



## KENSINGTON FIRE PROTECTION DISTRICT

**DATE:** September 7, 2023  
**TO:** Finance Committee  
**RE:** Reserves Policy Potential Revisions  
**SUBMITTED BY:** Mary A. Morris-Mayorga, Interim General Manager

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### **Recommended Action**

This item is provided for discussion, feedback, direction, and potential advancement to the Board of Directors with proposed revisions.

### **Background**

The District's *Policy 1170 Financial Reserves* is very brief and has been in place for some time. At the Finance Committee meeting on June 6, 2023, the committee discussed potential revisions to the policy and confirmed with the Board of Directors on June 19, 2023 that there was consensus on evaluating potential policy revision. The Board was also interested in seeing the policies of other districts for comparison.

Staff has collected a sample of reserve and fund balance policies from other agencies, including the sample policy of the California Special Districts Association (CSDA) which are attached to the item. A proposed starting point for policy revision which incorporates prior comments of the committee along with best practice policy language is attached for the committee's review, discussion, feedback, and direction as applicable.

After review by the committee, staff can incorporate additional revision(s) and advance to the Board of Directors for review if desired.

### **Fiscal Impact**

Revision of this policy would not increase or decrease overall District funds; however, may change the classification of funds depending upon the revisions made.

**Attachments:** Policy 1170 Financial Reserves (with potential revisions)  
Policies from Other Agencies (for comparison)



## KENSINGTON FIRE PROTECTION DISTRICT POLICY MANUAL

|                    |  |
|--------------------|--|
| Policy Number      | 1170                                       |
| Policy Title       | <u>Financial Fund Balance and Reserves</u> |
| Last Revision Date | 05/01/2018                                 |

1170.040 Purpose: The District shall maintain funds as designated by this Fund Balance and Reserves Policy. Having an adequate financial reserve is critical to the successful and stable short- and long-term operation of the district. An adequate reserve ensures that the district will at all times have sufficient funding available to meet its operating and capital needs. The ability of the district to maintain reserve funds is a critical factor in providing reliable service and ensuring overall financial strength. This policy establishes a hierarchy of fund balance expenditures in conformance with Governmental Accounting Standards Board guidelines, reporting of fund balance classifications, and prudent reserve funding to achieve the following goals:

- a) Maintain operational sustainability in periods of economic uncertainty.
- b) Fund designated projects/programs or other special uses not otherwise funded by grants or requiring additional monetary support;
- c) Fund replacement and major repairs for the District's physical assets; and
- d) Fund capital improvements.

1170.01 Definitions: The District shall account for reserves as required by Governmental Accounting Standards Board Statement No. 54, which distinguishes reserves as among these classes: non-spendable, restricted, committed, assigned and unassigned. The reserves stated by this policy, unless otherwise required by law, contract, or District policy shall be deemed "assigned" reserves.

**Assigned** - A fund balance that is earmarked for intended use. The intent is established by the Board of Directors.

**Committed** - A fund balance incorporating limitations in its use as determined and defined by the Board of Directors. The " " shall reside in this category.

**Non-Spendable** - A fund that is non-spendable due to constraints placed on the funds in this category such as committed loans or liens.

**Restricted** - A fund that has externally enforceable limitations on the use of the fund balance such as creditors, grantors, or laws regulating the use of the funds.

**Unassigned** - Encompasses all fund balances left after considering the other four categories. Use is less restrained in this fund category.

1170.20 Policy: The Board of Directors shall be responsible for the establishment and management of all District fund accounts and balances.

- a) The Reserve fund accounts shall be established by the Board of Directors through adoption of this policy and codified by passage of a resolution.
- b) Changes to existing fund balances, establishment of new fund accounts and balances, and authorization for expenditures from fund balances shall require action by the Board of Directors.
- c) The balances of each Reserve Fund shall be reviewed by the Board of Director's Finance Committee as part of the budget each year. Any recommended changes to fund balances for the upcoming fiscal year shall be presented to the full Board of Directors as an action item.

The following reserves reflect those which have been established by the Board of Directors:

- a) El Cerrito Contract Reserve: This It is the District's policy to establish, to the extent practicable, a reserve account to fund fire protection services provided by the City of El Cerrito for a period of 12 months; however, in May 2022 a contract amendment reduced the requirement to a period of 6 months in recognition of the public safety building renovation.
- b) Vehicle Replacements (Type I, Type III, and Command Vehicles): This reserve account funds vehicle replacements and is funded annually as part of the budget from operating funds.
- c) Building Maintenance: After completion of the public safety building renovation, this reserve account will fund future maintenance needs.
- d) Building Improvements/Renovation: This reserve account funds the public safety building renovation and is anticipated to be depleted by the end of Fiscal Year 2024 or the end of the project.
- e) Such other amounts as the Board shall deem prudent.

~~1170.20 The District shall maintain a capital reserves account to satisfy equipment and building replacement costs in amounts recommended by the Fire Chief. A replacement cost schedule will be included as part of the annual budget.~~

1170.03 Reserve funds need not be segregated from other funds or accounts of the district and are pooled for investment purposes.

# KENSINGTON FIRE PROTECTION DISTRICT POLICY MANUAL

**POLICY TITLE AND NUMBER:            1170 Financial Reserves**

**1170.10** It is the District's policy to establish, to the extent practicable, a reserve account to fund fire protection services provided by the City of El Cerrito for a period of 12 months.

**1170.20** The District shall maintain a capital reserves account to satisfy equipment and building replacement costs in amounts recommended by the Fire Chief. A replacement cost schedule will be included as part of the annual budget.

