



Sacramento Metropolitan Fire District

10545 Armstrong Ave., Suite 200 • Mather, California 95655 • Phone (916) 859-4305 • Fax (916) 859-3715

FINANCE AND AUDIT COMMITTEE – REGULAR MEETING THURSDAY, MARCH 25, 2021 – 5:30 PM

Held Remotely Via Zoom
Phone: (669) 900-6833
Webinar ID: 995 7084 9732 #
Password: 426 052 104 #

COMMITTEE MEMBERS

Director Randy Orzalli - Chair
Director Ted Wood – Vice Chair
Director Gay Jones
Director Cindy Saylor - Alternate

CALL TO ORDER

PUBLIC OPPORTUNITY TO DISCUSS MATTERS OF PUBLIC INTEREST WITHIN COMMITTEE'S SCOPE INCLUDING ITEMS ON OR NOT ON AGENDA

CONSENT ITEMS

*The Consent Agenda is acted upon with one motion unless a committee member requests
separate discussion and/or action.*

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- | | |
|---|----------|
| 1. Action Summary Minutes | 2 |
| Recommendation: Approve the Action Summary Minutes for meeting of February 25, 2021. | |

ACTION ITEMS

- | | |
|---|----------|
| 1. Reserve Funding Policy (CFO Amanda Thomas) | 3 |
| Recommendation: Consider the revised policy and refer to the Policy Committee for consideration. | |

NEXT MEETING DATE: April 22, 2021

ANTICIPATED ACTION AND PRESENTATION ITEMS: TBD

ADJOURNMENT

Posted on March 22, 2021

Melissa Penilla, Clerk of the Board

* Under Separate Cover

** No written report



TODD HARMS
Fire Chief

Sacramento Metropolitan Fire District

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**ACTION SUMMARY MINUTES
FINANCE AND AUDIT COMMITTEE – REGULAR MEETING
THURSDAY, FEBRUARY 25, 2021 – 5:00 PM
Held Remotely Via Zoom**

COMMITTEE MEMBERS
Director Randy Orzalli - Chair
Director Ted Wood – Vice Chair
Director Gay Jones
Director Cindy Saylor - Alternate

CALL TO ORDER

The meeting was called to order at 5:01 PM by Director Orzalli. Committee members present: Jones, Orzalli, and Wood. Committee members absent: None. Staff present: Chief Harms and Clerk Penilla.

PUBLIC COMMENT: None

CONSENT AGENDA

Action: Moved by Jones, seconded by Wood, and carried unanimously by members present to adopt the Consent Calendar as follows:

- Action Summary Minutes**
Recommendation: Approve the Action Summary Minutes for meeting of January 28, 2021.
Action: Approved the Action Summary Minutes.
- Quarterly Investment Report from December 2020**
Recommendation: Receive and file the investment report for the 2nd quarter of Fiscal Year 2020-21.
Action: Received and filed the investment report for the 2nd quarter.
- Calendar Year 2021 Investment Policy**
Recommendation: Receive and adopt the 2021 Annual Investment Policy for the Sacramento County Pooled Investment Fund.
Action: Adopted the 2021 Annual Investment Policy.

PRESENTATION ITEMS

- Financial Report through December 31, 2020 (CFO Amanda Thomas)**
Recommendation: Receive and file financial report. No action required.
Action: No action taken.
- Mid-Year Budget FY 2020/2021 (CFO Amanda Thomas)**
Recommendation: Receive presentation. No action required.
Action: No action taken.

ADJOURNMENT

The meeting adjourned at 5:31 PM.

Director Orzalli, Chair

Melissa Penilla, Board Clerk
Finance and Audit Committee February 25, 2021 Action Summary Minutes



TODD HARMS
Fire Chief

Sacramento Metropolitan Fire District

10545 Armstrong Ave., Suite 200 · Mather, CA 95655 · Phone (916) 859-4300 · Fax (916) 859-3702

DATE: March 25, 2021
TO: Finance & Audit Committee
SUBJECT: Reserve Funding Policy

TOPIC

Review and consider revisions to the Reserve Funding Policy.

DISCUSSION

The District's Reserve Funding Policy (Policy) was adopted in 2013 and establishes target minimum and maximum reserve levels for different categories of reserves, including General Fund Operating Reserves.

A review of the Policy and current reserve balances presented to the Finance & Audit Committee on January 28, 2021 indicated that the minimum and maximum target levels remain appropriate and the District is largely in compliance with the established reserve targets. The review also identified that updates to the Policy are needed in order to reflect changes in other policies and practices that have occurred since the Policy was adopted in 2013.

The attached revised Policy incorporates the necessary updates including:

- Eliminating the Compensated Absence reserve, which has never been established as a reserve but rather is funded in the annual budget
- Eliminating the Deferred Compensation Plan reserve since the Board subsequently approved transferring this reserve to be held by the Plan
- Updating language for the post-retirement medical trust fund to reflect changes in actuarial practices
- Updating the Early Debt Extinguishment Reserve to reflect revisions to the Pension Funding Bonds Early Payoff Policy
- Adding references to the Development Impact Fees Fund and Intergovernmental Transfer Fund

RECOMMENDATION

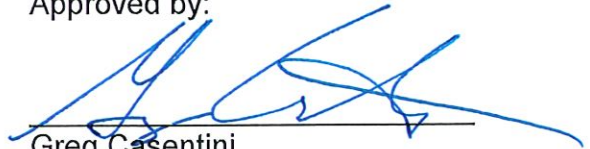
Staff recommends consideration of the revised policy by the Finance & Audit Committee and referral to the Policy Committee for its consideration.

