



## Policy No. FIN-07-2079

### FUND BALANCE RESERVE POLICY

<b>PURPOSE OF POLICY</b>	To set target levels for reserves that protect the District against uncertain economic factors, provide for deferred maintenance of the District's parks and facilities, and support the enhancement of District programs.
<b>POLICY SUMMARY</b>	This policy establishes use categories of reserves, considerations for reserve amounts, authority to use reserves, and guidelines for replenishment of reserves, with the understanding that in accounting for its reserves the District will be compliant with Governmental Accounting Standards Board (GASB) Statement No. 54.
<b>APPROVAL HISTORY</b>	Adopted: Board Resolution No. 2079 Aug. 8, 2007 Amended: Board Resolution No. 2138 Sept. 10, 2008 Amended: Board Resolution No. 2162 Feb. 11, 2009 Amended: Board Resolution No.2293 June 15, 2011 Amended: Board Resolution No. 2340 June 13, 2012 Amended: Board Resolution No. 2359 Dec. 12, 2012 Replaced: Board Resolution No. 2534 May 25, 2016 <b>Amended: Board Resolution No. 2737 February 9, 2022</b>

### Policy Objectives

1. To support the District's services and program offerings at the levels required by the District's user community.
2. To guide the District's on-going management of reserves, including reserve use and replenishment as well as the periodic review of reserve categories and funding levels.
3. To ensure that the District builds reserves over time to enable it to endure economic downturns and/or large-scale emergencies.
4. To provide for current and future asset replacement/renovation (deferred maintenance);
5. To ensure short-term and long-term financial obligations are met to enable the highest possible credit rating.

## Impetus for this Policy Update

Opportunities Staff have identified to enhance the District's Reserve Policy include:

1. Addressing recently established debt obligations, specifically the January 2020 PG&E on-bill-financing (OBF) and the June, 2021 Pension Obligation Bond (POBs).
2. Incenting program growth and supporting on-going program needs by identifying a portion of operating revenues that could be made available to create program-specific reserves, subject to the annual review and approval of the Board.
3. Revisiting existing reserve funds and the calculations related to them given the evolving needs of the District and its constituents.
4. Revising the policy so that it recognizes the reality of the District's cash flow balances to ensure that, at any point in the fiscal year, the funds called for in the policy can be relied upon.

## Reserve Structure – GASB Guidelines

Guidelines per the Government Accounting Standards Board (GASB) regarding categories of fund balances that must be (and which are) maintained by the District are summarized here:

“The **restricted fund balance** category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The **committed fund balance** classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority (to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint). Amounts in the **assigned fund balance** classification are *intended* to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. **Unassigned fund balance** is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications (amounts that are available for any purpose; these amounts are reported only in the general fund).”

## Reserve Fund Classifications and Funding Specifics

### 1. Establish a minimum total reserve balance that amounts to the minimum cash balance experienced throughout the fiscal year.

- a. Based on data from FY16-17 through FY 21-22, that minimum balance is \$4.0 million.
- b. This minimum balance can be amended at the Board's discretion as additional funds become available through one-time sources and/or annual, audited results that reflect a surplus.

### 2. Restricted Funds

- a. Initial amount: \$408k, consisting of:
  - i. Buckley Trust - \$278,100 (current total for Ravenswood Historic Site maintenance)
  - ii. Ponderosa Homes - \$30,000 (Ida Holm Park enhancements)
  - iii. Signature Homes - \$82,800 (current balance for Bill Clark Park enhancements)
  - iv. Should other third-party sources of funds become available that come with specific spending restrictions, they will be added to the District's Restricted Fund.

### 3. Committed Funds

- a. Initial amount: \$2.09 million
- b. Annual Debt Service – POBs and OBF = total of \$958k
  - POB Interest and Principal = \$800k per year
  - OBF - \$158k per year
  - i. These funds will be depleted each year and will be replenished based on the reduction in ACERA expenses the District will experience each year.
- c. Deferred Maintenance – facility and park infrastructure
  - i. Initial amount: \$1.132 million
  - ii. This amount should be targeted to grow based upon identified deferred maintenance projects, with annual Board review and approval.

- d. Note: unlike the District's previous reserve policy, which included monies targeted for equipment replacement, this type of spending can and should be accommodated within the annual operating budget process.

