

Attachment B

STAFF REPORT

DATE: April 28, 2022

TO: Budget Committee

FROM: Philip D. Smith, District Manager and Dana Shigley, Management Aide

SUBJECT: New and Amended Board Policies



RECOMMENDATION

Staff recommends that the Committee review the attached two board policies and provide feedback to staff. These policies are planned for consideration by the Board of Trustees in May.

BACKGROUND AND ANALYSIS

Policy 4100 Budget Development and Management Policy

This new policy is proposed for two primary reasons. First, we recommend the Board adopt a policy that describes its current policies and practices related to budget development. Importantly, it seems prudent for the Board to describe its overall budget goals as set forth in section 4100.10.A and schedule set forth in section 4100.10.B. Second, as the year progresses, there are times when budget adjustments are needed that are administrative in nature. For example, a department may find one line item is insufficient for an anticipated expense, but there are sufficient funds in a different line item to cover the cost. These administrative adjustments do not change budget policies or goals, but simply shift budget allocations to accommodate unanticipated cost changes and can be authorized by the District Manager without requiring Board approval. This proposed policy provides parameters for when the District Manager may authorize a budget line-item adjustment and when Board action is required.

Policy 5060 Fund Balance Classification and Target Balances

This policy was adopted several years ago and was revised in 2020. The policy, among other things, describes the method used to calculate several fund balance reserves. The reserve balances are typically calculated as a percentage of prior year actual expenditures; however, in some case, one-time extraordinary expenses were not excluded from the calculation. This is inconsistent with a need for funds in difficult fiscal times (which would typically preclude optional one-time expenses) and results in reserves that spike up and down year to year. The proposed revision to this policy calculates reserves based on prior year actual expenditures excluding one-time, substantial expenses. For example, this would exclude the one-time transfers to the OPEB trust made in fiscal year 20/21 for purposes of calculating reserves in the 21/22 fiscal year.

CONCLUSION

After comment from the Budget Committee, we will amend the policies and prepare a resolution as needed and bring forward to the Board of Trustees for their consideration in May.

POLICY TITLE: **Budget Development and Management Policy**

NUMBER: **4100**

4100 Purpose

The Board of Trustees shall adopt and maintain an annual budget to ensure that the District’s fiscal resources are prudently managed and monitored. The Board’s policies and practices related to the adoption and management of the budget are described in this document.

4100.10 Budget Adoption

A. Budget Adoption Policies

The District’s annual budget will be prepared in accordance with the following policies:

- The budget will be consistent with and implement the Board’s adopted goals, programs, and strategic initiatives.
- The budget will be consistent with the Board’s adopted policy regarding reserves and target fund balances and funding post-employment benefits (Board Policies 5060 and 5080).
- The budget will be balanced. Anticipated current revenues must meet or exceed budgeted operating expenditures. The budget will not assume the use of fund balances without explicit approval of the Board.
- The Capital Fund budget will be consistent with the District’s comprehensive capital replacement and expansion plans.
- The budget will be consistent with, and informed by, updated long-term fiscal projections.

B. Budget Development Timing

Each spring, District staff will prepare a proposed budget for the following fiscal year which begins on July 1. The Budget Committee and Board of Trustees will consider the budget as follows:

Budget Committee: Late April or early May

In late April or early May, the Budget Committee will meet to consider the draft budget prepared by staff. Staff will also present revenue and expense estimates for the current year and an updated long-term fiscal projection for the Committee's review. Additionally, the Committee will consider revenue and expenditure forecasts, noting operational and staffing plans as well as any changes in laws and regulations. The Committee will provide feedback to staff as needed to prepare the budget for consideration by the Board of Trustees. If needed, the Budget Committee may request a second meeting to discuss the Budget further before Board consideration.

Board of Trustees: Board meeting in June

After making adjustments as requested by the Budget Committee, staff will present the proposed budget to the Board of Trustees for consideration at their meeting in June. If requested by the Board, the budget may also be considered at a second Board meeting in June. As required, the District Board will adopt the budget no later than June 30 of each year.