# KENSINGTON FIRE PROTECTION DISTRICT POLICY MANUAL

## **POLICY TITLE AND NUMBER: 1170 Financial Reserves**

**1170.00** Having an adequate financial reserve is critical to the successful and stable short- and long-term operation of the district. An adequate reserve ensures that the district will at all times have sufficient funding available to meet its operating and capital needs. The ability of the district to maintain reserve funds is a critical factor in providing reliable service and ensuring overall financial strength.

**1170.01** A prime purpose of the reserves is to accumulate sufficient assets to pay known future liabilities and expenditures associated with the district's contract with the City of El Cerrito and its equipment outlays.

**1170.02** The board shall deliberately set aside:

- A. At all times six months of the fee for services under the district's contract with the City of El Cerrito; and
- B. One fifteenth of the cost of each engine annually, such amount to be indexed by the cost of living; and
- C. Such other amounts as the board shall deem prudent.

**1170.03** Reserve funds need not be separated from other funds or accounts of the district.



**POLICY TITLE: Reserve Policy**  
**POLICY NUMBER: 2150**

2150.1 Purpose: The [name of District] (the District) shall maintain reserve funds from existing unrestricted funds as designated by the District's Reserve Policy. This policy establishes the procedure and level of reserve funding to achieve the following specific goals:

- a) Fund replacement and major repairs for the District's physical assets.
- b) Fund regular replacement of computer hardware and software.
- c) Fund designated conservation projects/programs or other special uses not otherwise funded by grants or requiring additional monetary support;
- d) Fund capital improvements; and
- e) Maintain minimal operational sustainability in periods of economic uncertainty.

The District shall account for reserves as required by Governmental Accounting Standards Board Statement No. 54, which distinguishes reserves as among these classes: non-spendable, restricted, committed, assigned and unassigned. The reserves stated by this policy, unless otherwise required by law, contract, or District policy shall be deemed "assigned" reserves.

2150.2 Policy: Use of District Reserves is limited to available "Unrestricted" Funds (not obligated by law, contract or agreement), including donations, interest earned, fees for service or other non-grant earnings. All special use funds will be designated by formal action of the Board of Directors. [The following reserves reflect common purposes of many Districts for cash reserves; the listed purposes and reserve amounts should be tailored to the needs of your District.]

- a) Vehicle Fleet Reserve:  
Vehicle Fleet Reserves will accumulate from existing unrestricted funds, at a rate of [\$10,000] annually. The maximum amount of Vehicle Fleet Reserves will be [\$50,000]. When the annual accumulation would increase the Reserve beyond [\$50,000], only the amount required to reach the maximum will be reserved.
- b) Technology Reserve:  
Technology Reserves will accumulate from existing unrestricted funds at a rate of [\$4,000] annually. The maximum amount of Technology Reserves will be [\$20,000]. When the annual accumulation would increase the Reserve beyond [\$20,000], only the amount required to reach the maximum will be reserved.
- c) Designated Project/Special Use Reserve:  
Designated Project/Special Use Reserves will accumulate from existing unrestricted funds at a rate of [\$10,000 annually]. The maximum amount of Designated Project/Special Use Reserve will be [\$50,000]. When the annual accumulation would increase the Reserve beyond [\$50,000], only the amount required to reach the maximum will be reserved.



- d) **Capital Improvement Reserve:** Capital Improvements Reserve will accumulate from existing unrestricted funds at a rate of [\$25,000] annually. Designated Capital Improvement Funds may be used to cover major facility improvements (construction, installation of new doors or windows, replacing doors and windows, roof replacement, HVAC replacement, alarm system installation, parking lot and outside lighting improvements, etc.). The maximum amount of Capital Improvement Reserves will be [\$100,000]. When the annual accumulation would increase the Reserve beyond [\$100,000], only the amount required to reach the maximum will be reserved.
- e) **Repair/Operations & Administrative Operations Reserve:** Facility & Administrative Operations Reserves will accumulate from existing unrestricted funds at a rate of [\$260,000] annually. The maximum amount of Facility & Administrative Operations Reserves will be [\$780,000]. When the annual accumulation would increase the Reserve beyond [\$780,000] (equivalent of three years of Operations Reserves), only the amount required to reach the maximum will be reserved.
- f) **Total All Reserve Funds:**  
The total amount of Reserves designated annually from all funds shall be [\$309,000] with a cumulative accrual cap of [\$1,000,000].

2150.3 Using Reserve Funds:

- a) **Vehicle Fleet Reserve:**  
Vehicle Fleet Reserves will be used exclusively for the purchase of new vehicles to support District operations, or to make major repairs to existing vehicles.
- b) **Technology Reserve:**  
Technology Reserves will be used to purchase hardware and software in support of District operations, with the intent of maintaining a modern technology for employees.
- c) **Designated Project/Special Use Reserve:**  
Projects, programs or special uses will be identified by the General Manager and/or the Board of Directors and approved by the Board. Uses must further the mission of the District and will be evaluated for designation according to value to the District and the people it serves.
- d) **Capital Improvements Reserve:**  
Capital Improvements Reserves shall be limited to costs related to making changes to improve capital assets, increase their useful life, or add to the value of these assets.
- Operations/Repair & Administrative Operations Reserve:**
- e) **Operational Reserves** shall be accrued to ensure three years of minimal facility and administrative functions, at a rate of \$260,000. Reserve funds shall be utilized to support:
  - 1) Administrative operational functions, including minimal staffing levels and administrative/office expenses;
  - 2) facility operations;
  - 3) facility repairs (distinguished from Capital Improvements and may include painting, caulking of seams, roof repairs, HVAC repairs, patching of walls, etc.).



