy to authorize (1) a \$5 million increase in the Infrastructure Fund for the Administrative and Field Offices, and (2) adjust the minimum Unassigned Fund Balance to 30% of Budgeted General Fund Tax Revenue, instead of a fixed dollar amount and (3) provide flexibility to repay unassigned reserve fund spending to a cap of 5% of Budgeted General Fund Tax Revenue.

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 unassigned fund balance for the general fund.

Restricted Funds

No changes

Committed Funds

[1] Infrastructure Fund; initial amount of \$15.0 million, which was increased by \$10 million to \$25 million per Board decision on June 22, 2016. As the planning for the expanded administrative and field facilities continues to progress, **it is recommended that the reserve requirement be further increased by \$5 million to \$30 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 was updated to \$11.9 million per Board decision on June 22, 2016.

It is recommended that the minimum balance be adjusted to a calculation of 30% of the Budgeted General Fund Tax Revenue (30% x \$42.55 million = \$12.765 million).

The existing policy requires any spending from this minimum general fund reserve to be reimbursed within two years. It is recommended to add some flexibility to the reimbursement by providing the Board the option to limit the reimbursement at 5% of Budgeted General Fund Tax Revenue and extend the reimbursement period beyond two years, as needed in the event of a severely catastrophic event.

The minimum reserve amount calculation will be reviewed annually as part of the annual budget process.

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.

Attachments:

1. Resolution Amending the Fund Balance Policy

Responsible Department Manager:
Steve Abbors, General Manger

Prepared by:
Stefan Jaskulak, Chief Financial Officer

RESOLUTION NO. 16-__

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE
MIDPENINSULA REGIONAL OPEN SPACE DISTRICT AMENDING
THE FUND BALANCE POLICY**

WHEREAS, the Government Accounting Standards Board ("GASB") has adopted Statement

No. 54, a standard for governmental fund balance reporting and governmental fund balance classifications with varying constraints: Non-Spendable, Restricted, Committed, Assigned, and Unassigned, and

WHEREAS, the Midpeninsula Regional Open Space District (District) adopted a Fund Balance Policy on November 25, 2014 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; and

WHEREAS, the Fund Balance Policy may be amended from time to time to reflect the District's current fiscal needs and as part of the District's annual budget process; and

WHEREAS, the Fund Balance Policy was last amended on June 22, 2016; and

WHEREAS, the planning for the expanded administrative and field facilities continues to progress making it prudent to increase the Infrastructure Fund; and

WHEREAS, the minimum balance needs to adjust to the changing scale of the District's financial activity and reimbursement of any spending of the general fund reserve be flexible, as needed in the event of a severely catastrophic event; and

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

SECTION ONE. The Board of Directors of the Midpeninsula Regional Open Space District does hereby amend the Fund Balance Policy as follows:

[1] Infrastructure Fund: It is recommended that the reserve requirement be increased by \$5 million from \$25 million to \$30 million.

Minimum Balance of General Fund: It is recommended that the minimum balance be adjusted to a calculation of 30% of the Budgeted General Fund Tax Revenue. The minimum reserve amount calculation will be reviewed annually as part of the annual budget process.

Any spending from this minimum general fund reserve will be reimbursed within two years. If such reimbursement exceeds 5% of the Budgeted General Fund Tax Revenue, the Board may decide to limit the reimbursement at 5% and extend the reimbursement period beyond two years, as needed.

SECTION THREE. This resolution supersedes the Fund Balance Policy approved on June 22, 2016.

* * * * *

PASSED AND ADOPTED by the Board of Directors of the Midpeninsula Regional Open Space District on ____, 2016, at a regular meeting thereof, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

APPROVED:

Secretary
Board of Directors

President
Board of Directors

APPROVED AS TO FORM:

General Counsel

I, the District Clerk of the Midpeninsula Regional Open Space District, hereby certify that the above is a true and correct copy of a resolution duly adopted by the Board of Directors of the Midpeninsula Regional Open Space District by the above vote at a meeting thereof duly held and called on the above day.

District Clerk

Exhibit A: Board Policy 3.07 *Fund Balance Policy*

Midpeninsula Regional Open Space District

Board Policy Manual

Fund Balance Policy in Accordance with GASB Statement No. 54	Policy 3.07 Chapter 3 – Fiscal Management
Effective Date: 11/25/14 <u>10/26/16</u>	Revised Date: N/A <u>10/26/16</u>
Prior Versions: N/A <u>11/25/14</u>	

Purpose

The following policy is created and approved by the Board of Directors in order to [1] provide adequate funding to meet the District's short-term and long-term plans, [2] provide funds for unforeseen expenditures related to emergencies such as natural disasters, [3] strengthen the financial stability of the District against present and future uncertainties such as economic downturns and revenue shortfalls, and [4] maintain an investment-grade bond rating. This policy has been developed, with the counsel of the District auditors, to meet the requirements of GASB 54.

