

South Bay Cities Council of Governments

September 14, 2015

TO: Steering Committee

FROM: Ad Hoc Finance Committee

RE: Financial Reserve Policy and Cash Flow Procedures

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.

The existing SBCCOG reserve policy needs to be updated to reflect the new budgeting format and procedures. Therefore, the Ad Hoc Finance Committee met on August 31 to discuss the issue and prepare a recommendation. Those present at the meeting were Chair Jim Gazeley, Immediate Past Chair Jim Goodhart, Steering Committee member Britt Huff, PVE City Manager Tony Dahlerbruch, Lomita Interim City Manager Steve Burrell, Lomita Administrative Services Director and SBCCOG Treasurer Patsy Chavez, and Suzanne Charles and Jacki Bacharach from the SBCCOG.

Reserve Policy

Consensus was reached that the reserve policy should have a relationship to what the SBCCOG's obligations would be if we had to shut down our operations. A list of estimated unavoidable liabilities was compiled which is as follows:

Lease for the office	\$ 70,000 for 6 months' rent (to look for a sub-tenant)
JB&A contract	\$ 52,710 for 1 ½ months (1 month is required in the contract but Committee felt 1 ½ months was more prudent)
Audit	\$ 6,000
Employee vacation liability	\$ 35,000
Payroll expenses to closeout	\$ 20,000
<u>Lease for copier</u>	<u>\$ 5,000</u>
 TOTAL	 \$188,710 which is approximately 6% of the general operating budget

While the Ad Hoc Finance Committee believes that a 6% reserve is prudent and should be adopted as a reserve policy, the SBCCOG currently only has about 2% of this reserve in a separate investment account. Therefore, the Ad Hoc Finance Committee is recommending that we maintain a 2% reserve for the current fiscal year with the plan to grow it by 2% for the next

two years until we reach the 6% that is desired. It should be noted that our auditor reviewed the reserves and concurred with the recommendation to use the 2% this year and growing it to 6% over time.

The mid-year budget will reflect the dedicated reserves and an unrestricted balance.

Cash Flow Policy

The unrestricted fund balance will be used for cash flow. There should be a process established for going into the reserves, if required, for cash flow purposes.

It was agreed that instead of having a specific cash flow policy, the SBCCOG will create a cash flow procedure which will include approving invoices for payment, but not producing any checks until receivables have been deposited to SBCCOG's cash account. Also, on the invoice summary to the Steering Committee, the cash balance will be indicated starting this month. And finally, these cash flow procedures will be incorporated into an update of the SBCCOG's Financial Policies & Procedures which will be brought back to the Steering Committee in October.

RECOMMENDATION

Approve the Ad Hoc Committee's recommendations which are:

- Adopt the attached Financial Reserve Policy
- The reserve policy should have a relationship to what the SBCCOG's obligations would be if we had to shut down our operations which is approximately 6% of the budget.
- The SBCCOG should maintain a 2% reserve for the current fiscal year with the plan to grow it by 2% for the next two years until we reach the 6% that is desired. In February when we consider the dues and annual budget for the coming year, raising the reserves to at least 4% next year should be included.
- A process should be established for cash flow procedures.
- The SBCCOG's Financial Policies & Procedures should be updated and brought back to the Steering Committee in October

South Bay Cities Council of Governments
Financial Reserves Policy
September 2015

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 will maintain a Reserve for Financial and Economic Uncertainty equal to no less than 2% of annual General Fund operating expenditures and transfers. Currently these funds, in the amount of \$60,080, are invested in the State of California Local Agency Investment Fund. The Board of Director's approval shall be required before expending any portion of the Reserve for Financial and Economic Uncertainty. Unforeseen circumstances that may require an expenditure of such amounts include, but are not limited to natural disasters, unforeseen deficiencies of a major revenue source, or unexpected operating or capital expenditures.

If any circumstances noted above occur, and the Reserve for Financial and Economic Uncertainty falls below the Board of Directors policy designated level of 2% of General fund operating expenditures and transfers, all excess Unassigned fund balance in future years shall first be used to replenish the Reserve for Financial and Economic Uncertainty until it reaches the policy designated level of 2% of General Fund operating

expenditures and transfers. The Board of Directors shall replenish the Reserve for Financial and Economic Uncertainty prior to expending Unassigned fund balance for other purposes. The goal of the SBCCOG is to have a 6% Reserve for Financial and Economic Uncertainty and to achieve that with annual 2% increases in the fund balance until it is reached.

Annual Adjustment of Reserve Level

The reserve level will be adjusted annually in accordance with this policy. The reserve level will be set at the end of each fiscal year in conjunction with the preparation of the SBCCOG's annual financial statements.

Annual Review of the Policy

The Board of Directors shall annually review the Financial Reserve Policy, 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.