#### **4. Assigned Reserves**

- a. Initial amount: \$1.5 million
- b. Budget Contingency (emergency/stabilization) Fund
  - i. Initial fund balance of \$1.5 million, which is approximately 7.5%, or 1 month, of the total annual operating budget.
  - ii. This fund balance should be targeted to reach \$10.0million, which is approximately 50%, or 6 months, of the total annual operating budget in its current state, which can be achieved through Board-approved allocations of surplus funds each year.
- c. Program Funds
  - i. To be funded through a share of annual revenues beginning with audited results for FY21-22, with Board approval.
  - ii. Established at the major program level (eg, ESS, Aquatics, Seniors, etc...)
- d. ACERA UAAL Elimination Fund
  - i. Beginning with FY22-23 (the first full year of pension fund savings, utilize savings from the difference between annual POB debt service and what would have been the District's annual ACERA payments to reduce the District's UAAL.
  - ii. Replenishment will occur annually (at fiscal year end), with Board approval, using savings in the form of the difference between ACERA expenses and POB debt service costs.

#### **5. Unassigned Fund Balance**

- a. Defined as the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications.

## Fund Balance Usage and Replenishment Guidelines

**Restricted Funds**: will be used for qualifying projects, meaning projects that fit the prescribed use of the related funds as outlined in the related source funding agreement. These funds cannot be used for another purpose.

- a. If an approved project that calls for restricted funds exceeds the available balance, unassigned funds may be used with the approval of the General Manager or Board, depending on the amount of unassigned funds that are required (see the District's active Delegation of Authority).
- b. Note: replenishment of these funds is not required unless the need to do so is specifically outlined in the related source funding agreement.

**Committed Funds**: will be used for the specific purposes outlined above, unless another use is approved by the Board.

- a. Funds committed to Debt Service cannot be used for other purposes unless explicitly approved by the Board.
  - i. Debt Service funds will be replenished each month by savings realized by the reduction to the District's pension plan resulting from the related POBs (savings as calculated by the Finance team).
- b. Funds committed to Deferred Maintenance cannot be used for other purposes unless explicitly approved by the Board.
  - i. Deferred Maintenance funds will be replenished and/or increased through the annual review, by the Board, of operating surpluses as reported in through the annual audit process.
  - ii. In the event an approved Deferred Maintenance project exceeds the funds available in the related Committed Fund, Unassigned reserves may be used with Board approval.

**Assigned Funds**: intended to be used for specific purposes but uses of these funds do not meet the criteria to be classified as restricted or committed.

- a. Funds assigned to the Budget Contingency (emergency/stabilization) Fund cannot be used for other purposes unless explicitly approved by the Board.
  - i. Budget Contingency Funds will be replenished and/or increased through the annual review, by the Board, of operating surpluses/deficits as reported in through the annual audit process.

- b. Funds assigned to a particular Program Fund cannot be used for other purposes unless explicitly approved by the Board.
  - i. Program Funds will be replenished and/or increased through the annual review, by the Board, of operating surpluses as reported in through the annual audit process, but will be limited to the contribution (defined as revenues less operating expenses) to the District's surplus provided by the specific Program area.
  - ii. In the event an approved project exceeds the funds available in the related Program Fund, Unassigned reserves may be used with Board approval.
  
- b. Funds assigned to a the ACERA UAAL Elimination Fund cannot be used for other purposes unless explicitly approved by the Board.
  - i. UAAL Funds will be replenished and/or increased through the annual review, by the Board, of operating surpluses as reported in through the annual audit process, but will be limited to the contribution (defined as the excess of savings in ACERA expenses (that resulted from the issuance of POBs) versus the debt service costs of the POBs, as calculated each fiscal year.
  - ii. Contributions to the ACERA UAAL Elimination Fund cannot exceed the annual savings from the issuance of POBs net of the POB debt service. Funds may be used for other purposes with the approval of the Board.

**Unassigned Funds:** defined as the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications.

### **Management Reporting and Accounting for Fund Balances**

1. The Business Services Manager/Finance Officer will produce a quarterly view of Fund Balances, reconciling beginning and ending balances, for review with the General Manager and Board.
2. Upon completion of the Annual Audit, the Business Services Manager/Finance Officer will produce a report and recommendation for Fund balance revisions based upon the existence of a surplus or deficit in the Operating Results for the related Fiscal Year. Board approval will guide annual revisions to Fund Balances.

**Maintenance of this Policy**

1. In conjunction with the District’s annual budgeting process, the Business Services Manager/Finance Officer will present a recommendation for revisions, or not, to this Policy.
2. In conjunction with the Annual Audit, the Business Services Manager/Finance Officer will present a revised Policy document, if necessary, based in the Board’s approval of revisions to Fund balances and/or Classifications. based upon the existence of a surplus or deficit in the Operating Results for the related Fiscal Year. Board approval will guide annual revisions to Fund Balances

APPROVAL

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Mathew Fuzie  
General Manager

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Date