4100.20 Budget Maintenance During the Fiscal Year

A. Reporting to the Board

Staff will keep the Board informed as to the status of actual expenditures and revenues against the budget through regular reporting.

Monthly/Bi-monthly

At each meeting of the Board of Trustees, staff will provide a summary of expenditures for the previous month, or two if meeting bi-monthly, and year-to-date expenses compared to the budget.

Quarterly

In addition to the monthly reports, each fiscal quarter, staff will provide the Board a report showing revenues received year-to-date compared to the budget and a balance sheet.

Mid-Year

Midway through the fiscal year, staff will present a comprehensive budget status report that includes projections for actual expenses and revenues at year end. This report will also include the originally adopted budget and the current budget, reflecting budget amendments or adjustments during the year.

B. Budget Amendments and Adjustments

The adopted budget should not be a static document, but should be updated during the year to reflect unanticipated changes in expenses and revenues. The budget may be changed in two ways.

District Manager Adjustments

The District Manager may authorize transfers of budget amounts between accounts within each fund. This often occurs when expenses are anticipated exceed the budget amount in one account and there are sufficient resources in another account to cover the cost. These transfers do not increase or decrease the total budget for that fund, but simply move budget appropriations between line items. The District Manager may not authorize an adjustment to the budget to reflect a change in salaries and benefits, positions, or changes in implementation of Board policy or significant deviation from established procedures and programs. The District Manager's authorized transfers will reflect only administrative changes in spending categories.

District Board Amendments

The Board of Trustees, by majority vote, may authorize budget amendments as follows:

- Transfers of budget amounts between the General and Capital Funds.
- Appropriation of reserves or designated fund balances and amendments that change the total revenues or expenses in a fund.
- Changes in position classifications, new or eliminated staff positions, compensation, or benefit changes.
- Any budget amendment needed as a result of a Board adopted policy change or significant deviation from established procedures or programs.

Staff may present requests for Board amendments to the Budget at any time during the year as the need arises.

POLICY TITLE: Fund Balance Classifications & Target Balances

NUMBER: 5060

5060 Purpose

It shall be the policy of the District to maintain fund balances adequate to address public health emergencies, contingencies, operating cash flow, future liabilities, replacement of equipment and facilities, and the like. Additionally, this policy establishes goals and provides guidance concerning the target level of fund balance in various categories to be maintained by the District to mitigate various financial risks that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. This Fund Balance Classifications & Target Balances Policy follows the guidelines set in the Governmental Accounting Standards Board (“GASB”) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. No other policy or procedure shall supersede the authority and provisions of this policy.

Definitions

Fund balance is essentially the difference between total assets, total liabilities and deferred inflows/outflows or resources, reported in each governmental fund.

GASB Statement 54 distinguishes various categories of fund balance based on the relative strength of the constraints that control the purposes for which specified amounts can be spent.

Fund Balance Classifications

Listed below are the fund balance classifications beginning with the most restricted and constrained category, and progressing stepwise to the least restricted classification. Fund balance amounts will be reported in the following categories: Non-Spendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance. Further explanations of each category are provided below:

A. Non-Spendable Fund Balance

The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. The “non-spendable” classification includes items that are not expected to be converted to cash within the reporting period, for example, inventory items, notes receivables and prepaid amounts. It also includes the long-term amount of loans and notes receivable. These amounts are shown in the District’s annual basic financial statements issued by the independent auditor.

B. Restricted Fund Balance

This classification includes amounts that can be spent only for the specific purposes stipulated by external parties or mechanisms such as creditors, grantors, contributors, laws, regulations or enabling legislation. Examples include grants or donations.