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2150.4 Monitoring Reserve Levels: The General Manager, in collaboration with the [position title], shall perform a reserve status analysis annually, to be provided to the Board of Directors' annual deliberation/approval of Budget and Reserve Funds.

Additional information may be provided to the Board of Directors upon the occurrence of the following events:

- a) When a major change in conditions threatens the reserve levels established by this policy or calls into question the effectiveness of this policy;
- b) Upon General Manager and/or Board request.



# MORAGA-ORINDA FIRE DISTRICT DISTRICT POLICY 12

## FUND BALANCE POLICY

### **Purpose:**

The Fund Balance Policy establishes a policy for reporting fund balance classifications, establishes prudent reserve requirements and establishes a hierarchy of fund balance expenditures in conformance with Governmental Accounting Standards Board guidelines.

### **Policy:**

The District will report fund balance in accordance with Governmental Accounting Standards Board Statement No. 54. The following five components will be used:

1. Nonspendable Fund Balance
2. Restricted Fund Balance
3. Committed Fund Balance
4. Assigned Fund Balance
5. Unassigned Fund Balance

The District will maintain a Minimum Fund Balance of unrestricted fund balance in the General Fund of at least 40% of budgeted General Fund revenue at fiscal year-end with a goal of achieving a 50% year-end General Fund balance in the long term.

The District will report the following amounts as Committed Fund Balance at fiscal year-end:

- Capital Projects – Fund balance derived from the Fire Flow Tax is committed to pay for District capital improvement projects as approved by the Board of Directors. The amount is equal to the fund balance in the Capital Projects Fund.

The Fire Chief or Administrative Services Director is designated to determine and define the amounts of those components of fund balance that are classified as “Assigned Fund Balance”. The District will report the following amounts as Assigned Fund Balance:

- Budgetary Deficit – Fund balance committed to pay for the subsequent year’s budget deficit. The amount is equal to the projected excess of budgeted expenditures over budgeted revenues by fund.
- Other Assigned Fund Balance categories as determined by the Fire Chief or Administrative Services Director.

The District considers restricted amounts to have been spent prior to unrestricted amounts when an expenditure is incurred for purposes for which both are available. Committed, assigned and unassigned amounts, in this order, are considered to be spent when an expenditure is incurred for purposes for which either is available.

The Board will review this policy on an annual basis.

## **City of Berkeley General Fund Reserve Policy**

### **Policy**

The General Fund is the City's primary operating fund. It is not connected to any one revenue source and may be used at the City's discretion. The General Fund is the operation fund that pays for general services provided by the City as well as public safety and capital improvements. The General Fund accounts for all general revenues and expenditures of the City related to the delivery of the City's general services not specifically collected or levied for other City funds.

The City of Berkeley is committed to achieving long-term fiscal stability as well as mitigating the negative impacts of extraordinary risk such as earthquakes, fires, floods, and economic volatility. A key attribute of a financially stable organization is appropriate reserves. Strong reserves position an organization to weather significant economic downturns more effectively, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies such as natural disasters and other catastrophic events. Establishing an adequate General Fund reserve policy allows the City to mitigate current and future financial risks resulting from economic instability or catastrophic loss.

### **Functions of Reserves: Stability and Catastrophic**

The City of Berkeley will establish and maintain an adequate General Fund Reserve ("Reserve") to prepare for the impact of economic cycles and catastrophic events and assure fluctuations in revenue do not impede the City's ability to meet expenditure obligations. When revenues fail to meet the City's normal operating requirements, or the need for disbursements temporarily exceeds receipts, General Fund reserves, upon a two-thirds vote of the City Council, may be used in accordance with the standards set forth herein.

The Reserve shall be comprised of two elements: a Stability Reserve and a Catastrophic Reserve. The Reserve shall not be used for ongoing or new programs or services.

A Stability Reserve will be maintained to mitigate loss of service delivery and financial risks associated with unexpected revenue shortfalls during a single fiscal year or during a prolonged recessionary period. The purpose of the Stability Reserve is to provide fiscal stability in response to unexpected downturns or revenue shortfalls, and not to serve as a funding source for new programs or projects.

A Catastrophic Reserve will be maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other

catastrophic event. The Catastrophic Reserve will be used to respond to extreme, onetime events, such as earthquakes, fires, floods, civil unrest, and terrorist attacks. The Catastrophic Reserve will not be accessed to meet operational shortfalls or to fund new programs or projects.

### **Funding and Functions that are NOT Part of the General Fund Reserves**

Not included in the General Fund Reserves are funds that are set aside for a specific purpose. This would include restricted, committed, and assigned funds.

- 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 by the City Council.
- 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.

### **Target Reserve Levels**

The General Fund Reserve consists of the total of the Stability Reserve and the Catastrophic Reserve. 55% of the Reserve shall be allocated to the Stability Reserve and 45% to the Catastrophic Reserve.

Effective immediately, the target level for the Reserve shall be a minimum of 13.8% of 2017 Adopted General Fund Revenues with an Intermediate Goal of a minimum of 16.7% by the end of Fiscal Year 2020, if financially feasible.

