

CONEJO RECREATION AND PARK DISTRICT

FINANCIAL RESERVES POLICY

Originally Created: January 9, 2014

Last Reviewed: January 16, 2020

PURPOSE

This policy statement is intended to provide a framework and guidance for the Board of Directors in establishing, maintaining and utilizing the District's financial reserves.

BASIC POLICY AND OBJECTIVES

The Conejo Recreation and Park District reserve policy is an effort to provide clear and well-articulated reasons and guidance for the accumulation and management of the District's reserve funds. Financial reserves are intended to help the District remain financially stable and can serve as a buffer against present and future uncertainties. Financial reserves are a critical ingredient of financial planning and assist the District in achieving its short and long-term plans.

Reserve categories and balances are identified on the District's audited financial statements (Balance Sheet) under "Fund Balance." The adequacy of the target reserve balances will be reviewed annually during the annual audit and may be revised as necessary.

The following District reserve fund categories are hereby established:

Operating Reserve

Purpose: The Operating Reserve is committed for unexpected operating expenses and contingencies.

Use of Funds: The Operating Reserve is set aside for operating expense shortfalls due to unexpected expenses or revenue shortfalls. This fund may also be used for emergency cash-flow needs.

Funding: An ideal target reserve balance is between 3 - 6 months of operating expenses. The Operating Reserve Fund Balance as of January 16, 2020 is \$6.4 million, which represents 3.4 months of expenses.

Claims & Liability Reserve

Purpose: The Claims and Liability Reserve is committed for workers' compensation expenses, claims and liabilities.

Use of Funds: The Claims and Liability Reserve is for property, liability and workers' compensation claims. The District recently purchased excess insurance coverage for workers' compensation claims. The District obtains insurance through a joint powers authority,

“California Association for Park and Recreation Indemnity” (CAPRI), and has a self-insured retention (SIR) of \$100,000 for liability claims and \$350,000 for workers’ compensation claims.

Funding: This reserve balance is \$2.50 million as of March 7, 2019. Claims are currently handled on a pay-as-you-go basis out of the General Fund.

Other Post-Employment Benefits (OPEB)/PT Pension Reserve – Closed

Purpose: The OPEB/PT Pension Reserve was accumulated to cover the projected costs of medical stipends and premiums for qualifying retirees from the District, and the pension plan for part time employees hired prior to January 2013.

Use of Funds: The OPEB Reserve was intended to cover the accrued liability (as determined by an actuarial study conducted every 2 years) of promised post-employment employee benefits, primarily for retired medical expenses.

History: In June, 2018 the Board authorized a transfer of \$4.0 million from this reserve to a section 401(a) pension trust for the stipend and part time pension liabilities. In November, 2018, the Board authorized a transfer of \$4.5 million to a section 115 Post-Employment Benefit Trust for the retiree medical premium liability and CalPERS health care minimum contribution.

The balance of this reserve, \$2.51 million, was transferred to the Pension Stabilization Reserve (discussed below). Accordingly, this reserve now has a balance of \$0 and it is closed effective March 7, 2019.

Equipment Replacement Reserve

Purpose: The Equipment Replacement Reserve is committed for vehicle and information technology and recreation equipment replacement.

Use of Funds: The Equipment Replacement Reserve is designed as a structured vehicle and equipment replacement program to keep necessary vehicles and equipment functional and effective. Equipment and vehicle replacements are made from this fund.

Funding: Annually, the estimated replacement cost is transferred from the General Fund to the Equipment Replacement Fund. As of January 16, 2020, the balance in this reserve is \$4.58 million.

Vested Leave Reserve

Purpose: The Vested Leave Reserve is assigned for accrued leave (vacation/sick) payouts.

Use of Funds: The Vested Leave Fund is to be used to cover the estimated cost of the vested accrued vacation/sick leave of all District employees.

Funding: As of January 16, 2020, the balance in this reserve is \$1.54 million, which fully funds the projected liability.

Pension Stabilization Reserve

Purpose: The Pension Stabilization Reserve is committed for pension and OPEB obligations.

Use of Funds: The Pension Stabilization Reserve is set aside for funding of pension and OPEB costs and the associated unfunded accrued liabilities and may be used to supplement annual budgeted pension/OPEB expenses and for reduction in the unfunded accrued liabilities.

On June 6, 2019 the Board of Directors authorized transfer of \$6 million to an IRS Section 115 Trust at PARS. On January 16, 2020, the Board of Directors authorized transfer of additional \$2.16 million to the trust.

Funding: This reserve balance is \$2.00 million at January 16, 2020.

Capital Facilities Reserve

Purpose: The Capital Facilities Reserve is committed for the costs associated with adding and replacing capital facilities.

Use of Funds: The Capital Facilities Reserve is set aside to provide funding associated with the planning, design, funding options and actual construction of capital facilities such as, but not limited to, buildings, parking lots, lighting, playgrounds, walkways, and irrigation systems.

Funding: This reserve balance is \$510,000 at January 16, 2020.