



**EAST BAY REGIONAL PARK DISTRICT
FINANCE COMMITTEE
AGENDA STAFF REPORT**

DATE	March 27, 2024
TITLE	General Fund Reserve Unassigned Fund Balance Policy and Committed Fund Balance Review & Recommendation
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 B. Landreth, General Manager 

RECOMMENDATION

Staff requests that the Board Finance Committee 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.

BACKGROUND

Fund balance reserves are a budget and policy term that describes the resources available outside of the budget for use if budgeted 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 Park District's 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 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 an unexpectedly large Workers Compensation claim 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 as "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 Fund Balance Reserve 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 as discussed below

Board approval is required for use of unassigned fund balance. This approval can be obtained as part of the annual budget process, or as 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.

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 likely at end of a steep upward trend since 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 as the Park District no longer budgeting for interest earnings, so these revenues are no longer relied up as a revenue source.
4. Long-term capital needs related to infrastructure = \$10.4 million
- \$189.9 million in depreciable capital assets with annual amortization of \$10.4 million (best practice)
5. Ongoing Liabilities = \$1.4 million
- The Park District's OPEB trust has achieved 110% 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.
 - 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.

This analysis of the appropriate level 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 use of committed fund balances result in those funds only being useful in very specific scenarios, and in the event of an unexpected event that was outside of those limitations, these reserves would not be usable.

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, these funds (a total of approximately \$21.6 million) would 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, which will go to bid 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 expected 2023 year-end financials. 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