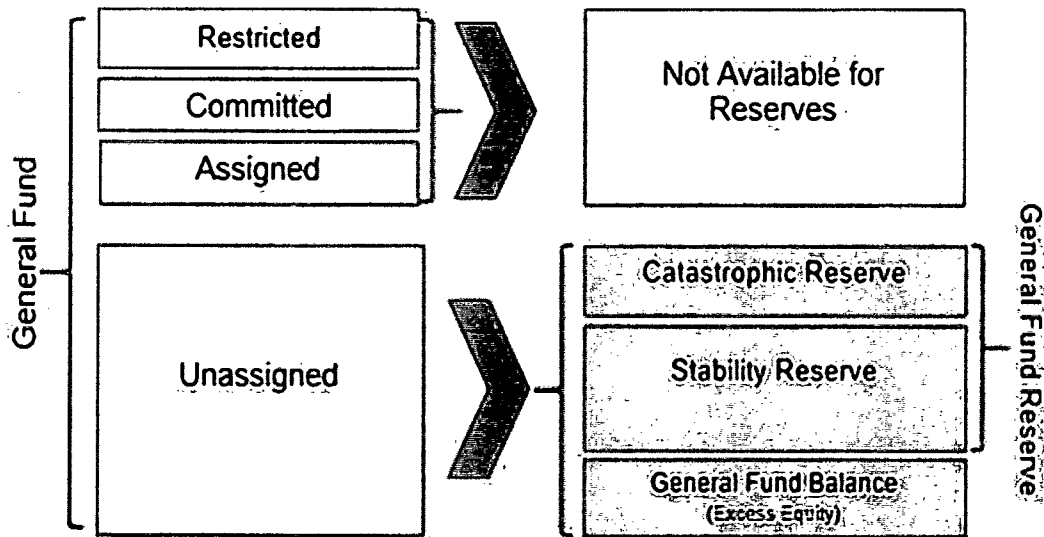
The Council hereby adopts a Long Term Goal of a Reserve of a minimum of 30% of General Fund Revenues, to be achieved within no more than 10 years. Based on a risk assessment (according to best practices), to be updated at least every five years, the Council may consider increasing or lowering the General Fund Reserve level.

Starting in Fiscal Year 2018, to achieve the City's Intermediate and Long Term Reserve Goals, 50% of Excess Equity above the first \$1M shall be allocated to Reserves. Additional Excess Equity may be allocated to Reserves by a majority vote of the City Council.

### **Methodology to Meet Reserve Levels**

The General Fund Reserve is separate from the General Fund Balance. The sum of the Stability Reserve and the Catastrophic Reserve and the amount determined to be

Excess Equity is deemed to be General Fund Unassigned Fund Balance. Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. The following graphic shows the relation between these funds as well as other restricted, committed, and assigned general fund monies.



Excess Equity is most commonly a non-recurring source of revenue and shall only be used for one-time, nonrecurring expenditure needs of the City. Excess Equity should be reported separately from the General Fund Reserves .

Attaining the Long Term Goal of 30% Reserves is important to the long-term financial health and stability of the City

**Replenishment of the General Fund Reserves**

The City Manager shall recommend a replenishment schedule for all monies proposed for appropriation from the General Fund Reserves. The replenishment schedule shall be adopted simultaneous with the appropriation to withdraw Reserve funds or, if infeasible due to emergency circumstances, no more than 3 months from the date of the withdrawal appropriation. Repayment shall begin no more than 5 years from the date of withdrawal and be completed within 10 years from the date of withdrawal.

While staff envisions that, in most cases, repayment will start as soon as possible, the repayment guidelines are meant to reflect a commitment to maintain a sufficient Reserve, while also recognizing that a use of Reserve funds may occur during an economic downturn and it may be necessary to postpone repayment while the economy improves.

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# MENLO PARK FIRE PROTECTION DISTRICT

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## Fund Balance Policy

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### **Fund Balance Policy**

The Menlo Park Fire Protection District (the District) believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain a General Fund Balance sufficient to fund all cash flows of the District, to provide financial reserves for replacement of fixed assets such as apparatus and equipment, unanticipated expenditures and/or revenue shortfalls due to unfavorable economic conditions or emergencies, set aside funds to work towards the paydown of the District's CalPERS Unfunded Actuarial Liability (UAL) and to provide funds for all opportunities that require an expenditures/reimbursement process.

The District's reporting and communication relating to fund balance reserves will utilize the classifications outlined in generally accepted accounting principles (GAAP). The District hereby establishes and will maintain reserves of fund balances, as defined herein, in accordance with Governmental Accounting and Financial Standards Board Statement No. 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions. This policy will ensure that the District maintains adequate fund balances and reserves in order to:

- a) Ensure sufficient funding to support the District's short-term and long-term operating objectives.
- b) Limit adverse annual and multi-year budgetary impacts from anticipated and unanticipated expenditures or revenue shortfalls and thereby stabilizing services fees and changes.
- c) Cover current outstanding liabilities or fund actuarial unfunded liabilities.
- d) Build and maintain the financial resiliency of the District.

This policy and the procedures promulgated under it supersede all previous regulations regarding the District's fund balance and reserve policies.

### **Fund Type Categories**

The following definitions will be used in reporting activity in governmental funds across the District. The District may or may not report all fund types in any given reporting period, based on actual circumstances and activity. The District's finances are accounted for within four major fund categories or types: the General Fund, the Federal Emergency Management Agency (FEMA) Special Revenue Fund, the Capital Improvement Projects Fund, and the Debt Service Fund.

The purpose of each major fund is described below:

- **General Fund**—The General Fund is the general operating fund of the District. It is used to account for all financial resources of the District except those required to be accounted for in another fund.
- **FEMA Special Revenue Fund**— California Task Force 3 Urban Search and Rescue (US&R) FEMA Special Revenue Fund is used to account separately for funds received and disbursed for federal emergencies.
- **Capital Improvement Projects Fund (CIP)**— The Capital Improvement Projects Fund is used to account for the acquisition of property, renovation or complete rebuild of the District’s seven Fire Stations, Administration and Fire Prevention Offices, Annex Building, Special Operations Warehouse, and properties on 28 Almondal Ave. and 2110 Valporaiso.
- **Debt Service Fund**— he Debt Service Fund is used to account for accumulation of resources and payments made for the principal and interest on long-term debt.

