



MONTEREY BAY AIR RESOURCES DISTRICT GENERAL FUND RESERVE POLICY

Purpose of Reserve Policy

Adequate designations of reserves are critical to the successful and stable, short and long-term operation of the Monterey Bay Air Resources District.

Adequate reserves ensure that the District will at all times have sufficient funding available to meet its operating and capital needs, as well as any unfunded mandates. The ability of the Monterey Bay Air Resources District to maintain reserve funds is a critical factor in providing reliable service, mitigating fee increases, and ensuring overall financial strength.

Annually during the budget adoption process, the Monterey Bay Air Resources District Board approves the appropriate levels and uses for the General Fund reserve funds based upon the needs of the District. If unanticipated funds are needed during the fiscal year, staff will first seek approval from the Board of Directors before reserve funds are appropriated.

Following are the type and uses of the District's General Fund reserves:

Reserve for Economic Uncertainties

Funds reserved under this category shall be used to mitigate periodic annual revenue shortfalls (actual revenues less than projected revenues) due to slowdowns in general economic conditions as well as reductions in revenues caused by State and Federal governments' actions. Using funds from this reserve avoids the need for service-level reductions within the fiscal year. This reserve is available only as a temporary revenue source to be used while an orderly financial plan for cost-reduction or revenue enhancement is developed.

The minimum reserve level for the Reserve for Economic Uncertainties is 25% of the current year's Operating Budget expenditures. Any reserve funds expended within this category that results in year-end reserves below the established policy level shall be restored in the subsequent budget year. However, if the reserve level falls to below 20% of the Operating Budget, the Board of Directors may restore funds over a multi-year period.

Building & Facilities Reserve

The purpose of this fund is to set aside monies for making improvements and major repairs to the District's building at 24580 Silver Cloud Court in Monterey and to other District facilities, including air monitoring stations.

This reserve fund is drawn down as planned building and facilities expenditures are made. At the end of each fiscal year, any unspent budgeted monies from this reserve will be reallocated to this fund to be used in future budgets. Annual replenishment is reported to the Board of Directors as part of preliminary and final budget approvals.

Other Post Employment Benefits (OPEB) Reserve

The District participates in the CalPERS 2% @ 55 and the 2% @ 62 Public Agency Miscellaneous Employees' pension plans. The District provides limited post employment medical benefits to retirees who meet plan eligibility requirements. The District contributes the minimum amount provided under Government Code Section 22825 of the Public Employees Medical and Hospital Care Act (PEMCHA). Retirees must contribute any premium amounts in excess of the District's contribution.

The OPEB Reserve is intended for prefunding the District's liability related to the retiree medical benefits. The reserve is used to fund a trust account for setting aside funds to pay for current and/or future retiree medical benefits. Deposits to the trust are approved by the Board of Directors during the annual budget process. The reserve amount can be adjusted periodically based on recent actuarial valuations of the District's OPEB liability or at the Board of Director's discretion.

Pension Obligation Prefunding Reserve

The Pension Obligation Prefunding Reserve is intended for prefunding the District's CalPERS pension liability. The District's pension liability is based on a proportionate share of the CalPERS Miscellaneous Employees' pension plan net pension liability per actuarial valuations provided by CalPERS on an annual basis.

The reserve is used to fund a trust account for setting aside funds to pay for current and/or future pension obligations. Deposits to the trust are approved by the Board of Directors during the annual budget process. The reserve amount can be adjusted periodically based on updated actuarial valuations or at the Board of Director's discretion.

Unassigned Reserves

Unassigned reserves represent a remainder balance of cash that is not yet designated for some use by the Board of Directors. As recommended by the Government Finance Officers Association, the District maintains an unrestricted General Fund balance of no less than two months of regular operating revenues or regular operating expenditures. Two months equates roughly to 17% of the Operating Budget.

Summary

The reserve fund policy states that designated General Fund reserves will be maintained to allow for funding of the District's operating and capital needs, as well as funding unfunded liabilities and for unforeseen events. Reserves will be established, replenished, and used only in a manner which allows the District to fund costs consistent with the approved annual budget and other Board adopted actions, and in a manner that mitigates fee increases. The District's General Fund Reserve Policy shall be periodically reviewed and adjusted to meet the needs of the District.