

Livermore Area Recreation and Park District

Staff Report

TO: Chair Pierpont and Finance Committee

FROM: Mathew Fuzie, General Manager

PREPARED BY: Jeffrey Schneider, Business Services Manager
Julie Dreher, Finance Officer, and Lynn Loucks, Accountant

DATE: December 20, 2021

SUBJECT: **Draft – Fund Balance Reserve Policy Update**

REQUEST: That the Finance Committee provide feedback for Staff to consider in developing a updated Fund Balance Reserve Policy that will be presented to the Board of Directors in early 2022, depending on the timing of a review of this proposal by the District’s audit partner, James Marta and Company, LLP. (FYI, we’ve spoken with Marta and their initial comments are that we’re on the right track)

BACKGROUND: The existing Fund Balance Reserve Policy (“Reserve Policy”) was last updated, with the Board’s approval, in May, 2016. The existing Reserve Policy calls for the Board to “affirm or revise this policy... At least every three (3) years”, so while Staff are presenting this draft proposal because of perceived opportunities to enhance this Policy, we are also overdue for this review.

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).”

What follows is a summary of the District’s existing fund balances, and the underlying calculations/rationale for each. To review the District’s current Reserve Policy, please see Appendix A.

TOTAL Reserves based upon the current policy, including each of the following categories, amount to \$7,843,659.

Restricted Reserves – Total \$1,435,497

- | | | |
|---------------------|-------------|--|
| 1. Buckley Trust | \$ 278,102 | for Ravenswood Site maintenance, restoration |
| 2. Ponderosa Homes | \$ 30,000 | Designated for Ida Holm Park |
| 3. Signature Homes | \$ 82,800 | Designated for Bill Clark Park |
| 4. Other Restricted | \$1,044,595 | Fixed since 2010 – designated use unclear |

Committed Reserves – Total \$4,562,812

- | | | |
|-------------------|-------------|--|
| 1. Equipment | \$ 883,623 | 50% of accumulated depreciation |
| 2. Synthetic Turf | \$ 741,797 | For items 2-4, a min balance of 7.5% of accumulated depreciation for buildings and park improvements |
| 3. ESS Buildings | \$ 680,000 | |
| 4. CIP | \$2,257,394 | |

Assigned Reserves - \$0 to date

Unassigned Reserves – Total \$1,845,348

- | | | |
|-------------------------|-------------|-------------------------------------|
| 1. Emergency Reserve | \$ 369,070 | s/b 2% of Annual Operating Expenses |
| 2. Budget Stabilization | \$1,476,278 | s/b 8% of Annual Operating Expenses |

