



Midpeninsula Regional
Open Space District

R-14-150
Meeting 14-33
November 25, 2014

AGENDA ITEM 3

AGENDA ITEM

Fund Balance Policy and Initial Reserve Commitments

DISTRICT CONTROLLER'S RECOMMENDATIONS

1. Approve the proposed new District Fund Balance Policy.
2. Approve initial amounts for committed reserves and minimum general fund balance.

SUMMARY

This report outlines a proposed Fund Balance Policy to establish appropriate District reserves for financial stability and in accordance with GASB 54. The report also recommends initial amounts for committed reserves and minimum general fund balance.

DISCUSSION

As the District has grown in size over the years, the complexity of its financial operations has also increased and the recent passage of Measure AA will add to the complexity. The District Controller recommends the Board of Directors adopt a new District Fund Balance Policy to strengthen the District's financial management practices.

The proposed Fund Balance Policy (Attachment 1) meets the requirements of GASB 54, which established the following five fund balance classifications with varying constraints: Non-Spendable, Restricted, Committed, Assigned, and Unassigned. These classifications are defined as part of the draft policy which is attached to this report and include Restricted funds for Hawthorn and OPEB, Committed Funds for (non-Measure AA-funded) infrastructure, emergency (fire, earthquake, and flood) response, and equipment replacement, and minimum balance requirements for the General Fund for working capital liquidity and land acquisitions prior to general obligation bond reimbursement. The proposed policy describes the purpose of each fund, authority for establishment and change, trigger for usage, procedure for replenishment, and frequency of review.

Proposed amounts to be initially established for committed reserves and minimum general fund balance are shown in Attachment 2.

FISCAL IMPACT

The policy changes and reserves discussed in this report will strengthen the financial stability of the District against present and future uncertainties such as economic downturns and revenue shortfalls. Maintenance of the proposed reserve amounts may restrict future spending on activities not covered by the reserves.

BOARD COMMITTEE REVIEW

The proposed policy changes and initial reserve amounts were reviewed by the Action Plan and Budget Committee on November 18, 2014.

PUBLIC NOTICE

Notice was provided pursuant to the Brown Act. No additional notice is necessary.

CEQA COMPLIANCE

No compliance is required as this action is not a project under CEQA.

NEXT STEPS

Following Board acceptance of the recommended policy changes, the General Manager will implement the policy. Following Board approval of the initial reserve amounts, the fund balance portion of the District balance sheet will reflect the new reserves.

Attachment:

1. Draft Fund Balance Policy in Accordance with GASB Statement No. 54
2. Proposed initial amounts for Committed Reserves and minimum General Fund Balance

Prepared by:

Michael Foster, District Controller

Kate Drayson, Administrative Services Manager

Contact person:

Michael Foster, District Controller

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:	Revised Date:
Prior Versions:	

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 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. The minimum reserve amount will be reviewed annually.

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.

[2] **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.

[3] **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

Proposed Initial Reserve Amounts

Per the new District Fund Balance Policy in Accordance with GASB Statement 54, the Controller recommends that the Board approve the following initial reserve amounts.

Committed Funds

Infrastructure Fund: \$15.0 million; projected minimum requirement for expansion of field and office facilities over the next five years.

Equipment Replacement Fund: \$2.4 million; projected requirement for equipment and vehicle replacement based on the amount of accumulated depreciation recorded on capital assets in service.

Natural Disaster Fund: \$3.0 million; projected emergency expenditures required to respond quickly to a major fire, earthquake or flood.

Unassigned Funds

Minimum Balance of General Fund: \$10.0 million; estimated amount needed to maintain cash flow liquidity over the fiscal year and to close land acquisition transactions when general obligation funding is temporarily not available.

Total of Committed Reserves and Minimum General Funds: **\$30.4 million**