



MOUNTAINS RECREATION & CONSERVATION AUTHORITY

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Financial Reserves Policy

Policy History

Date	Action
2/3/21	Initial Adoption
	Revision

Purpose

This policy statement is intended to provide a framework and guidance for the Governing Board in establishing, maintaining and utilizing the Authority’s financial reserves.

Basic Policy and Objectives

The Financial Reserves Policy is an effort to provide clear and well-articulated reasons and guidance for the accumulation and management of the Authority’s reserve funds. Financial reserves are intended to help the Authority remain financially stable and manage risk, and can serve as a buffer against present and future uncertainties. Reserves promote long-term financial sustainability and help ensure the agency’s ability to carry out its mission. Financial reserves are a critical ingredient of responsible financial planning and assist MRCA in achieving its short and long-term plans.

Procedures

Reserve categories and balances are to be identified on the Authority’s audited financial statements (Balance Sheet) under “Fund Balance.” Reserve funds may only be used with the direct consent of the Governing Board. Reserves are not allocated in the annual budget.

The adequacy of the target reserve balances will be reviewed annually during the annual audit and may be revised as necessary. The Governing Board will determine the allocation of any excess revenues upon the reconciliation of a fiscal year, and may elect to replenish and/or grow certain reserve funds.

Reserve Fund Categories

The following reserve fund categories are hereby established:

Operating Reserve

Objective	The Operating Reserve is to provide for unexpected operating expenses and contingencies, and to provide an internal source of funds during short-term deficits due to reimbursement delays. An ideal operating reserve balance would cover between 3 - 6 months of typical operating expenses.
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Authorized Uses	The Operating Reserve is set aside for operating expense shortfalls due to unexpected expenses or revenue shortfalls that cannot be absorbed by annual budget contingencies. This fund may also be used for emergency cash-flow needs.
Analysis	In 2020 the Authority's expenses averaged approximately \$2 million per month. Short-term deficits due to reimbursement delays are financed through \$8 million available in BBVA Lines of Credit, although the use of those lines have limitations and restrictions that preclude their use in some situations.
Target Balance Range	The target reserve balance is \$6 million - \$12 million. A fully funded reserve could allow for elimination of the Lines of Credit and their associated interest expenses (\$50,000-\$100,000 annually).

Pension Stabilization Reserve

Objective	The Pension Stabilization Reserve is to provide for expenses related to MRCA's pension obligations. An ideal Pension Stabilization Reserve balance would cover 100% of such obligations.
Authorized Uses	The Pension Stabilization Reserve is set aside to fund pension costs and associated unfunded accrued liabilities. It may be used to supplement annual budgeted pension expenses and to reduce unfunded accrued liabilities. Funds may be transferred to a PARS Trust.
Analysis	MRCA's pension liability is determined annually in accordance with the CALPERS actuarially determined evaluations. Transfers from the reserve to the PARS trust would be subject to Governing Board approval.
Target Balance Range	The target reserve balance is \$ 500,000 - \$ 1 million. The goal amount would be to ensure the MRCA's Pension Liability funded ratio is at 100%.

Claims and Liability Reserve

Objective	The Claims and Liability Reserve is to provide for expenses, including claims, related to MRCA property, general liability, workers' compensation and other related expenses. An ideal
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claims and liability reserve balance would cover the deductible for two major claims.

Authorized Uses The Claims and Liability Reserve is set aside for unbudgeted expenses and claims. This reserve is designed to be available for unbudgeted increased premiums as well as claims for under-insured properties and related legal expenses.

Analysis Claims are currently handled on a pay-as-you-go basis out of the General Fund. The current deductible for property insurance at King Gillette Ranch is \$250,000. Insurance premiums from properties like this have dramatically increased since the Woolsey Fire. In some cases properties are underinsured as no entity is willing to provide insurance.

Target Balance Range The target reserve balance is \$250,000 - \$500,000.

Equipment Replacement Reserve

Objective The Equipment Replacement Reserve to provide for the planned replacement and upgrade of MRCA's equipment including vehicles, information technology, restoration, fire, construction and other equipment. An ideal Equipment Replacement Reserve balance would cover 5 years of such costs.

Authorized Uses 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.

Analysis Equipment purchases and large equipment maintenance expenses are currently on handled on a pay-as-you-go basis when specific funding sources are available, or intermittently when mission-critical costs can be absorbed by the General Fund. A recent estimate for annual fleet management alone was approximately \$500,000. Full replacement of MRCA's day-to-day vehicle fleet could cost as much as \$5,000,000. Newer equipment and vehicles typically have lower annual maintenance costs than aged units.

