

Tracy Rural County Fire Protection District

Board of Directors

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TRACY RURAL COUNTY FIRE PROTECTION DISTRICT RESERVE FUND POLICY

SUBJECT: General Fund Committed Reserve Policy

DATE UPDATED: February 5, 2020

SECTION 1: PURPOSE

The purpose of this policy is for the Tracy Rural County Fire Protection District to formally establish a Contingency/Emergency Reserve fund. The reserves are to mitigate the effect of unanticipated situations such as natural disasters and severe unforeseen events. Reserves also provide the District with stability in times of economic fluctuations, which are non-reoccurring and/or unanticipated. Reserves help provide for a smooth, temporary transition to prevent drastic changes in service levels caused by changes in the District's financial situation. These reserves are presented as Committed Fund balance in the General Fund financial statements and are adopted by the District by resolution. The Authority may authorize the use of these reserves by declaring a Catastrophic and/or Fiscal Emergency with a four-fifths vote of the board.

SECTION 2: POLICY

The District is establishing reserves with the following designation:

CONTINGENCY/EMERGENCY RESERVE:

The Contingency/Emergency Reserve fund helps mitigate the effects of unanticipated situations such as natural disasters and severe unforeseen events.

The Contingency/Emergency Reserve is to be established with a target goal of 20% of the District's adopted annual budget.

The Finance Manager will first evaluate the District's financial condition and make a recommendation to the District as to the need to make contributions to the Contingency/Emergency Reserve or the possible need to access funds from the Contingency/Emergency Reserve. This action is done as part of the annual budget adoption; however, these actions can be completed at any time the District deems necessary.

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The Contingency/Emergency Reserve is to be established with a target goal of 20% of the Districts adopted annual budget for expenditures and recurring transfers out. The Contingency/Emergency Reserve is intended to offset quantifiable revenue/expenditure uncertainty in the multi-year forecast thereby helping to stabilize service levels through economic cycles. The Authority should develop measures that collectively are necessary to assess fiscal sustainability.

These specific measures include:

- Projections of the major individual inflows of resources in dollars and as a percentage of total inflows of resources along with explanations of the known causes of resource fluctuations (including nonrecurring resources).
- Projections of the major individual outflows of resources by program or function in dollars and as a percentage of total outflows of resources along with explanations of the known causes of resource fluctuations.
- Projections of major individual financial obligations and total financial obligations including bonds, pensions, OPEB, and long-term contracts.
- Projections of annual debt service payments (principal and interest).
- Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies.

Stabilization amounts may be authorized as expended only when certain specific circumstances exist.

- 1) Revenue Risks: Revenues falling short of budget projections may cause deficits. Temporary funding may be necessary to respond to reductions in major revenues due to local, regional, and national economic downturns. This may be due to a loss in housing values a loss of key square footage, and/or other major economic factors. This may also be due to state and/or voter initiatives; including changes in legislation, revenue sources that sunset or expire, or other political impacts to revenues that are outside of the control of the District.
 - a) Projected revenue totals in aggregate are anticipated to decrease by 5% (or more) over the prior-year or decrease by 10% (or more) cumulative over three-years; excluding one-time revenue sources.
 - b) Projected revenues from a single revenue source are anticipated to decrease by 10% (or more) over the prior-year or decrease by 15% over three-years; excluding one-time revenue sources.

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- 2) Expenditure Risks: The District may require a source of supplemental funding for uncontrollable costs or contractually obligated costs. Such costs may include maintaining service levels.
- a) Projected expenditure totals (in aggregate) increase by 10% (or more) over the prior-year or increase by 15% over three-years; excluding one-time expenditure requests.
 - i) Examples may include: major individual financial obligations and total financial obligations including bonds or other debt payments, employee contracts, and/or long-term contracts that create a deficit budget of more than one year.
 - b) Projected expenditures from a single source are anticipated to increase by 10% (or more) over the prior-year or increase by 15% over three-years.
 - i) Examples include, but are not limited to: unanticipated increases in CalPERS retirement rates resulting from CalPERS investment performance, or changes in actuarial assumptions CalPERS might impose.
 - ii) In addition, there may be other cost increases that are beyond the District's control (e.g., various fuel and utility charges).
- 3) Structural Deficit Risk: Economic factors may create a structural deficit when revenue growth does not keep pace with expenditure growth. The District may elect to request the use the Reserve funds while a plan is developed to correct the deficit.

Need funding for an unanticipated major repair, purchase, or other maintenance charge creating a deficit of 5% of incoming revenues. The nature of these reserves are intended to stabilize the budget in the short-term to address non-routine or unanticipated changes in economic position. A regular 5-year forecast should be used to identify foreseeable changes in revenues and or expenditures. However, not all changes in economic and fiscal position are known. In those cases, the Finance Manager will first evaluate the District's financial condition and make a recommendation to District Board as the possible need to request funds from the Reserves. This action is done as part of the annual budget adoption; however, these actions can be completed at any time the Board deems necessary.

USE AND REPLENISHMENT OF RESERVES

The Fire Chief must present a report to the District Board requesting the Contingency/Emergency Reserve funds from the parent agencies and the circumstances of the Catastrophic and/or Fiscal Emergency. All uses of the Contingency/Emergency Reserve must be approved by resolution of the District with a four-fifths vote. Any such uses are to be repaid to the respective reserves over a period to be determined by the District Board at the time of usage approval, with a target repayment period of no more than three years.

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YEAR-END EXCESS REVENUE

Year-end excess and/or one-time revenue under the proposed reserves structure would remain in the District’s fund balance. As part of the annual budget adoption process, or at any time the Finance Manager deems necessary, the Finance Manager may recommend whether the excess funds could be allocated to other reserves, or used as one-time funding with consideration given to economic development and/or capital projects.

Approved as to form:

Policy/Procedure approved by:
