

South Bay Cities Council of Governments

May 11, 2020

TO: SBCCOG Steering Committee

FROM: Jacki Bacharach, SBCCOG Executive Director

RE: Financial Reserve Policy

Adherence to Strategic Plan:

Goal D: Organizational Stability. Be a high performing organization with a clear path to long-term financial health, staffing continuity and sustained board commitment.

BACKGROUND

The SBCCOG established a reserve policy in September 2015. The goal was set at \$188,710 which was equal to 6% of the FY 2015-16 budget of \$3,210,006. The SBCCOG had no reserve prior to the establishment of the policy. The SBCCOG Board voted to fund the reserve with \$20,000 annually over the next five years through dues increases. The Reserve balance at the end of FY 2019-20 will be \$159,892. There has been no change to the policy since it was established, and it needs to be updated to reflect the current organization's operational needs – which have increased over time. In addition, in the intervening years, there has been discussion that the reserves should have some relationship to the cost of a shutdown of our operations and the need for guidance regarding remaining fund distribution.

ASSUMPTIONS

The goal of the policy is to maintain adequate reserve funds to meet the SBCCOG's financial obligations for known and unknown contingencies as well as permanent operational shutdown. The reserves should not fluctuate each year to provide the SBCCOG budget stability but should be re-evaluated every five years.

ANALYSIS

Based on FY 2019-20, basic operations were conservatively estimated. Basic operations were defined to provide fundamental services such as governance (Board, Steering, Taskforces, Ad Hoc Committees, and Working Groups); financial and human resources responsibilities; monitor/tracking and responding to regional issues; communication with cities, legislators, agencies, general public; financial development activities; and coordination functions. See details below:

Expenditure Category	Fixed Exp Annual
Salaries/Regular	\$543,000
Medical/Deferred Comp	\$50,400
Life Insurance	\$727
Social Security	\$33,938
Medicare	\$7,874
FUTA	\$252

California SUI-ER	\$2,604
Workers' Comp	\$3,826
Employee Reimbursable Expense	\$2,330
Postage	\$1,200
Special Events/General Assembly	\$31,160
Newsletter	\$8,400
Audit Fees	\$6,578
Rent	\$153,336
Equipment Lease	\$11,685
Telephone	\$8,610
IT Services/Maintenance	\$63,129
Software/Hardware	\$8,777
Liability Insurance	\$2,400
Specialty Legal Services	\$20,000
Office Supplies	\$6,299
Meeting/Event Refreshments	\$12,799
Mileage Reimbursement	\$4,649
Grand Total	\$983,973

Staff also assessed the costs for operational shutdown based on FY 2020-21. The estimate is approximately \$400,000. See details below:

Description	Amount	Notes
Lease for office	\$74,250.00	6 months' rent
JB&A contract	\$70,000.00	2 months \$35K/mo
Audit	\$6,500.00	onetime cost
Employee Salary	\$45,000	2 months 2 fulltime equivalent
Employee vacation liability	\$49,000.00	as of 4/15/20
Payroll expenses to closeout	\$116,000.00	2 months \$58K/mo
Lease for copier	\$9,870.00	470/mo (21mo) May'20-Jan'22
Contractors (such as Lantz, Siembab, etc.)	\$35,200.00	2 months
TOTAL	\$405,820.00	

It is difficult to establish an ongoing methodology and policy goal that does not fluctuate annually but is tied to costs associated with operations and shutdown - as these numbers change year to year. As a result, staff is recommending the Reserve goal be based on FY 2020-21 shutdown costs which total \$400,000. This level of reserves would remain in effect for 5 years at which time it would be reevaluated. This amount, if there was no shutdown, would cover approximately 40% of basic operations.

