


**EAST BAY REGIONAL PARK DISTRICT
BOARD OF DIRECTORS MEETING
AGENDA STAFF REPORT**

DATE	April 16, 2024
TITLE	General Fund Reserve Unassigned Fund Balance Policy and Committed Fund Balance Review & Recommendation to Appropriate \$21.6 million to Future Office Needs Project
DIVISION	Finance and Management Services
FROM	Michelle Strawson-O'Hara, Interim Assistant Finance Officer Deborah Spaulding, Assistant General Manager of Finance & Management Services / CFO
APPROVED	Sabrina Landreth, General Manager 

RECOMMENDATION

The General Manager recommends that the Board review the attached General Fund Reserve Unassigned Fund Balance Policy, and eliminate two additional Committed Fund Balance Reserves, for Workers Compensation and Revenue Take-Aways, and appropriate \$21.6 million to Future Office Needs Project 558600.

BACKGROUND

Fund balance reserves are a budget and policy term that describes the resources available outside of the budget for use if budget resources are insufficient. Fund balance reserves are a protection against unplanned or unavoidable costs or losses. Maintaining the appropriate level of fund balance reserves ensures fiscal stability and can mitigate current and future risks to the Park District, employees and the public.

Fund balance is also a measure of the East Bay Regional Park District's (Park District) creditworthiness. Total fund balance amount is utilized by stakeholders, including credit rating agencies, to evaluate the prudence of management and to determine the fiscal soundness of the Park District. Appropriate levels of fund balance provide:

- Fiscal stability
- Reduction in impacts from unforeseen risks of disaster or revenue volatility
- Increase in flexibility and ability to take advantage of emergent opportunities
- Demonstration of prudent fiscal management
- Potential investment income

Fund balance reserves can include the following categories of fund balance as required by the Governmental Accounting Standards Board (GASB): Non-Spendable, Restricted, Committed, Assigned and Unassigned. The Park District maintains two *Committed* fund balance reserves in the General Fund. These Committed fund balance reserves were approved by the Board of Directors to address very specific situations that could require the use of reserves. *Committed* fund balance reserves must be precisely purpose-designated – i.e. these reserves can only be used in specific situations.

The first of these is Committed reserves is a \$2.0 million reserve for Workers Compensation Contingency, which was established by the Board in 2012 via Resolution 2012-09-239. The intent of this reserve amount is to cover the cost of unexpectedly large Workers Compensation claims that would exceed the reserves available in the Park District's Workers Compensation Fund.

The second of these Committed reserves is a "Revenue Take-Away Contingency." Originally established in 1991 as an "Economic Uncertainty fund at \$2M, this amount was increased in 2008 to \$9.6M, and then renamed in 2012 via Reso: 2012-09-236 to "Revenue take-away contingency." These reserves can only be used to "backfill for a substantial, unanticipated, one-time take-away of District revenue by the State of California or other governmental agencies." This reserve amount is currently approximately \$19.6 million.

The Park District also maintains an *Unassigned Fund Balance*. The Unassigned reserve amount was first established in September 2013 when the Board of Directors adopted Policy 6.0, General Fund Reserve Unassigned Fund Balance Policy. The purpose of this Policy is to determine an appropriate level of unassigned fund balance (currently 32% of annual revenue) and define and articulate the intent and uses of the reserve. The Policy outlines factors used in determining a prudent reserve amount and requires that the Chief Financial Officer (CFO) review and adjust the percentage, if necessary, every five years. The Policy was reviewed by the Finance Committee in 2019 and no changes were made to it at that time.

The establishment of a General Fund Reserve Unassigned Fund Balance Policy is recommended by the following organizations:

- Government Finance Officers Association (GFOA), "Best Practice: Fund Balance Guidelines for the General Fund", September 2015.
- The California Special District Association (CSDA) commissioned a Reserve Guidelines Task Force in 2012 to produce "Special District Reserve Guidelines, Second Edition".
- Requested by bond rating agencies: Standard & Poor's "Top 10 Practices" is "established budget reserve". Fitch's Ratings "Best Practices" rank fund balance policy as having a "very significant" impact on rating.