This policy identifies the required components of fund balance, the level of management authorized to approve or change target balances in each fund, the amounts that the District will strive to maintain in each fund, and the conditions under which fund balances may be spent, reimbursed and reviewed.

Policy

The components of District fund balance are as follows:

Non-Spendable fund balance includes amounts that cannot be spent either because they are not in spendable form, e.g. prepaid insurance, or because of legal or contractual constraints. At all times, the District shall hold fund balance equal to the sum of its non-spendable assets.

Restricted fund balance includes amounts that are constrained for specific purposes which are externally imposed by constitutional provisions, enabling legislation, creditors, or contracts. Individual funds will be identified by the General Manager and Controller and the amounts set based on legal or contractual requirements. Funds may only be spent as specified by contract or as externally directed. The continuing need for each fund and the amount reserved will be reviewed annually.

Committed fund balance includes amounts that are constrained for specific purposes that are internally imposed by the District Board of Directors. Individual funds and target amounts will be established by the Board. Projects to be funded by committed funds require the approval of the Board. Funds spent from committed funds shall be reimbursed from the general fund within two years. The continuing need for each fund and the amount reserved will be reviewed annually. Any changes require the approval of two-thirds of the Board.

Assigned fund balance includes amounts that are intended to be used for specific purposes that are neither restricted nor committed. Such amounts may be assigned by the General Manager if authorized by the Board of Directors to make such designations. Projects to be funded by assigned funds require the approval of the General Manager. Funds spent from assigned funds shall be reimbursed from the general fund within two years. The continuing need for each fund and the amount reserved will be reviewed annually.

Unassigned fund balance includes amounts within the general fund which have not been classified within the above categories. The ~~Board shall designate the~~ minimum amount of unassigned fund balance is calculated as 30% of the Budgeted General Fund Tax Revenue. This minimum unassigned fund balance ~~which~~ is to be held in reserve in consideration of unanticipated events that could adversely affect the financial condition of the District and jeopardize the continuation of necessary public services. Any spending from this minimum general fund reserve requires the approval of the Board. Any such spending will be reimbursed within two years. If such reimbursement exceeds 5% of the Budgeted General Fund Tax Revenue, the Board may decide to limit the reimbursement at 5% and extend the reimbursement period beyond two years, as needed. The minimum reserve amount calculation will be reviewed annually as part of the annual budget process.

The specific reserve funds and amounts are as follows:

Restricted Funds

~~[1] **2004 Bond Reserve Fund:** required by the terms of the 2004 Revenue Bonds; held by Bond Trustee; minimum amount \$1,393,435.~~

[21] **Retiree Healthcare Plan Fund:** established in 2008 with a \$1.9 million contribution to the California Employers' Retiree Benefit Trust; all withdrawals per Board-approved plan; amount of annual contribution authorized by the Board as part of the annual budget.

[32] **Hawthorns Fund:** established in 2011 with a \$2.0 million endowment from the Woods Family Trust, to provide stewardship funding for the Hawthorns property in Portola Valley; amount to be withdrawn each year authorized by the Board as part of the annual budget.

Committed Funds

[1] **Infrastructure Fund:** Implementation of the 2011 Strategic Plan, 2014 Vision Plan, and Measure AA projects will require expansion of field and office facilities beginning in fiscal 2016. Funding for such capital expenditures is not available from general obligation bonds under Measure AA. The Board shall commit an initial reserve amount and amend the amount as needed. The amount to be withdrawn each year for the Infrastructure Fund will be authorized by the Board as part of the annual budget.

[2] **Equipment Replacement Fund:** Implementation of the 2011 Strategic Plan, 2014 Vision Plan, and Measure AA projects will, over time, require replacement of field and office equipment and vehicles. Funding for such capital expenditures is not available from general obligation bonds

under Measure AA. The Board shall commit an initial reserve amount and amend the amount as needed. The amount to be withdrawn each year for the Equipment Replacement Fund will be authorized by the Board as part of the annual budget.

[3] **Natural Disaster Fund:** The District must be prepared to undertake emergency expenditures required to respond quickly to a major fire, earthquake or flood. Funding for such expenditures is not available from general obligation bonds under Measure AA. The Board shall commit an initial reserve amount and amend the amount as needed. All withdrawals from the Natural Disaster Fund require the approval of the General Manager.

Assigned Funds

None