

RICHARDSON BAY REGIONAL AGENCY

STAFF REPORT

For the meeting of April 13, 2023

To: Board of Directors
From: Brad Gross, Executive Director
Subject: Reserves Policy

STAFF RECOMMENDATION:

Approve Resolution 23-05 adopting a Reserves Policy for the Richardson Bay Regional Agency.

BACKGROUND:

It is a common practice among governmental agencies to establish reserves, with policies guiding their purpose and funding levels, to be available for long-term needs as well as unexpected costs, stabilization during economic downturns, and cash flow for ongoing expenditures.

RBRA does not have a reserves policy. Without such a policy or reserves, RBRA is in jeopardy of not fulfilling its mission or needing to turn to member agencies for emergency funding when facing unexpected expenditures, insufficient cash on hand to pay invoices or handle budget deficits, opportunities to match grants, and other situations where RBRA's resources are not adequate to meet pressing needs. A reserves policy also enables RBRA to plan and set aside funds over time for any major project costs.

DISCUSSION:

As a Joint Powers Agency, RBRA has a more focused mission rather than general municipal responsibilities; this focus limits the range of uncertainties that can impact its financial position. However, unanticipated events, issues and opportunities can arise, resulting in stress on the agency's available resources, need for unbudgeted funds, or inability to seize an opportunity to advance the agency's mission. Past circumstances reveal certain types of one-time or intermittent costs or opportunities that can surface, for which prudent planning is warranted. Examples of past unanticipated costs include abatement of marine debris not covered by grant funding, major repairs needed on the

patrol vessel, spikes in fuel costs, contract emergency response during storms and recovery, legal costs related to claims and litigation, and mid-budget year inflation. Also, having local matching funds on hand enables RBRA to leverage its funds for grant opportunities that may arise.

In addition, RBRA has had to rely on one of its member agencies – the County of Marin – to provide cash flow to pay invoices when RBRA lacks sufficient cash on hand. It occurs in the case of unforeseen budget deficits, while its most frequent occurrence relates to grant reimbursement. Specifically, the State of California’s Surrendered and Abandoned Vessel Exchange Program (SAVE) reimburses RBRA for vessel abatement costs, but only after invoices have been paid and typically with up to several months lag time between invoice payment and receipt of reimbursement from the State. As RBRA is successful in receiving other grants that utilize a reimbursement approach, the greater the need will be for RBRA reserves to be on hand to pay invoices before receipt of such receivables.

ANALYSIS:

The draft policy proposes two types of reserves:

Capital Reserves: These are funds for large equipment, capital or other major projects that warrant incremental funding set aside over a period of years rather than a significant cost for any one fiscal year. Examples include major vessel repairs or replacement not expected to be funded by grants, or any planned long-range projects; these may include vessel replacement and habitat projects not funded by grants. Such reserves will enable longer term planning and less budget volatility year to year.

The target funding level will fluctuate depending upon anticipated capital needs. A funding schedule, which will be updated annually, will be prepared for programming allocations to the Capital Reserves.

Contingency Reserves: These are funds to support:

1. Unanticipated and necessary expenditures, such as those related to natural or other disasters or catastrophic events; hazardous, unsafe or unhealthy conditions; litigation or legal obligations; and other unforeseen events.
2. Cash flow to meet expenditure commitments in advance of receiving reimbursement payments or projected revenue that is received irregularly.
3. Stabilizing the agency against budget deficits, unexpected cost increases or revenue losses.
4. Fulfilling the agency’s mission during times of economic stress affecting member agencies’ ability to pay annual member contributions, or affecting other sources of revenue to the agency.
5. Funding for matching grant or other time sensitive opportunities for special projects or programs.

The target funding level is 15% of operating budget revenues, exclusive of grants or other one-time or restricted funding. At the present time, these operating budget revenues are only member dues and interest earnings on investments. Factors in establishing the target funding level include cash flow needs, the estimated range of unanticipated expenditure costs, levels in reserve policies among member agencies and other local governments, and general guidance for minimum or best practice standards.

Expenditure of reserves would require the authorization of the Board of Directors through the annual budget adoption or a mid-year budget adjustment by resolution.

FISCAL IMPACT:

An ideal means of funding reserves is unanticipated revenue or cost savings that result in fiscal year-end surplus of revenues over expenditures. Given the limited range of RBRA's expenditures, there are few line items in which savings can occur. Likewise on the revenue side, the non-restricted revenue currently is only fixed member dues and modest interest earnings.

The target level for the Capital Reserves will be developed by staff after review of equipment and project needs in the foreseeable future.

For the Contingency Reserves, using the applicable operating budget revenue base in the fiscal year adopted 2022-23 of \$1,043,098 (member dues + interest earnings), the 15% target funding level would be \$156,464.70.

To reach the targeted reserves, RBRA may need to program funds for reserves into its annual operating budget rather than relying on year-end excess of revenues over expenditures. Such programming would be considered pursuant to a Reserves Funding Schedule.

NEXT STEPS:

Upon adoption of the Reserves Policy, staff would prepare a draft Reserves Funding Schedule for both the Capital Reserves and the Contingency Reserves to achieve the targeted reserve amounts. This schedule will consider RBRA's current financial position - including fund balance, as well as budget priorities and threshold of member dues.

Attachments:

- Attachment 1: Reserves Policy DRAFT
- Attachment 2: Resolution 23-05 DRAFT