The General Fund Reserve Unassigned Fund Balance Policy explains the criteria used to calculate the prudent unassigned reserve amounts, the approved uses of the reserve, the approval process for spending the reserves, the replenishment requirements, and the allocation of any excess. Per the Policy, qualified uses and specific procedures for use of reserves include:

- Interrupted cash flows
- Emergencies/disaster
- Capital and infrastructure needs which lack other funding sources
- One-time opportunities
- Unfunded liabilities
- Temporary revenue shortfall

Board approval is required for use of unassigned fund balance. This approval can be obtained as part of annual budget process, or as a separate Board agenda item. The amount, explanation of intention (which qualifies as approved uses), and plan for replenishment is required at the time that the Board approves its use.

The information in this report regarding the Park District's General Fund Reserve Unassigned Fund Balance and Committed fund balance reserves was reviewed by the Board Finance Committee at its meeting on March 27, 2024 and was recommended to the full Board of Directors for approval by a 2-1 vote. Director Sanwong voted against the recommendation, expressing a desire for more information about the Peralta Oaks North project before she could support the appropriation of

funds to this project.

ANALYSIS

GFOA recommends at a minimum, no less than two months of regular general fund operating revenues or expenditures be set aside in unassigned fund balance. This amount would be approximately \$35.5 million based on the Park District's 2024 budget projections. However, each agency must consider its own unique circumstances as it may require a level of unrestricted fund balance in excess of the recommended minimum level.

Factors to be considered when determining the appropriate fund balance reserves amount include:

- availability of other reserves
- predictability of revenue
- stability of and ability to increase major revenue sources
- diversity of revenue sources
- volatility of expenditures
- cash flow requirements
- exposure to risk including
 - revenue takeaways by other agencies
 - natural disasters/impacts from climate change
 - unforeseen events, claims
 - risk of other large one-time outlay(s)
- contractual (organized labor) or other legal obligations
- amounts available to meet needs of new operating programs
- amounts required for capital needs
- stakeholder priorities
- likelihood of continuation of present fund balance (which has been achieved through growth, expenditure control and structured budget savings)
- amount of unfunded liabilities
- investment earnings generated by reserves which are used to fund operating expenditures

Using GFOA and CSDA best practices, examples from other agencies and Park District historical data, the details of an appropriate reserve dollar amount for the Park District is calculated below outlining several layers of potential risk:

1. GFOA recommended 2 months of operating revenues to respond to potential disasters, such as fire, floods, earthquake, and impacts from a changing climate: = \$35.5 million
2. Availability of other reserves, such as internal service funds that could have a potential drain upon GF resources = \$3 million
 - **Workers Comp Fund: \$2 million in excess of actuarially determined liability**
 - General Liability Fund: \$1 million in excess of actuarially determined liability
3. **Increase due to lack of control over revenue or sudden change in one year of major revenue sources (based on historical data) = \$19.4 million**
 - Property taxes have been on an upward trend since their low in 2011; current general fund property taxes of \$195 million x potential decrease (similar to 2008-2011) of 6.9% = \$13.5 million
 - Charges for services volatility = \$5.7 million (volatility over past 4 years)
 - Property use volatility = \$0.2 million (volatility over past 4 years)
 - Interest earnings volatility = \$0 (Park District no longer budgets for interest earnings, so these revenues are no longer relied upon as a revenue source).

4. Long-term capital needs related to infrastructure = \$10.4 million
 - o \$189.9 million in depreciable capital assets with annual amortization of \$10.4 million (best practice)
5. Ongoing Liabilities = \$1.4 million
 - o The Park District's Other Post Employment Benefit (OPEB) trust has achieved 111% funded status, and its pensions are always funded at the annual actuarially required contribution (ARC). Additionally, the Park District maintains a Section 115 Pension Trust, which currently carries a balance of over \$8 million. No additional reserves are recommended based on these liabilities.
 - o Annual debt service for the Park District's 2012 promissory note is \$1.4 million, therefore this amount is recommended to be added to the reserves.

Together, these amounts sum to a potential reserve of \$69.7 million or 32.7% of 2024 budgeted revenue. This analysis is consistent with the current General Fund Reserve Unassigned Fund Balance Policy of 32%. Based on these results, the CFO recommends no changes to the Policy, maintaining the general fund reserve at 32% of annual revenue.