FUNDING THE RESERVE

The SBCCOG's reserve balance will be \$159,892 at end of FY 2019-2020 – approximately 40% of proposed new goal. To help meet this goal, the following could be implemented:

- Budget \$90,000 in FY2020-21 from interest earned in FY 2019-20 - \$53,000 and \$30,000 from general funds

Annually budget \$37,000 over the next four years

Year	Item	Fiscal Year	Amount	Total
	<i>Reserve Balance as of 6/30/20</i>	<i>2019-20</i>	<i>159,892</i>	<i>159,892</i>
1	Contribution	2020-21	90,000	249,892
2	Contribution	2021-22	37,000	286,892
3	Contribution	2022-23	37,000	323,892
4	Contribution	2023-24	37,000	360,892
5	Contribution	2024-25	37,000	397,892

REVISIONS TO FINANCIAL RESERVE POLICY

In addition to setting a new Reserve goal as well as methodology and evaluation timeline, the policy should also include guidance regarding remaining fund distribution in event of organizational shutdown. Staff recommends that in the event of shutdown, any remaining funds, after all obligations are satisfied, be returned to the member agencies based on weighted average dues paid over the prior five years.

All of the above recommendations have been incorporated into a redline draft of the Financial Reserve Policy (attached). In summary, key areas updated include:

- Setting Reserve goal of \$400,000
- Establishing timeline for updating the policy every five years
- Adding guidance for disbursement of remaining funds if the organization were to shutdown

RECOMMENDATION

Board approve:

1) Assumptions which are as follows:

- The goal of the policy is to maintain adequate reserve funds to meet - a permanent operational shutdown.
- The reserves should not fluctuate each year to provide the SBCCOG budget stability.
- The reserve amount should be evaluated every five years.

2) Updated Financial Reserve Policy (attached) which:

- Sets the Reserve balance goal of \$400,000 to meet financial obligations for - a permanent operational shutdown.
- Establishes an evaluation period of five years.

2) Budget for FY 2020-21 \$53,000 from interest earnings and an additional \$37,000 for a total of \$90,000.

3) Annually budget \$37,000 starting FY 2021-22 and ending FY2024-25.

South Bay Cities Council of Governments
Financial Reserves Policy
Established August 2015
Updated May 2020

Background and Purpose

Fiscal stability is an important factor for all publicly funded agencies. Sound financial management includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. Such contingencies include, but are not limited to:

- Economic uncertainties including downturns in the local, state or national economy
- Local emergencies and natural disasters
- Loss of major revenue source
- Unanticipated operating or capital expenditures
- Uninsured losses
- Future capital projects
- Vehicle and equipment replacement
- Capital asset and infrastructure repair and replacement

The establishment of prudent financial reserves is important to ensure the long-term financial health of the South Bay Cities Council of Governments (SBCCOG).

Applicability

This policy will apply to the SBCCOG's General Fund.

Reserve for Financial and Economic Uncertainty

The SBCCOG Reserve goal for financial and economic uncertainty is established based on the FY2020-21 shutdown costs. This goal will remain in effect for five years, until FY 2024-25 at which time it will be evaluated and revised if needed. The Board of Director's approval shall be required before expending any portion of the Reserve. Unforeseen circumstances that may require an expenditure of said funds including but are not limited to, natural disasters, unforeseen deficiencies of a major revenue source, or unexpected operating or capital expenditures.

Once the Reserve goal has been met, if any circumstances noted above occur, causing the Reserve to fall below the Board of Director's policy designated level, all excess, unassigned, fund balance in future years shall first be used to replenish the Reserve until it reaches the policy designated level.

In the event that the SBCCOG must shutdown, any remaining funds, after all obligations are satisfied, will be returned to the member agencies based on weighted average of the dues paid over the prior five years.

Adjustment of Reserve Level

The reserve level will be adjusted every five years in accordance with this policy. The reserve level will be reviewed at the end of each fiscal year in conjunction with the preparation of the SBCCOG's annual financial statements to evaluate compliance with this policy.

Review of the Policy

The Board of Directors shall review the Financial Reserve Policy every five years, and consider such changes, if any, that it deems appropriate. Such review will occur in conjunction with the review and adoption of the annual SBCCOG Budget.