RESOLUTION - ACTION REQUESTED 2020-205

MEETING: April 21, 2020

TO: The Board of Supervisors

FROM: Dallin Kimble, County Administrative Officer

RE: Adopt a County General Fund Reserve Policy

RECOMMENDATION AND JUSTIFICATION:
Adopt a County General Fund Reserve Policy.

The recommended policy establishes that an amount no less than 22.7% and no greater than 31% of average General Fund expenditures should be established and maintained in a reserve to hedge against future risk and unforeseen circumstances. It prescribes how reserve dollars may be managed and invested and requires the replenishment of reserves when depleted below the minimum established amount.

Establishment of a reserve recommendation considered the following:

1. The Government Finance Officers Association (GFOA) recommends general-purpose governments maintain no less than two months (16.7%) of regular general fund operating expenditures in reserve. Each jurisdiction is responsible for analyzing local factors and risks that may motivate a higher reserve level.

2. Mariposa County is subject to frequent natural disasters including wildfires, floods, debris flows, rock falls, and tree mortality. These events have become even more regular in recent years.

3. More than fifty percent (50%) of the County’s general purpose revenue comes from transient occupancy taxes or other traditionally volatile revenue sources.

4. As a relatively small government, Mariposa County has fewer overall resources to draw upon in emergency situations than many other California jurisdictions.

5. Reserves that are too large may unnecessarily limit services delivered to the public.

The policy allows for up to 30% of an established reserve to be invested in a trust fund for pension and other post-employment benefits. Trust funds accrue interest at a much faster rate than typical investment vehicles the County is permitted to use and result in lower unfunded liability payments or General Fund appropriations for the County overall. At the same time, trust fund investments remain flexible and can be
Resolution - Action Requested 2020-205

withdrawn at any time without penalty for use on personnel-related costs (Mariposa County personnel costs currently constitute approximately 58% of General Fund expenditures).

This policy contributes to an objective framework that promotes financial health and sustainability. Staff recommends approval.

BACKGROUND AND HISTORY OF BOARD ACTIONS:
The County adopted a Fee Policy on October 2, 2018 (2018-480). A financial management policy is also being considered on the April 21, 2020 agenda.

ALTERNATIVES AND CONSEQUENCES OF NEGATIVE ACTION:
Amend the policy. The Board may decide to establish a policy that is higher or lower than the recommended levels. If lower, staff does not recommend establishing a policy for reserves lower than 16.7% or two months of General Fund Expenditures. The Board may also decide to revise guidelines regarding management or investment of reserves.

Do not approve. A reserve policy is good financial practice but not required by law. Reserves will continue to be managed subjectively as part of the annual budget process. It is more likely in this scenario that reserves will not be sufficient to prevent significant budget reductions in future years.

ATTACHMENTS:
General Reserve Policy  (DOCX)

RESULT:  ADOPTED [UNANIMOUS]
MOVER:  Marshall Long, District III Supervisor
SECONDER: Miles Menetrey, District V Supervisor
AYES: Smallcombe, Jones, Long, Cann, Menetrey
Mariposa County
General Reserve Policy – April 2020

A. DEFINITION AND PURPOSE OF GENERAL RESERVES

General Fund Reserves are the unrestricted fund balance maintained in the General Fund in accordance with Generally Accepted Accounting Principles (GAAP) and for the purposes described in this policy. Reserves are the cornerstone of financial flexibility. They provide the County with options to respond to unexpected issues and afford a buffer against shocks and other forms of risk.

The primary reasons for a general fund reserve policy are to be prepared for contingencies, maintain a low cost of borrowing, avoid interest expenses, generate investment income, and create a shared understanding of the proper level and use of reserves.

B. RESERVE TARGET LEVELS

The County shall maintain a reserve no less than 22.7% and no greater than 31% of average General Fund operating expenditures for the preceding three years, as reported in the County Annual Financial Report. For the purposes of this policy, operating expenditures do not include capital purchases or transfers. Reserve target levels will be considered as part of the budget process on an annual basis.

C. FUNDING THE TARGET AMOUNT

Funding of reserves will be included for consideration in the annual budget process.

D. CONDITIONS FOR USE OF GENERAL RESERVES

General Fund Reserve may be used at the discretion of the Board of Supervisors for the following purposes.

1. Replace temporarily decreased revenues, such as state subventions.
2. Meet emergency expenditures in the case of flood, fire, debris flows, or other disasters.

E. INVESTMENT OF RESERVES IN PENSION AND OTHER POST-EMPLOYMENT BENEFIT PRE-FUNDING

When reserve target has been met, the County may invest up to thirty percent (30%) of the established reserve, not to exceed six percent (6%) of average General Fund operating expenditures for the preceding three fiscal years, in a trust account for pension and/or other post-employment benefits.

F. AUTHORITY OVER GENERAL RESERVES

Drawdown on the General Fund Reserve shall only be authorized by the Board of Supervisors during the adoption of the annual budget or by a four-fifths vote resolution during an emergency.

G. REPLENISHMENT OF GENERAL RESERVES

The County should strive to restore reserves as quickly as possible after use. If reserves fall below the established minimum, the Board should establish a plan to restore reserves to minimum levels within five fiscal years. In no case will reserve replenishment plans extend beyond ten fiscal years.