
MENLO PARK FIRE PROTECTION DISTRICT

STAFF REPORT

TO:	Board of Directors	MEETING DATE: June 24, 2013
FROM:	Administrative Services	PREPARED BY: Fariba Ghahremani
		APPROVED BY: Michele Braucht
ITEM:	CONSIDER AND APPROVE A RESOLUTION FOR THE DISTRICT'S FUND BALANCE POLICY	

RECOMMENDATION

1. That the Board of Directors accepts the report as presented.
2. That the Board of Directors approves the annual adoption of the District's Fund Balance Policy.

FINANCE COMMITTEE RECOMMENDATIONS

1. The Finance Committee reviewed the report at the June 2013 meeting.
2. The Finance Committee members, Director Nachtsheim and Director Kiraly, both voted their support and recommended approval of the Finance Committee recommendations by the full Board.

STAFF RECOMMENDATION

The District's Fund Balance Policy fully supports and complies with Governmental Accounting Standards Board (GASB) Statement No. 54. The District's reserve funds are properly classified as required by statement No. 54 and the Fund Balance Policy. Staff recommends that no changes be made to the policy at this time.

BACKGROUND

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, outlines how various fund balances are to be classified and the importance of a formal Fund Balance Policy. By Resolutions #1458-2011 and 1505-2012, the Board of Directors authorized the adoption of a formal fund balance policy and the reclassification of the District's fund balances to comply with GASB No. 54. The purpose of this policy is to improve financial reporting by establishing fund balance classifications that create a hierarchy based on the extent to which the District is bound to observe spending constraints that govern how the District can use amounts reported in the governmental fund balance sheet. The Fund Balance Policy is designed to strengthen the District's oversight of reserve funds and ensure that the District is optimally positioned to respond to fiscal downturns.

DISCUSSION

The fund balance is an approximate measure of liquidity or working capital. It is the residual amount of the current assets less than the current liabilities. The District's financial statements for governmental funds are comprised of five fund balance classifications as recommended by GASB Statement No. 54:

- Nonspendable Funds
- Restricted Funds
- Committed Funds
- Assigned Funds
- Unassigned Funds

- **Nonspendable**—fund balance includes amounts that are not in a spendable form or are required to be maintained intact; for example the principal of an endowment fund.
- **Restricted**—fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers, such as grant providers, constitutionally, 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**—fund balance 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. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraints originally. Amounts constrained by a government using its highest level of decision-making authority.
- **Assigned**—fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegated the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- **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.

The table below provides the District’s various components of fund balances. These designations have been reviewed and endorsed by the District’s independent auditors.

	GASB 54 Classification	Decision Making Authority	Formal Action Required
Cash Flow Management	Committed	Board of Directors	Resolution
Budgetary Deficit (Economic Uncertainty + Property Tax Fluctuation)	Committed	Board of Directors	Resolution
FEMA Deployment	Committed	Board of Directors	Resolution
PERS Rate Stabilization (Future PERS Payments)	Assigned	Director of Admin. Services	Not Required
Internal Service Funds:			
Compensation Absences	Assigned	Director of Admin. Services	Not Required
General Services	Assigned	Director of Admin. Services	Not Required
Information Technology	Assigned	Director of Admin. Services	Not Required
Retirees Medical Benefit-OPEB Cash	Assigned	Director of Admin. Services	Not Required
Workers' Compensation	Assigned	Director of Admin. Services	Not Required
Communications	Committed	Board of Directors	Resolution
Emergency Equipment	Committed	Board of Directors	Resolution
Emergency Medical Equipment	Committed	Board of Directors	Resolution
Rolling Stock - Apparatus	Committed	Board of Directors	Resolution
Rolling Stock	Committed	Board of Directors	Resolution
Stations	Committed	Board of Directors	Resolution
Debt Service Funds:			
Required Reserve for 2009 Bonds	Restricted	Legal	Bond Indenture
Series A	Assigned	Director of Admin. Services	Budget Resolution
Series B	Assigned	Director of Admin. Services	Budget Resolution

Committed for Cash Flow Management-

In response to a Grand Jury Report issued June 3, 2005 related to the recommendation that the Board of Directors and District staff “expand financial reporting to include information about reserves”, the Board of Directors took the following action by Resolution No. 1103, determined that the District will maintain a minimum fund balance of at least 50% of the operating revenues in the General Fund at fiscal year-end.

Starting with fiscal year 2011-12, under Resolution #1505-2012, the District, in order to comply with GASB Statement # 54, classified the Reserve for Cash Flow Management as a Committed fund balance. As such, the funds are to be used for non-routine fiscal emergencies and cannot be utilized without prior formal

approval by the Board of Directors. Also in 2012, under Resolution #1561-2012, the Board directed staff to follow an expenditure-based methodology for determining the Fund balance rather than the revenue-based method that had been used.

As noted in the Staff Report dated August 21, 2012, staff recommends that the balance in the Fund Balance Committed for Cash Flow Management be based on a use of funds approach. Specifically it is recommended that a minimum and a maximum year-end balance be calculated as follows:

Minimum Year-End Balance

- Six months of General Fund Operating Expenditures.
- 10 percent of the Transfer Out from the General Fund.

Maximum Year-End Balance

- Eight months of General Fund Operating Expenditures.
- 10 percent of the Transfer Out from the General Fund.

The actual entry to increase or decrease the fund balance Committed for Cash Flow Management is recorded in conjunction with the annual year-end audit. After covering the current budget year operating and capital costs and meeting General Fund contingency, reserve and designation requirements, any remaining available fund balance will be used for nonrecurring needs. The goal is to maintain this committed fund balance at 50% of annual budgeted appropriations at all times to provide funds to deal with fiscal emergencies, provide for adequate cash flow and to avoid the need for short-term borrowing.