This Policy shall apply to all District’s governmental funds.

### **Fund Balance Descriptions**

Statement GASB 54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in government funds. The new fund balance classifications will indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints.

Constraints are broken down into five different classifications: non-spendable, restricted, committed, assigned, and unassigned. The classifications serve to provide clearer, more structured fund balance classifications so that users of governmental financial statement receive more consistent and understandable information on the specific purposes for which resources in a fund can be spent.

### **GASB 54 Fund Balance Classifications**

- **Non-spendable**—consists of assets that are inherently non-spendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivables, financial assets held for resale, and principal of endowments.
- **Restricted**—consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through enabling legislation. That is, legislation that creates a new revenue source and restricts its use. Restrictions may be changed or lifted only with the consent of resource providers.
- **Committed**—consists of amounts that are subject to a purpose constraint imposed by a formal action of the government’s highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint.
- **Assigned**—consists of amounts that are subject to a purpose constraint that represents an intended use established by the government’s highest level of decision-making authority,

or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance.

- **Unassigned**—fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund.

**District’s Fund Balance Classifications**

**Non-spendable Fund Balance**

**Prepaid Assets:** The prepaid assets fund balance was established to indicate those amounts relating to prepaid and deposits that are not in spendable form. This consists of prepaid purchases of apparatus and fixed assets.

**Restricted Fund Balance**

**Debt Service:** The Debt Service reserve was established as mandated by debt covenants and disclosure requirements of debt issuance in which the District is required to keep designated deposits with appointed Trustee as part of the Certificate of Participation agreement.

**Committed Fund Balance**

**Budgetary Deficit:** The Budgetary Deficit Fund balance was established to set up reserves to pay for any subsequent year’s non-routine budget deficit. A minimum shortfall threshold for the use of funds has been identified in order to meet the Committed Fund Balance requirements as stated under GASB 54.

| Use Requirement  | Maximum Set Aside  |
|--|--|
| A minimum projected budget deficit of greater than five percent. | Maximum set aside balance at year-end be calculated as six months of General Fund Operating Expenditures, plus 50 percent of the budgeted transfers out from the General Fund to other funds |

**FEMA Deployments:** The FEMA Deployments Fund Balance was established to reserve funds in case of Federal Emergency that would require deployment of District assets. Reimbursable expenditures are requested from FEMA within 90 days of deployment and the amounts due in their entirety are to be received within 120 days. The Committed FEMA Deployment Reserve fund is funded and identified in the District’s financial statements.

**Apparatus:** The Apparatus Reserve is maintained to fund replacement of fire trucks and engines. The District owns and operates various apparatus and equipment. The Apparatus deployed by the District are highly specialized and unique.

The replacement of Apparatus is based upon three criteria:

- Age
- Mileage
- Condition

Generally, replacement occurs when either the age exceeds 10 years, the mileage exceeds 100,000 miles, or the condition is deemed to be poor or insufficient for safe operation.

The Apparatus fund balance was established to ensure availability of funds for needed replacements without a negative budgetary impact. The financial objective is to utilize this fund's reserves to absorb the cash flow variations caused by the timing of apparatus replacements. Having sufficient fund balances is central to maintain service levels even in times of economic contraction or annual revenue constraints.

**Equipment Replacement:** The District deploys a wide variety of equipment, including vehicles, in its everyday operations. The equipment has a useful life ranging from five to twenty years. Equipment, as all mechanical systems and devices, are prone to failure and obsolescence, and planning for both expected and unexpected replacement needs is essential. Replacement of various equipment will result in different levels of expenditures in different years, and maintaining a sufficient reserve fund will ensure adequate resources are available without adverse budgetary impacts.

The District's equipment reserve covers:

- Communication Radios
- Emergency Equipment
- Emergency Medical Equipment
- Information Technology Equipment
- Rolling Stock (i.e. Vehicles)

**Debt Service:** The committed reserve to Debt Service was established as a precaution to offset any economic downturn. This would allow the District to make regular debt service payment shall there is a revenue shortfall.

**CIP Development Contribution:** The CIP development contribution reserve consists of funds received from development contract in the District jurisdictions. The funds received are committed for the betterment of the jurisdiction and are to be spent on added apparatus, rolling stock or CIP related projects.

**CIP (Admin/Fire Prevention building & Station 1-6, 77 Special Ops Warehouse):** The District's CIP funds were established to provide reserves to fund the improvement or replacement of fire stations and administration facilities. Construction projects usually extend



over more than one financial reporting period. The District has a vital CIP program and is continually seeking new one-time funds to support the projects needed due to aging of facilities, growth and development in its jurisdictions.

### **Assigned Fund Balance**

***Encumbrances (Purchase Orders):*** Encumbrances assigned fund balance consists of open purchase orders for the fiscal year which will roll over to the new fiscal year. As such, a reserve for encumbrances is necessary to provide funding for the approved expenditures.

***PERS future - PERS payments:*** The PERS stabilization assigned fund balance was established to mitigate the impact of changes in the employer contribution rates on the General Fund. These funds can also be used to offset the unfunded pension liabilities. The Board's budget philosophy sets aside any excess funds created by budgeting the employer's contribution percentage at the higher rates to offset potential future PERS Safety Rates in excess of the budgeted amounts. The excess at year-end will be transferred to the reserve for future UAL PERS payment.