C. Committed Fund Balance

The Committed Fund Balance classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, which is the Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (for example, a resolution) that it employed to previously commit those amounts. Committed Fund Balance amounts also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

D. Assigned Fund Balance

The Assigned Fund Balance classification includes amounts that are constrained by the government's intent that they be used for specific purposes, but that are neither restricted nor committed. Such intent must be established by (a) the Board of Trustees as the governing body or (b) a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

E. Unassigned Fund Balance

The Unassigned Fund Balance classification represents residual amounts not contained in any of the above four categories. This includes the residual balance in the General Fund. Unassigned amounts may be used for any legal purpose.

5060.10 Authority to Designate Funds

The responsibility for designating funds to specific classifications shall be as follows:

Committed Fund Balance – The Board of Trustees is the District's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board.

Assigned Fund Balance – The Board of Trustees has designated the District Manager and the Financial Manager as the officials authorized to assign fund balances to a specific purpose, only as approved and governed by this Fund Balance Classifications & Target Balances Policy.

5060.20 Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Board, and unassigned fund balance), the District shall expend funds in the order beginning with using the most restricted category before drawing progressively from categories with successively less restricted fund balances that are available for the intended purpose.

5060.30 District's Fund Structure and Classifications

The fund structure includes the General Fund & Capital Replacement Fund.

- A. The General Fund is the District's main operating fund and all financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.
- B. The Capital Replacement Fund is used to account for purchases of all capital ~~items/assets. — on a cost reimbursement basis.~~ Examples include purchase of vehicles, building systems or large or costly equipment such as computer servers. The District funds the replacement of existing capital assets through a comprehensive funding program. New (non-replacement) capital assets are funded separately as needed for each acquisition. The monetary threshold for an item to be considered a capital purchase shall be established from time to time by the Board.

5060.40 Target Fund Balances

Under GASB 54, governments have the option to formally set aside unrestricted fund balance amounts for use in emergencies, revenue shortages, or to deal with a budget imbalance. The District has the authority to set aside such amounts by resolution of the Board. These set-aside amounts may be spent only if certain specific circumstances exist. Amounts maintained in the General Fund that are intended to provide financial stability shall be reported as committed or assigned. The notes to the District's annual financial statements shall disclose the authority for establishing the arrangement, the requirement for additions to the amount, the conditions under which amounts may be spent, and the balance.

The Board's Fund Balance Classifications & Target Balances Policy establishes fiscal management and budget policies. This Fund Balance Classifications & Target Balances Policy establishes that the District will prudently maintain sufficient reserve funds to stabilize the District's fiscal base and enable it to deal with anticipated fluctuations in revenues and expenditures, provide for unanticipated expenditures of a non-recurring nature and to pay for any unexpected increases in materials or service delivery costs within the fiscal year.

- A. General Fund Commitment for Public Health Emergency ~~Reserve Fund Balance: General Fund (Committed).~~

California Health & Safety Code section 2070 provides that the Board may divide the annual budget into categories, including a reserve for public health emergencies. The District maintains several emergency response plans, one example being an arbovirus response plan. Funds held in this reserve may be used only to deal with an emergency such as an outbreak or epidemic of vectorborne disease, or to take appropriate actions in the event of the discovery of an invasive mosquito species within the District's service area. Examples of expenditures that may be necessary include, hiring additional personnel to conduct specialized or enhanced mosquito surveillance and/or control, materials, laboratory testing, aviation services, mapping and specialized consultant help, and reimbursing other mosquito districts for mutual aid provided. Recognizing that increasing the District's revenue stream is a cumbersome and time-consuming process, this fund balance is committed for the express purpose of financing whatever response is deemed necessary to deal with a public health emergency or serious threat.

The District commits twenty percent (20%) of ~~the prior year actual General Fund expenditures, less substantial one-time, non-recurring expenditures that year, its current budgeted annual expenditures, less capital expenditures,~~ to the Public Health Emergency Reserve Fund Balance. For the purposes of calculating the current annual expenditures, the cost of any additional one-time contributions to the District's Pension Fund or Other Post-Employment Benefits Trust Account shall be excluded from the total.