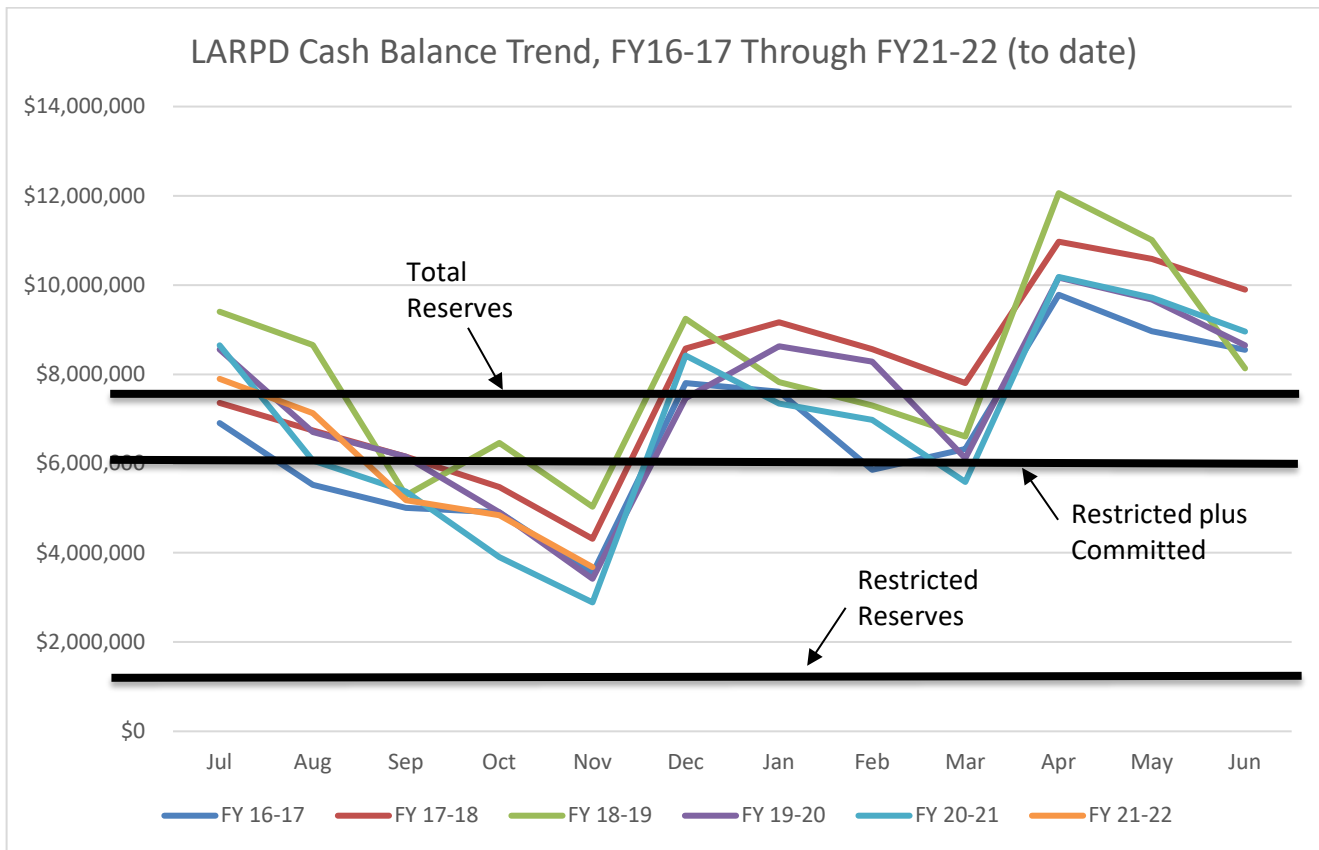
Cash Balance Trend and implications for Reserves:

The reality is that the District has not established a Reserve Policy that is consistent with minimum cash balances that the District experiences each year, typically in November (see Exhibit A, below). Cash balances vary considerably throughout the year, and only following the large April tax receipts can cash balances accommodate total reserves, at their current levels.

How did this condition (reserve fund balances in excess of actual cash balances) arise? Because previous financial management considered AB1600 funds in their consideration of available cash, which is not appropriate given these funds are to be used for projects that drive enhanced capacity, not for deferred maintenance and the other uses that are included in the present (and proposed) fund categories. Further, AB1600 funds are, by definition, temporal in nature: they are used to directly offset spending for approved projects that qualify for such funding (eg, the funds are spent and immediately reimbursed by the City of Livermore, which administers the funds).

Fortunately, these reserve fund designations and amounts, and the need to revise them, will not require a restatement of financials (confirmed with Marta). However, the need to ensure the GM and Board are clear about the exact amount of cash that we can count on at any point during our fiscal year is clear.

Exhibit A – LARPD Cash Balance Trend



Note: the District receives three significant distributions of property and parcel taxes each calendar year (~50% in April, 45% in December, and another 5% in June). Cash balances reach their nadir in November as seven months have passed since the big April tax infusion.

PROPOSAL:

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

1. Addressing recently established debt obligations, specifically the January 2020 PG&E on-bill-financing (OBF) and the June, 2021 Pension Obligation Bond (POBs). Related to the POBs is the opportunity to pay down the District’s Unfunded Actuarial Accrued Liability (UAAL) with ACERA through the savings realized by the 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, particularly given plans to impact certain of the existing reserve funds, such as the recently Board-approved project to fund the replacement of two of the District’s three synthetic turf fields.
4. Establish a policy that recognizes the reality of the District’s cash flow balances so that, at any point in the fiscal year the monies called for in the policy can be relied upon. As noted above,

in certain months of the fiscal year the total of reserves as established to date by the District cannot be met by the District's total cash balance.

