



Midpeninsula Regional
Open Space District

R-22-70
Meeting No. 22-15
June 8, 2022

AGENDA ITEM 4

AGENDA ITEM

Annual Review of Finance Policies for Fiscal Year 2022

GENERAL MANAGER'S RECOMMENDATION *den*

Confirm the Board Financial Policies, including a minor amendment to Board Policy 3.07 – *Fund Balance Policy*.

SUMMARY

Midpeninsula Regional Open Space District (District) staff completed its annual review of existing financial policies: *Banking Relationship Management (3.01)*, *Capital Expenditure and Depreciable Fixed Assets (3.05)*, *Initial and Continuing Disclosures Relating to Bond Issuances (3.06)*, *Fund Balance Policy (3.07)*, *Statement of Investment (3.08)*, and *Debt Management (3.09)*. The General Manager recommends that the Board (1) affirm Board Policies 3.01, 3.05, 3.06, 3.08 and 3.09 to confirm that these policies remain current, and (2) approve an update to Board Policy 3.07 relating to the current paragraph under Committed Funds for the Promissory Note Sinking Fund.

DISCUSSION

Each year, the General Manager and Chief Financial Officer together with the Controller reviews the District's finance policies in preparation for an annual Board review and affirmation of the policies. The 2022 review began as part of the budget cycle this past spring and will continue into the coming months. At this time, the General Manager recommends the approval of a minor amendment to the Fund Balance Policy for greater flexibility to reserve funds for repayment of debt principal. No other updates to the financial policies are recommended at this time.

3.01 Banking Relationship Policy

No changes proposed.

3.02 General Accounting, Internal Control and Capital Assets Policy

No changes proposed.

3.03 Public Contract Bidding

No changes proposed.

3.04 Budget and Expenditure Authority Policy

No changes proposed.

3.06 Initial and Continuing Disclosures Relating to Bond Issuances

No changes proposed. Staff consulted with the District’s Disclosure Counsel.

3.07 Fund Balance Policy

Under Committed Funds [5], the District established a sinking fund specifically for the Hunt Promissory Note, with a further proviso that the paragraph could be administratively removed once the Hunt Note is fully repaid in FY23. The proposed amendment to Policy 3.07 would modify and broaden the current wording to “...the Board may authorize annual contributions to fund the repayment of principal for promissory notes, bonds or any other form of debt incurred by the District.”,

3.08 Statement of Investment

No changes proposed. The Board is requested to affirm the current policy.

3.09 Debt Management Policy

No changes proposed. The Board is requested to affirm the current policy.

FISCAL IMPACT

No new fiscal impact.

BOARD AND COMMITTEE REVIEW

- May 3, 2022: ABC reviewed the proposed change to Board Policy 3.07 and recommended forwarding to the full Board for consideration. ([R-22-57](#), [meeting minutes](#))

PUBLIC NOTICE

Public notice was provided as required by the Brown Act.

CEQA COMPLIANCE

This proposed action is not a project under the California Environmental Quality Act and no environmental review is required.

NEXT STEPS

Upon approval by the Board, the new policies would enter into force. Staff will perform another annual review during FY23.

Attachment:

1. Fund Balance Policy 3.07

Responsible Department Manager:
Stefan Jaskulak, Chief Financial Officer

Prepared by:
Andrew Taylor, Finance Manager and Disclosure Coordinator

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	Revised Date: 06/26/2019
Prior Versions: 11/25/14, 10/26/16, 6/27/2018	

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. Committed funds may include but are not limited to: Capital Maintenance, Equipment Replacement, Infrastructure, Natural Disasters, and Promissory Note. Projects to be funded by committed funds require the approval of the Board. 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. 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 minimum amount of unassigned fund balance is calculated as 30% of the Budgeted General Fund Tax Revenue. This minimum unassigned fund balance 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 are as follows:

Restricted Funds

[1] **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.

[2] **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] **Capital Maintenance Fund:** Implementation of the 2011 Strategic Plan, 2014 Vision Plan, and Measure AA projects will require District assets to be in good working order; annual maintenance costs for existing District assets are anticipated. Funding for such capital maintenance expenditures is not available from general obligation bonds under Measure AA. The General Manager will recommend, and the Board may authorize, an initial reserve amount associated with maintenance of a particular improvement. The amount to be withdrawn each year for the Capital Maintenance Fund will be authorized by the Board as part of the annual budget.

[2] **Equipment Replacement Fund:** Implementation of District projects requires corresponding purchase and replacement of field and office equipment and vehicles. The General Manager will recommend, and the Board may authorize, an initial reserve amount associated with equipment

replacement needs. 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] **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. The amount to be withdrawn each year for the Infrastructure Fund will be authorized by the Board as part of the annual budget.

[4] **Natural Disaster Fund:** The District must be prepared to undertake emergency expenditures required to respond quickly to a major fire, earthquake or flood. The General Manager will recommend, and the Board may authorize an initial reserve amount to prepare for natural disasters. All withdrawals from the Natural Disaster Fund require the approval of the General Manager.

[5] ~~**Promissory Note Debt Sinking Fund:** The District has the Hunt Promissory Note, an interest only loan with a balloon principal payment due in FY2022/23.~~ The General Manager will may recommend, and the Board may authorize ~~an initial reserve amount, with~~ annual contributions ~~to fund the repayment of principal for promissory notes, bonds, or any other form of debt incurred by the District.~~ continuing through FY2022/23. The amount to be withdrawn from the ~~Promissory Note Debt Sinking Fund (anticipated in FY2022/23; intended for the principal balloon payment)~~ will be authorized by the Board as part of the annual budget. ~~Once the principal has been paid and the Promissory Note is retired, this paragraph may be administratively removed from the Policy.~~

[6] **Future Acquisitions and Capital Projects Fund:** With the passage of Measure AA, the District has a greater focus on capital projects, as well as its ongoing land acquisition program. This fund will provide the District with sufficient reserves to quickly react to opportunistic land acquisitions and to future capital projects that may arise during the course of a given fiscal year. Withdrawals from this fund require approval of the Board.

Assigned Funds

[1] **Capital Construction in Progress (CCIP) Fund:** Under the direction and authority of the General Manager, staff will review encumbered funds for ongoing capital projects at the end of the fiscal year. These balances may be assigned to CCIP fund as a closing entry to the fiscal year for use as a funding source for the overall project cost in the following fiscal year. Unless otherwise authorized by the Board, the balances available under this fund will not increase the overall project budget.