B. Capital Replacement ~~Fund Commitment for Capital Replacements and~~ Projects: ~~Target Fund Balance (Committed).~~

The District shall maintain a target fund balance to reimburse the cost of the replacement of capital items such as vehicles, expensive laboratory equipment and other capital projects. The District has prepared a Capital Asset Valuation and Replacement Cost Study that analyzes and forecasts expenditures until fiscal year 2039-40. Capital expenditures are budgeted each year and paid from the operating fund, then reimbursed to the Capital Replacement & Projects Fund by means of a journal entry. Capital expenditures are expected to be much higher in some years than others, and therefore the ending fund balance will vary each year. However, the intended net result of the capital expenditure program is that a fund balance of approximately \$1,000,000 will remain at the end of the final year of the program, FY 2039-40. The variable balance maintained in the Capital Replacement & Projects Fund will serve the following purposes:

- a) Act as a buffer to smooth expenditures from year to year
- b) Provide a prudent reserve in the event of unforeseen or catastrophic eventualities, not all of which may be fully covered by insurance.

The District commits an initial target balance of one million dollars (\$1 million) to the Capital Replacement Fund.

The District may create additional fund commitments or assignments as needed to set aside funds for acquisition of new (non-replacement) capital assets and projects.

- C. General Fund Assignment to Minimum Fund Balance: (1) to Provide Working Capital during the “No-Income Period” (Assigned).

The great majority of the District’s revenues are collected by the two counties from the tax rolls and remitted to the District twice annually, at intervals of approximately six months. In order to continue operations between these widely spaced increments of revenue, the District must keep sufficient funds on hand to provide for the purchase of materials, services and to meet payroll. Additionally, even when the monies are deposited in the District’s bank accounts, the reporting of these amounts to the District is often delayed by several months due to workflow priorities at the County Department of Finance. The District cannot spend unrecognized revenues.

Therefore, the District shall maintain in the General Fund, a minimum target fund balance equal to six months of the prior budget year’s actual expenditures in the General Fund, less substantial one-time, non-recurring expenditures for that year.

- D. General Fund Assignment for Insurance Pool Contingency Target Fund Balance (Assigned)

As part of its participation in the Vector Control Joint Powers Agency (VCJPA) the District maintains a fund balance to defray the estimated cost of paying several self-insured retention (SIR) amounts. SIRs are similar in function to an insurance deductible and must be paid by the District in the event of a claim. VCJPA has published recommended fund balance targets in the Member Contingency Fund (MCF) to deal with a worst-case scenario involving multiple large claims. These funds are kept on deposit with VCJPA and professionally invested at the direction of the VCJPA Board. MCF amounts are invested and managed in strict accordance with governmental fund investing requirements and restrictions. Historically the rate of return has equaled or bettered other relatively secure investment vehicles such as the Local Authority Investment Funds.

It shall be the District’s policy to maintain funds on deposit with VCJPA in the Member Contingency Fund in an amount approximately equal to that recommended by the VCJPA, plus or minus twenty percent of the recommended value.

As an assigned fund balance designated for a specific purpose, under section **5060.10**, the Board authorizes the Manager and/or Financial Manager to disburse funds from the VCJPA Member Contingency Fund to the extent necessary to pay the District’s SIR to VCJPA in connection with an emergency situation.

E. General Fund Minimum Unassigned Fund Balance in case of Interruption in Revenue Flow.

In addition to the working capital described above that is necessary to maintain operations between revenue increments, the District shall maintain a target fund balance sufficient to sustain the District's operations in the event of an interruption or significant reduction in revenue flows. To achieve this objective, it shall be policy of the District to maintain an unassigned fund balance in the General Fund in a range. This fund balance shall fall in a range of no less than 25%, but no greater than 50%, of the authorized level of prior year's actual General Fund expenditures, less ~~the capital~~substantial one-time, non-recurring expenditures for that fiscal year. If the unassigned fund balance should fall below this range, the District shall develop a restoration plan to achieve and maintain the target fund balance within the range stated above.

Committee review: ~~10-6-2020~~
Legal review: ~~10-1-2020~~
Board Approval: ~~10-14-2020~~