This policy will ensure that an adequate fund balance is maintained in order to:

- a. Provide sufficient cash flow for daily financial needs,
- b. Provide funds for unforeseen expenditures related to emergencies, and
- c. Maintain investment grade bond ratings.

Non-routine fiscal emergencies that represent a budgetary short fall of at least 20% of the overall operating budget will be covered by the fund balance Committed for Cash Flow Management. This Committed fund cannot be used without prior formal approval by the Board of Directors, or a Board Resolution.

FEMA Deployment -

The FEMA technical visit resulted in a recommendation that the District establish a reserve fund of \$3,000,000 for District deployments. The FEMA Deployment Reserve fund would be funded using balances currently held within the three designated funds (Cash Flow Management, Budgetary Deficit, and PERS Rate Stabilization). This Committed fund cannot be used without prior formal approval by the Board of Directors, or a Board Resolution.

Budgetary Deficit-

The Board of Directors is designated to determine and define the amounts of those components of fund balance that are classified as Committed Fund Balance. The Budgetary Deficit Fund balance is used, at the direction of the Board of Directors, to pay for the subsequent year's budget deficit. The fund's balance is equal to the projected excess of budgeted expenditures over budgeted revenues by fund. This fund replaces the two Unassigned funds for Economic Uncertainty and Property Tax Fluctuation. This Committed fund cannot be used without prior formal approval by the Board of Directors or a Board Resolution.

PERS Rate Stabilization -

The FY 2013-14 employer contribution rate budgeted for the Safety employees is 41% and the non-Safety employer rate is 15%. For FY 2013-14 the actual rates for the two groups are 27.877% and 15.685% respectively. The Board's budget philosophy sets aside any excess funds created by budgeting at 41% to offset potential future PERS Safety Rates in excess of 41%. Once the actual employer rates increases above 41% and 15%, the PERS Stabilization Fund Balance will be used to mitigate the effects to the General Fund.

FISCAL IMPACT

There is no direct fiscal impact associated with the Fund Balance Policy and reclassifications of fund balances. The reclassifications provide greater fiscal oversight by limiting the circumstances under which the funds are used and requiring Board authorization, and they ensure compliance with GASB No. 54.

Attachment:

- A. Resolution Adopting the District's Fund Balance Policy for Fiscal Year 2013-14

Resolution No. XXXX-2013

**RESOLUTION OF THE MENLO PARK FIRE
PROTECTION DISTRICT BOARD
ADOPTING THE DISTRICT FUND BALANCE POLICY**

WHEREAS: the Menlo Park Fire Protection District adopted the Governmental Accounting Standards Board (“GASB”) Statement No. 54 after June 28, 2011, by Resolution No. 1458-2011 and 1505-2012, and

WHEREAS, the Menlo Park Fire Protection District desires to classify the various components of unassigned fund balances reported by the Menlo Park Fire Protection District as defined in Governmental Accounting Standards Board Statement No. 54.

WHEREAS, the Finance Committee reviewed the final report at their June 11, 2013 meeting and recommended that the Board of Directors accept the Fund Balance policy as submitted.

WHEREAS, The Reserve for Cash Flow Management will be classified as a committed fund balance that provides for non-routine fiscal emergencies which result in budgetary shortfalls. The Economic Uncertainty and Property Tax Fluctuation fund balances will be replaced by the Budgetary Deficit fund balance, a committed fund balance. The committed fund balances cannot be utilized without prior formal approval by the Board of Directors, or a Board Resolution.

WHEREAS, The Future PERS Payment fund will be an assigned fund balance that provides for PERS rate increases and ensures funding stabilization.

WHEREAS, The FEMA Deployment Reserve fund will be classified as a committed fund and cannot be utilized without prior formal approval by the Board of Directors, or a Board Resolution.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of Menlo Park Fire Protection District that:

1. The Board of Directors adopts the Fund Balance policy as presented below:

	GASB 54 Classification	Decision Making Authority	Formal Action Required
Cash Flow Management	Committed	Board of Directors	Resolution
Budgetary Deficit (Economic Uncertainty + Property Tax Fluctuation)	Committed	Board of Directors	Resolution
FEMA Deployment	Committed	Board of Directors	Resolution
PERS Rate Stabilization (Future PERS Payments)	Assigned	Director of Admin. Services	Not Required
<u>Internal Service Funds:</u>			
Compensation Absences	Assigned	Director of Admin. Services	Not Required
General Services	Assigned	Director of Admin. Services	Not Required
Information Technology	Assigned	Director of Admin. Services	Not Required
Retirees Medical Benefit-OPEB Cash	Assigned	Director of Admin. Services	Not Required
Workers' Compensation	Assigned	Director of Admin. Services	Not Required
Communications	Committed	Board of Directors	Resolution
Emergency Equipment	Committed	Board of Directors	Resolution
Emergency Medical Equipment	Committed	Board of Directors	Resolution
Rolling Stock - Apparatus	Committed	Board of Directors	Resolution
Rolling Stock	Committed	Board of Directors	Resolution
Stations	Committed	Board of Directors	Resolution
<u>Debt Service Funds:</u>			
Required Reserve for 2009 Bonds	Restricted	Legal	Bond Indenture
Series A	Assigned	Director of Admin. Services	Budget Resolution
Series B	Assigned	Director of Admin. Services	Budget Resolution

ATTACHMENT A

I HEREBY CERTIFY that the above and foregoing resolution was passed and adopted by the Board of Directors of the Menlo Park Fire Protection District at its regular meeting held on the 24th day of June 2013 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTESTED: _____ APPROVED: _____
Michelle Radcliffe, Clerk of the Board Stephen Nachtsheim, Board President