***General Services:*** The General Services assigned fund balance was established in the FY 2009-10 to provide coverage for liability expenses and property protection which includes, but is not limited to, management liability, comprehensive crime, and portable equipment. The reserve is also allocated for unforeseen legal expenses.

***Workers' Compensation:*** The Workers' Compensation assigned fund balance was established in FY 2009-10. This reserve shall be maintained at a level deemed adequate to meet projected liabilities as determined by an actuarial evaluation to be conducted at least once every 5 years.

***Compensated Absences:*** The Compensated Absences assigned fund balance was established in 2009 to be used for payment of current and terminated employee's accrued annual leave and compensatory time off. The value of the actual accumulated employees' annual leave and compensatory time off balances at the end of each fiscal year is funded within this reserve.

### **Unassigned Fund Balance**

***Unassigned:*** The Unassigned fund balance can be used for any purposes that the District deems appropriate and beneficial to operations. The use of unassigned fund balance is based on availability and need.

### **Order and Use of Restricted and Unrestricted Funds**

When both restricted and unrestricted funds are available for expenditures, restricted funds should be spent first unless legal requirements disallow it.

**Authority for Fund Balance Designation**

**Authority to Commit Funds:** Any funds set aside as committed fund balance requires the passage of a resolution by a simple majority vote of the Board of Directors. The passage of a resolution could occur before or after year-end of the applicable fiscal year. In the event the Board of Directors would like to lift the committed status of the funds, a formal passage of resolution must be taken.

**Authority to Assign Funds:** The Board of Directors or the Fire Chief and/or designee staff has the ability to set aside funds for specific purposes.

The table below provides a listing of authority for Fund Balance Designation:

| <b>Fund Balance Description</b>  | <b>District's Fund Balance Classification</b> | <b>GASB 54 Classification</b> | <b>Decision Making Authority</b>       | <b>Formal Action Required</b> |
|--|---|-------------------------------|--|-------------------------------|
| Prepaid Assets   | Non-spendable                                 | Non-spendable                 | General Accepted Accounting Principles | Not Required                  |
| Debt Service account   | Restricted                                    | Restricted                    | Legal Restriction (Debt Agreement)     | Not Required                  |
| Budgetary Deficit  | Committed                                     | Committed                     | Board of Directors                     | Required Resolution           |
| FEMA Deployments   | Committed                                     | Committed                     | Board of Directors                     | Required Resolution           |
| Apparatus  | Committed                                     | Committed                     | Board of Directors                     | Required Resolution           |
| Equipment Replacement  | Committed                                     | Committed                     | Board of Directors                     | Required Resolution           |
| Debt Services reserve  | Committed                                     | Committed                     | Board of Directors                     | Required Resolution           |
| CIP Development Contribution   | Committed                                     | Committed                     | Board of Directors                     | Required Resolution           |
| CIP Funds (Admin/Fire Prevention building & Station 1 -7 & Special Operations Warehouse) | Committed                                     | Committed                     | Board of Directors                     | Required Resolution           |
| Encumbrances (Purchase Orders)   | Assigned                                      | Assigned                      | Fire Chief & Fire Chief Designee       | Not Required                  |
| UAL PERS Payments  | Assigned                                      | Assigned                      | Fire Chief & Fire Chief Designee       | Not Required                  |
| General Services   | Assigned                                      | Assigned                      | Fire Chief & Fire Chief Designee       | Not Required                  |
| Workers' Compensation  | Assigned                                      | Assigned                      | Fire Chief & Fire Chief Designee       | Not Required                  |
| Compensated Absences   | Assigned                                      | Assigned                      | Fire Chief & Fire Chief Designee       | Not Required                  |
| Unassigned   | Undesignated                                  | Undesignated                  | Fire Chief & Fire Chief Designee       | Not Required                  |

**Minimum Level of Unassigned Fund Balance**

The District does not currently have a formal minimum fund balance policy.

**Annual Review and Determination of Fund Balance Reserve Amounts**

Compliance with the provisions of this policy shall be reviewed, presented and discussed as part of the unaudited actuals financial reporting process and presentation to Board of Directors, and the amounts of non-spendable, restricted, committed, assigned and unassigned fund balances shall be reported.

**Additional Information, Requirements and Responsibilities**

It will be the responsibility of the Administrative Services Manager to keep this policy current and up-to-date.

**Adopted Date: May 16, 2017**  
**Revised Date: May 15, 2018**



4. **Bondholders:** Investors who lend money to the bond issuer in return for interest and future repayment.
5. **California Employer's Retiree Benefit Trust (CERBT):** CERBT is Metro Fire's trust fund managed by the California Public Employees' Retirement System (CalPERS).
  - a. CalPERS maintains a separate trust fund to benefit Metro Fire retirees. CERBT is accumulating and investing funds for post-retirement medical premiums.
  - b. Amounts cannot be removed from CERBT except to pay retiree premiums.
  - c. CERBT is a separate legal entity. As such, CERBT assets are only disclosed in Metro Fire's audited financial statements, and not included in Metro Fire's Governmental Fund balance sheet assets.
7. **Capital Facilities Fund:** A separate accounting for budgeting and reporting purposes used to track expenditures for capital outlay not associated with new development.
8. **Capital Improvement Program (CIP):** A multi-year plan that identifies needed capital projects and equipment, provides a planning schedule, and financing options.
9. **CIP Reserves:** Reserves accumulated for the purchase of new infrastructure. Funding is from Development Impact Fees and General Fund transfers.
10. **Capital Replacement Reserves:** Reserves accumulated to fund replacement of existing infrastructure when the asset's useful life has ended.
11. **Committed Fund Balance:** A classification of Fund Balance. Committed Fund Balance amounts can only be used for specific purposes as determined by a formal action of the Metro Fire Board of Directors.
12. **Debt Service Reserves:** Money generally from bond proceeds that is set aside for additional security to Bondholders. This is a Restricted Reserve and documentation of the requirement is in the Bond Indenture.
13. **Development Impact Fee:** A fee charged by Metro Fire to mitigate the costs associated with property acquisitions, site preparation, design, construction, and equipping of fire stations within Metro Fire's service areas. This fee serves to protect the health and safety of the general public and preserve lives and property, and is authorized by California Government Code Section 66000 et seq.
14. **Development Impact Fees Fund:** A separate accounting for budgeting and reporting purposes used to track Development Impact Fee collection and spending. The reserves in this fund are used for new capital needed to serve new development.