Proposed Reserve Fund Structure and Associated Fund Amounts:

As Exhibit A illustrates, in the last 6 years the District's minimum cash balance has ranged from \$2.9 million in November, 2020 (impacted severely by COVID) to \$5.0 million in November, 2019 (pre-COVID). The simple average of the 5 years excluding the COVID-driven low point is \$4.0million, and the latest balance, from November, 2021 would have been \$4.3million had the District not incurred the one-off \$0.5 million outlay for the Trevarno Sewer and Water Assessment District earlier this fiscal year.

1. **Staff recommends establishing a total reserve balance of \$4.0 million** that can be amended at the Board's discretion as additional funds become available through one-off sources such as the State of California's COVID Relief Fund (due in January, 2022) and annual, audited results that reflect a surplus.

2. **Staff recommends the following funds be established:**
 - a. **Unassigned Fund Balance - Budget Contingency (emergency/stabilization)**
 - i. **Initial fund balance of \$1.5 million** (approx. 7.5%, or 1 month, of the total annual operating budget).

 - ii. **This fund balance should be targeted to reach \$3.0million, which is 17%, or 2 months, of the total annual operating budget**, which can be achieved through Board-approved allocations of surplus funds each year.
 - Note: the Government Finance Officers' Association, (GFOA), "recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."

 - b. **Assigned Reserves**
 - i. **Initial amount: \$0**
 - Program Funding
 - To be funded through a share of annual revenues beginning in FY21-22, with Board approval
 - Will be established at the major program level (eg, ESS, Aquatics, Seniors, etc...)
 - ACERA UAAL Elimination
 - Beginning at the end of FY22-23, 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.

- Annual savings are estimated to be at least \$90k, which does not assume what would most likely have been on-going annual increases to the District’s ACERA contributions. With reasonable assumptions for savings given what “would have been the case” sans the POBs’ impact, these savings would exceed \$200k annually.
- The UAAL that remained in place following the District’s issuance of POBs is \$526k.

c. Restricted Funds

i. Total of \$408k

- ii. Buckley Trust - \$278,100 (current total for Ravenswood Historic Site maintenance)
- iii. Ponderosa Homes - \$30,000 (Ida Holm Park enhancements)
- iv. Signature Homes - \$82,800 (current balance for Bill Clark Park enhancements)
- v. 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.

d. Committed Funds

i. Initial fund balance of \$2.09 million

ii. Annual Debt Service – POBs and OBF

- **Total of \$958k**
- POB Interest and Principal = \$800k per year
- OBF - \$158k per year
- These funds will be depleted each year and will be replenished based on the reduction in ACERA expenses the District will experience each year.

iii. Deferred Maintenance – facility and park infrastructure

- **Initial amount: \$1.132 million**
- This amount should be targeted to grow based upon identified deferred maintenance projects, with annual Board review and approval.

- iv. Note: **the previous reserve policy included monies targeted for equipment replacement.** Staff believes this type of spending can and should be accommodated within the annual operating budget process. Indeed, this has been the case for each of the past 5 years.

Process Recommendations:

1. Upon the completion of the annual audit process, or as unexpected events drive mid-term considerations (such as the pending State of California COVID relief fund distribution), staff will review the need to assess fund balance revisions and/or fund target revisions. This will be particularly important if we agree to move forward with Program-specific Assigned Reserves.
2. The Finance team will establish fund accounts based on the revised Reserve Policy and will work with staff to ensure on-going accounting for fund balance changes accurately reflects on-going spend and periodic surplus allocations for each new fund.

Conclusions:

1. **The current Reserve Policy should be replaced as it is not in line with actual cash balances and does not reflect the changing landscape of the District (eg, recently implemented POBs and the PG&E OBF).**
2. **The Board's annual review of fund balances will be vital to ensuring the District progresses toward the Fund Balance targets that are reflected in this proposal, and to the potential to revisit these targets and the list of active funds themselves.**

Attachment A:

- A. **Existing Reserve Policy**