Target Balance Range The target reserve balance is \$1 million - \$2.5 million. A fully funded reserve could allow for a five-year cycle of fleet replacement.

Fire Prevention and Vegetation Management Reserve

Objective	The Fire Prevention and Vegetation Management Reserve is to provide for expenses related to fire prevention obligations and unexpected expenses or revenue shortfalls. An ideal Fire Prevention and Vegetation Management Reserve balance would cover 2 years of vegetation management expenses.
Authorized Uses	The Fire Prevention and Vegetation Management Reserve fund is set aside for funding vegetation management expenses including equipment and public safety related fire prevention projects. The reserve may supplement other funding sources for these purposes.
Analysis	Currently, MRCA's annual vegetation management expenses are approximately \$2 Million, plus additional costs for building hardening and other safety improvements. These activities are currently funded with one-time funds such as competitive grants. The costs for vegetation management and fire prevention activities are expected to continue increasing in the future for various reasons including more fire risks due to climate change, demand by the public for more prevention activities, increased obligations due to land acquisition, limitations on use of various chemicals, and ever-increasing wage and benefit costs.
Target Balance Range	The target reserve balance is \$2 million - \$5 million. A fully funded reserve could allow for up to 2 years of vegetation management activities.

Compensated Absences Reserve

Objective	The Compensated Absences Reserve is to provide for expenses related to accrued leave payments to employees, such as vacation and sick leave. An ideal Compensated Absences Reserve balance would cover 100% of all vested accrued leave.
Authorized Uses	The Compensated Absences Fund is to be used for the payment of accrued vacation and sick leave to employees. Use in special circumstances may be approved by the Governing Board, such as additional leave related to emergency public health or safety issues, such as COVID, or other types of paid leave such as Informal Time Off (ITO).

Analysis Currently, the estimated cost of all accrued leave is approximately \$1.3 Million. The amount of vested leave balance is approximately \$600,000. Vacation leave is vested, sick leave is not. The amount of this liability has steadily decreased in recent years due to changes in leave policies. The annual budget accounts for paid leave payments based on prior year trends, as adjusted for current employee numbers.

Target Balance Range The target reserve balance is \$300,000 - \$600,000.

Capital Asset Improvement Reserve

Objective The Capital Asset Improvement Reserve is to provide for expenses related to adding, replacing, and improving MRCA capital assets and facilities. An ideal Capital Asset Improvement Reserve balance would cover 5 years of a 20-year strategic implementation plan.

Authorized Uses The Capital Asset Improvement Reserve is set aside to provide funding for the construction and improvement of capital facilities including but not limited to: buildings, parking lots, lighting, walkways, and irrigation systems, including related costs for planning, designing, and managing the improvement projects.

Analysis The Authority's capital assets largely rely on one-time funds for necessary improvements. As these assets are also key drivers of operating revenue for the agency, improvements that contribute to the long-term viability of the assets should be prioritized. An assessment of necessary improvements, a strategic plan and schedule would be developed and used to determine the use of these funds when other sources were not available. It is estimated that expenditures of approximately \$500,000 per fiscal year could achieve notable improvements in reliability and maintenance savings.

Target Balance Range The target reserve balance is \$1 million - \$2,500,000.

Litigation Reserve

Objective	The Litigation Reserve is to provide for the costs related to litigation and legal services around MRCA's mission and activities. An ideal Litigation Reserve balance would cover 2 years of such costs.
Authorized Uses	The Litigation Reserve is set aside to provide funding for litigation expenses such as outside counsel or other professional/specialist services.
Analysis	In recent years, expenses related to professional/specialist services average \$830,000 per year. Though both 2019 and 2020 saw over \$1 million in expenses.
Target Balance Range	The target reserve balance is \$1 million - \$2 million.

Capital Projects Matching Reserve

Objective	The Capital Projects Matching Reserve is to provide required matching funds for capital project grant applications.
Authorized Uses	The Capital Projects Matching Reserve is set aside to provide funding matches for capital projects. Funds may be used in accordance with the assigned project's scope.
Analysis	The Authority seeks funding sources for capital projects from multiple entities. Increasingly, grantors require matching funds to be secured for projects in order to qualify for funding. Generally, large projects range between \$3 million - \$5 million, with the Authority expected to provide at least half of the funding.
Target Balance Range	The target reserve balance is \$1.5 million - \$3 million.

Contact Information

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