15. **Dry Period Funding:** Dry period funding is a borrowing from the County of Sacramento. Dry Period Funding is automatically activated should Metro Fire have a negative cash position from July through the last Monday in April. The County Treasurer will cover Metro Fire's negative cash up to 85% of anticipated tax collections. Metro Fire must have positive cash balances from the last Monday in April until fiscal year end.
16. **Fund Balance:** Governmental Fund balance sheet assets less liabilities, equals Fund Balance. Accountants distinguish up to five separate categories of Fund Balance, based on the extent to which the government is bound to honor specific purposes spending constraints.
  - a. These five categories are: Non-spendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance (all separately defined herein).
17. **Funding Policy Contribution (FPC):** A level of funding that if paid on an ongoing basis is projected to cover post-retirement medical explicit subsidies for current employees and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.
18. **Early Debt Extinguishment Reserves:** Reserves accumulated to retire the Pension Obligation Bonds at the earliest dates allowed under the Bond Indenture.
19. **General Fund:** For budgeting and reporting purposes, Metro Fire records all transactions in the General Fund that are not specifically accounted for in any other fund. The other funds include the Capital Facilities Fund, the Leased Properties Fund, the Grant Fund, the Development Impact Fees Fund, and the Intergovernmental Transfer (IGT) Fund.
20. **General Fund Operating Reserves:** These are Unassigned Reserves accounted for in the General Fund that are used for unexpected costs, revenue shortfalls, and smoothing cash flow prior to the receipt of expected revenue. In particular, cash flow is needed prior to the receipt of property taxes in January, May and June..
21. **Governmental Fund Financial Statements:** Governmental Fund Financial Statements report using the modified accrual basis of accounting and generally reports financial resources collected and used within 90 days of fiscal year end. Capital assets are expenditures when purchased.
22. **Government-Wide Financial Statements:** Government-Wide Financial Statements are reported using the accrual basis of accounting. The Statement of Net Assets in the Government-Wide Financial Statements include all capital assets, and the Statement of Activities shows annual depreciation of the capital assets
23. **Grant Fund:** For budgeting and reporting purposes, Metro Fire records all grant related revenue and expenditures in the Grant Fund.

24. **Intergovernmental Transfer (IGT) Fund:** For budgeting purposes, Metro Fire records all transactions associated with Medi-Cal intergovernmental transfers in the IGT Fund.
25. **Labor Agreements:** All agreements with Local 522, along with resolutions and employment agreements passed by the Board of Directors covering unrepresented employees.
26. **Leased Properties Fund:** For budgeting purposes, Metro Fire records all transactions for surplus real property in the Leased Properties Fund. In addition, real property temporarily not in use is also recorded in this fund. Rent from these properties offsets non-operating expenditures such as utilities and special assessments.
27. **Net Budgeted General Fund Operating Expenditures:** Current year budgeted operating expenditures in the General Fund, adjusted to exclude one-time expenditures and include transfers out for ongoing expenditures.
28. **Non-spendable Fund Balance:** A classification of Fund Balance. Non-spendable Fund Balance amounts cannot be spent because they are not in spendable form or cannot be spent because legally or contractually are required to be maintained intact.
  - a. Examples of Non-Spendable Fund Balance are inventory and prepaid items.
29. **Pension Obligation Bonds:** Bonds issued by Metro Fire in 2004 to pay down unfunded pension liabilities with CalPERS and the Sacramento County Employee Retirement System (SCERS).
30. **Reserve Analysis:** Comparing actual reserve levels to target reserve levels.
31. **Restricted Fund Balance:** A classification of Fund Balance. Restricted Fund Balance amounts can only be spent for specific purposes, which are stipulated outside the control of Metro Fire's Board of Directors by State law, granting entities, legal agreements, or enabling legislation, etc.
  - a. Restricted Fund Balance examples are grant funds, debt proceeds, and Development Impact Fees.
32. **Self-Insurance Reserves:** Reserves accumulated for the payment of workers' compensation claims.
33. **Unassigned Fund Balance:** A classification of Fund Balance. Any Fund Balance amounts not classified as Restricted Fund Balance, Committed Fund Balance, and Assigned Fund Balance.