However, this analysis of the appropriate level of General Fund Unassigned Reserves includes calculations for two types of risk that already exist as *Committed* fund balances: Workers Compensation and Revenue Take-Aways. These duplicate reserves are called out in bold font in the section above. This duplication of reserve amounts, while providing a very safe cushion for uncertainty, does limit the Park District's flexibility. The limitations on the use of committed fund balances results in those funds only being useful in very specific scenarios. If an unexpected event were to occur outside of those scenarios, these reserves could not be used.

For these reasons, it is recommended that the two existing Committed Fund Balances for Workers Compensation and Revenue Take-Away be eliminated, as these potential scenarios are already included in the calculations for the Park District's 32% General Fund Unassigned Fund Balance. This change would require a resolution to be passed by the Park District's Board of Directors. If this action is taken, it is recommended that these funds (a total of approximately \$21.6 million) be appropriated to project #558600 Future Office Needs. This would make the funds available for one-time uses, such as for construction of the Peralta Oaks North building, for which a construction bid award is scheduled for later this year. Use of this funding would reduce the amount of debt that would otherwise need to be issued to pay for building construction.

FISCAL IMPACT

The continuation of a 32% reserve policy for the General Fund would result in an Unassigned Reserve amount of approximately \$68.1 million, based on the 2024 general fund revenue budget. The elimination of the Committed Fund Balance amounts for Workers Compensation and Revenue Take-Aways would release approximately \$21.6 million in fund balance to be used for Future Office Needs.

ATTACHMENTS

Attachment A – General Fund Reserve Unassigned Fund Balance Policy



**EAST BAY REGIONAL PARK DISTRICT
RESOLUTION NO. 2024 – 04 -
APRIL 16, 2024**

**GENERAL FUND RESERVE UNASSIGNED FUND BALANCE POLICY AND
COMMITTED FUND BALANCE REVIEW AND APPROPRIATION OF
\$21.6 MILLION TO FUTURE OFFICE NEEDS PROJECT**

WHEREAS, fund balance reserves are a protection against unplanned or unavoidable costs or losses, and maintaining the appropriate level of fund balance reserves ensures fiscal stability and can mitigate current and future risks to the East Bay Regional Park District (Park District), employees and the public; and

WHEREAS, fund balance is also a measure of the Park District's creditworthiness, and total fund balance amount is utilized by stakeholders, including credit rating agencies, to evaluate the prudence of management and to determine the fiscal soundness of the Park District; and

WHEREAS, the Park District maintains two *Committed* fund balance reserves in the General Fund: \$2 million for Workers Compensation Contingency and \$19.6 million for a Revenue Take-Away Contingency. These amounts were approved by the Board of Directors in 2012 to address very specific situations that could require the use of reserves; and

WHEREAS, the Park District also maintains an *Unassigned* fund balance reserve amount of 32% of total General Fund Revenues, an amount that has been calculated based on specific criteria, as documented in the General Fund Reserve Unassigned Fund Balance Policy, which also explains the approved uses of the reserve, the approval process for spending reserves, and replenishment requirements; and

WHEREAS, the analysis used to calculate the prudent level of General Fund Unassigned Reserves includes calculations for two types of risk that already exist as *Committed* fund balances, such that these reserve amounts are duplicated, limiting the Park District's flexibility and ability to use these amounts; and

WHEREAS, by eliminating the two *Committed* fund balance reserve amounts for Workers Compensation Contingencies and for Revenue Take-Away Contingencies, these funds could instead be re-allocated to the project for Future Office Needs, which would potentially reduce the amount of debt that the Park District would otherwise be required to take on for construction of the Peralta Oaks North office building which is scheduled to go to bid later this year;

NOW, THEREFORE BE IT RESOLVED, that the Board of Directors of the East Bay Regional Park District hereby approves the elimination of the two *Committed* Fund Balance amounts for Workers Compensation Contingencies and for Revenue Take-Away Contingencies and appropriates these funds, totaling \$21.6 million, to the Future Office Needs Project (558600) as presented to the Board on April 16, 2024; and

BE IT FURTHER RESOLVED, that the General Manager is hereby authorized and directed, on behalf of the Park District and in its name, to execute and deliver such documents and to do such acts as may be deemed necessary or appropriate to accomplish the intentions of this resolution.

Moved by Director _____, and seconded by Director _____, and adopted April 16, 2024, by the following vote:

FOR:

AGAINST:

ABSTAIN:

ABSENT: