

Agenda Item 4b

General Fund Reserve Unassigned Fund Balance Policy and Committed Fund Balance Review & Recommendation



Why do we have reserves?

❧ 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.

❧ 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.

What kinds of reserves do we have in the General Fund?

Per GASB 54, In order of most restricted to least:

- ⌘ Non-spendable – not in spendable form or legally required to remain intact e.g. Central Stores inventory, prepaid expenses.
- ⌘ Restricted – by external parties such as grantors or via enabling legislation e.g. Pension Trust, encumbrances, operating agreements
- ⌘ **Committed** – 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 e.g. **Revenue Take-away reserves, Workers Compensation reserves**
- ⌘ Assigned – amounts intended for a specific purpose but not restricted by formal action. Budgeted first-quarter expenditures, election costs...
- ⌘ **Unassigned** – residual amounts that have no restriction placed on them.

From the 2022 Annual Comprehensive Financial Report (ACFR)

For the year ended December 31, 2022

	General Fund	Debt Service Fund	Project Fund	Non-Major Funds	Total Governmental Funds
Nonspendable					
Endowment corpus	\$ -	\$ -	\$ -	\$ 4,693,503	\$ 4,693,503
Consumable supplies	669,210	-	-	-	669,210
Prepaid items and deposits	178,046	-	-	-	178,046
Total Nonspendable	847,256	-	-	4,693,503	5,540,759
Restricted					
Debt Service/bond proceeds	-	26,795,395	91,690,212	11,096	118,496,703
Future pension contributions	9,947,411	-	-	-	9,947,411
Deposits	-	-	2,521,756	-	2,521,756
Park maintenance and operations	3,483,452	-	-	129,980	3,613,432
Capital projects	-	-	38,169,376	-	38,169,376
Endowment earnings	-	-	-	908,551	908,551
Operating agreements	32,219,205	-	-	11,501,009	43,720,214
Trail operations	-	-	-	5,962,068	5,962,068
Total Restricted	45,650,068	26,795,395	132,381,344	18,512,704	223,339,511
Committed					
Fire fuel reduction grant match	-	-	380,245	-	380,245
Land acquisition/development	-	-	7,757,479	-	7,757,479
Mitigation	-	-	-	1,290,613	1,290,613
Coyote Hills-Dumbarton Quarry	-	-	-	128,320	128,320
Capital projects	-	-	3,638,608	-	3,638,608
Revenue take-away contingency	17,837,160	-	-	-	17,837,160
Workers' compensation contingency	2,000,000	-	-	-	2,000,000
Total Committed	19,837,160	-	11,776,332	1,418,933	33,032,425
Assigned					
Budgeted first quarter expenditures	12,549,086	-	-	-	12,549,086
Long-term notes receivable	-	-	3,032,366	-	3,032,366
Gifts for park maintenance and improvements	-	-	-	1,561,795	1,561,795
Legal contingency	1,000,000	-	-	-	1,000,000
Election costs	2,200,000	-	-	-	2,200,000
Mitigation	-	-	-	-	-
Total Assigned	15,749,086	-	3,032,366	1,561,795	20,343,247
Unassigned	78,395,114	-	-	-	78,395,114
Total Fund Balances	\$ 160,478,684	\$ 26,795,395	\$ 147,190,042	\$ 26,186,935	\$ 360,651,056

General Fund *Committed* Fund Balances

- œ Workers Compensation contingency – intended to cover the cost of an unexpectedly large Workers Compensation claim that would exceed the reserves available in the Workers Compensation Fund. Set at \$2 million.
- œ Revenue Take-away contingency – originally established in 1991, increased in 2008 and renamed in 2012. Intended to “backfill for a substantial, unanticipated one-time take-away of District revenue by the State of California or other governmental agencies.” Currently \$19.6 million (10% of General Fund property tax revenues).

General Fund Reserve *Unassigned* Fund Balance Policy

- Policy 6.0 originally approved by Park District's Board of Directors in 2013, reviewed and re-approved in 2019.
- Establishes an unassigned fund balance reserve of 32% based on criteria laid out by the Government Finance Officers Association (GFOA) fund balance best practices document.
- Explains criteria used to calculate unassigned reserve amounts, approved uses of the reserve, approval process for spending reserves, replenishment requirements, qualified uses and specific procedures for use of reserves, e.g.
 - Interrupted cash flows, emergencies/disaster, capital and infrastructure needs which lack other funding sources, one-time opportunities, unfunded liabilities, temporary revenue shortfall
- Amount of fund balance to be updated by CFO annually and policy reviewed by Board of Directors every five years.

How is the 32% Unassigned Reserve Amount determined?

- ☞ 2 months of operating revenues (amount minimally recommended by GFOA) = \$35.5 million
 - ☞ Other internal service funds that could potentially drain General Fund resources = \$2 million for Workers Compensation Fund and \$1 million for General Liability Fund
 - ☞ Lack of control over revenue or sudden change in major revenue source (decrease in property tax revenue in 2008 of 6.9%) = \$19.4 million
 - ☞ Long-term capital needs related to infrastructure (annual amortization) = \$10.4 million
 - ☞ Other ongoing liabilities (annual debt service on 2012 Promissory Notes) = \$1.4 million
- Total of \$69.7 million or 32.7%

Why we are recommending that the Committed Reserves be reduced rather than changing Unassigned Fund Balance



Reserves that are unrestricted can be used in a variety of emergency circumstances.

Recommendation for funds previously set aside as Committed Fund Balances

- œ Peralta Oaks North project will be bid and awarded later this year.
- œ Park District will need to borrow funds in order to complete this substantial construction project.
- œ Appropriation of \$21.6 million to “Future Office Needs” project would reduce the amount of debt needed to be issued, which will decrease annual debt service costs.



Requested Action

Review the General Fund Reserve Unassigned Fund Balance Policy and recommend to the full Board of Directors the elimination of two additional Committed Fund Balance Reserves, for Workers Compensation and Revenue Take-Aways and appropriation of \$21.6 million to Project 558600 Future Office Needs