## *Policy*

1. Unassigned Fund Balance

- a. General Fund Operating Reserves will be used for unexpected costs or revenue shortfalls.
  - I. The minimum amount of General Fund Operating Reserves shall be 1.8 months of Net Budgeted General Fund Operating Expenditures (15%). Metro Fire is able to operate with this minimum amount due to a County of Sacramento “Dry Period Funding” credit line used in anticipation of property tax receipts.
  - II. The maximum amount of General Fund Operating Reserves shall be 6 months of Net Budgeted General Fund Operating Expenditures (50%) as reflected in the most current Metro Fire budget. This amount would allow Metro Fire the cash flow needed to operate without the County of Sacramento “Dry Period Funding” credit line.
2. Committed Fund Balance
  - a. Metro Fire is self-insured for most workers’ compensation claims, and maintains excess coverage for extraordinary claims of \$3 million or more. This coverage amount may be adjusted each budget cycle.
    - I. To allow for future payment of workers’ compensation claims, the minimum General Fund Self-insurance Reserves should equal the most recent short-term liability disclosed in Metro Fire’s Audited Financial Statements.
    - II. The maximum General Fund Self-insurance Reserve should equal the most recent total liability of unpaid claims and expenses as reported in the most recent Audited Financial Statements.
  - b. Reserves should be accumulated to replace existing infrastructure upon the end of the assets’ useful life. Capital Replacement Reserves should be in keeping with the Metro Fire CIP.
    - I. The minimum Capital Replacement Reserves should be equivalent to the annual depreciation in Metro Fire’s most recent audited Government-Wide Financial Statements.
    - II. The maximum Capital Replacement Reserves should be equal to the accumulated depreciation in Metro Fire’s most recently audited Government-Wide Financial Statements.
  - c. The District’s Pension Funding Bonds Early Payoff Policy, 01.014.02, adopted in 2008 and revised in 2017, extinguishes the Pension Obligation Bonds at the earliest dates allowed under the Bond Indenture, to avoid the interest rate associated with the variable rate securities. Each year additional reserves will be budgeted pursuant to the Pension Funding Bonds Payoff Schedule incorporated within the revised Early Payoff Policy.



- I. The minimum amount of Early Debt Extinguishment Reserves should be the beginning balance plus the annual deposit amount calculated according to the procedures outlined in the Early Payoff Policy.
  - II. The maximum amount of Early Debt Extinguishment Reserves should be the total outstanding Pension Obligation Bond principal due to the Bondholders.
3. Restricted Reserves
- a. Development Impact Fees Fund CIP Reserves will be accumulated to fund Metro Fire's new infrastructure needed to maintain Metro Fire's service level standards. CIP funding will be from the Development Impact Fees that mitigate the impact of new development. All Development Impact Fee amounts collected are restricted in use until such time as they are spent on capital outlay as provided for in State law. Capital spending over and above the Development Impact Fees should be provided as a transfer from the General Fund.
    - I. The minimum CIP Reserves shall be 10% of the current year's planned CIP expenditures. These reserves are a buffer for deviations in bid amounts or construction costs.
    - II. The maximum CIP Reserves shall be the amount needed to fully fund the CIP plan.
  - b. Bondholders and other lenders require Debt Service Reserves to provide additional security for obligations due to them from Metro Fire. Metro Fire will maintain at all times the Debt Service Reserve levels provided for in all outstanding debt and capital lease agreements.
4. Trust Fund
- a. Post-retirement medical insurance coverage is currently, and will continue to be, pre-funded in CERBT:
    - I. At a minimum, an amount should be the cumulative of Funding Policy Contributions plus earnings. This amount is reported to Metro Fire by CERBT on a quarterly basis.
    - II. At a maximum, an amount should be accumulated in CERBT to equal the Actuarial Present Value. This amount is determined by Metro Fire's actuary in its most recent Actuarial Valuation of Other Post-Employment Benefits.
5. Transition to Target Reserve Amounts
- a. Any budgeted Unassigned Reserve amounts remaining at fiscal year-end will initially be General Fund Operating Reserves. The Board of Directors will review appropriate levels and uses for reserves during the budget process and may reclassify reserves as deemed appropriate.

- b. When reclassifying reserves, consideration will be made to all Metro Fire contractual obligations including the agreements with Local 522.
6. Use of Reserves
- a. Operating and Self-Insurance Reserves can be used at any time to meet cash flow requirements and Workers' Compensation claims, respectively. Authority to use the funds should be consistent with Metro Fire's budget, Purchasing and Contract Policy, and Labor Agreements. Any other use requires authorization of the Board of Directors.
  - b. The Board of Directors will authorize use of Capital Replacement and CIP Reserves during the budget process. Capital Replacement and CIP Reserves are also available for unplanned (unbudgeted) capital replacement. Authorization for the use of Capital Replacement Reserves for unplanned capital replacement will be consistent with Metro Fire's Purchasing and Contract Policy.
  - c. Early Debt Extinguishment and Debt Service Reserves use, is limited to the repayment of principal and interest of the related debt obligations.
  - d. CERBT Reserves will be used exclusively for the payment of retiree medical premiums and CERBT management fees.

### *Procedures*

1. The Chief Financial Officer shall perform a Reserve Analysis to be submitted to the Board of Directors upon the occurrence of the following events:
  - a. Board of Directors' budget deliberations; or
  - b. When changes are made to the amount of Workers' Compensation self-insurance excess insurance coverage; or
  - c. When updated Post-Retirement Medical or Workers' Compensation actuarial valuations are issued; or
  - d. When a major change in conditions threatens the targeted reserve levels established within this policy.
2. If the Reserve Analysis indicates projected or actual reserve levels are not within the target levels outlined in this policy, the following shall be included with the analysis:
  - a. An explanation of why reserve levels are not at the targeted level, and;
  - b. A course of action to bring reserve levels within the minimum and maximum levels prescribed.

## *References*

1. Sacramento Metropolitan Fire District, Pension Fund Bonds Early Payoff Policy, 01.014.02 revised as of September 28, 2017.
2. Sacramento Metropolitan Fire District, Purchasing and Contracting Policy, 01.010.02, revised as of June 12, 2014.
3. Government Finance Officers Association of United States and Canada, Best Practice for Appropriate Level of Unrestricted Fund Balance in the General Fund.
4. Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, effective for fiscal years June 30, 2011 and later.