Submitted by:



Amanda Thomas
Chief Financial Officer

Approved by:



Greg Casentini
Deputy Chief, Administration

- ~~5.3.~~ **Bond Indenture:** A bond indenture is a legal document issued to lenders and describes key terms such as the interest rate, maturity date, convertibility, pledge, promises, representations, covenants, and other terms of the bond offering.
- ~~6.4.~~ **Bondholders:** Investors who lend money to the bond issuer in return for interest and future repayment.
- ~~7.5.~~ **California Employer's Retiree Benefit Trust (CERBT):** CERBT is Metro Fire's trust fund managed by the California Public Employees' Retirement System (CalPERS).
- a. CalPERS maintains a separate trust fund to benefit Metro Fire retirees. CERBT is accumulating and investing funds for post-retirement medical premiums.
 - b. Amounts cannot be removed from CERBT except to pay retiree premiums.
 - c. CERBT is a separate legal entity. As such, CERBT assets are only disclosed in Metro Fire's audited financial statements, and not included in Metro Fire's Governmental Fund balance sheet assets.
7. **Capital Facilities Fund:** A separate accounting for budgeting and reporting purposes used to track ~~Development Fee collection and spending expenditures for capital outlay not associated with new development. The reserves in this fund are used for new capital needed to serve new development.~~
8. **Capital Improvement Program (CIP):** A multi-year plan that identifies needed capital projects and equipment, provides a planning schedule, and financing options.
9. **CIP Reserves:** Reserves accumulated for the purchase of new infrastructure. Funding is from Development Impact Fees and General Fund transfers.
10. **Capital Replacement Reserves:** Reserves accumulated to fund replacement of existing infrastructure when the asset's useful life has ended.
11. **Committed Fund Balance:** A classification of Fund Balance. Committed Fund Balance amounts can only be used for specific purposes as determined by a formal action of the Metro Fire Board of Directors.
- ~~12. **Compensated Absence Reserves:** Reserves accumulated to satisfy obligations due to employees to settle compensated absence amounts upon employee retirement, termination, or other times when employees are allowed to cash out a portion of their compensated absence balances.~~
- ~~13. **Debt Service Reserves:** Money generally from bond proceeds that is set aside for additional security to Bondholders. This is a Restricted Reserve and documentation of the requirement is in the Bond Indenture.~~
- ~~14.12.~~

- ~~15. **Deferred Compensation Plan:** A retirement plan offered by Metro Fire under Internal Revenue Code 457. Metro Fire Employees voluntarily defer their compensation up to certain limits on a tax-deferred basis.~~
- ~~16. **Deferred Compensation Plan Committee (Committee):** A Committee that oversees the Deferred Compensation Plan. This Committee of employees and retirees is appointed by the Board of Directors.~~
13. **Development Impact Fee:** A fee charged by Metro Fire to mitigate the costs associated with property acquisitions, site preparation, design, construction, and equipping of fire stations within Metro Fire's service areas. This fee serves to protect the health and safety of the general public and preserve lives and property, and is authorized by California Government Code Section 66000 et seq.
- 17.14. **Development Impact Fees Fund:** A separate accounting for budgeting and reporting purposes used to track Development Impact Fee collection and spending. The reserves in this fund are used for new capital needed to serve new development.
- ~~18.15. **Dry Period Funding:**~~ Dry period funding is a borrowing from the County of Sacramento. Dry Period Funding is automatically activated should Metro Fire have a negative cash position from July through the last Monday in April. The County Treasurer will cover Metro Fire's negative cash up to 85% of anticipated tax collections. Metro Fire must have positive cash balances from the last Monday in April until fiscal year end.
- ~~19.16. **Fund Balance:**~~ Governmental Fund balance sheet assets less liabilities, equals Fund Balance. Accountants distinguish up to five separate categories of Fund Balance, based on the extent to which the government is bound to honor specific purposes spending constraints.
- a. These five categories are: Non-spendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance (all separately defined herein).
- 20.17. **Funding Policy Contribution (FPC):** A level of funding that if paid on an ongoing basis is projected to cover post-retirement medical explicit subsidies for current employees and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.
- ~~21. **Early Debt Extinguishment Reserves:**~~ Reserves accumulated to retire the Pension Obligation Bonds at the earliest dates allowed under the Bond Indenture.
- ~~22.18.~~
- ~~23. **Fiduciary Reserves:**~~ ~~Amounts set aside by the Committee on behalf of the Deferred Compensation Plan participants. The amounts pay the administrative expenses of the Committee.~~
- 24.19. **General Fund:** For budgeting and reporting purposes, Metro Fire records all transactions in the General Fund that are not specifically accounted for in any other fund. The other funds include the Capital Facilities Fund, the Leased Properties

Fund, the Grant Fund, ~~and the Simulator Fund~~the Development Impact Fees Fund, and the Intergovernmental Transfer (IGT) Fund.

- ~~25-20.~~ **General Fund Operating Reserves:** These are Unassigned Reserves accounted for in the General Fund that are used for unexpected costs, revenue shortfalls, and smoothing cash flow prior to the receipt of expected revenue. In particular, cash flow is needed prior to the receipt of property taxes in January, May and June.
- ~~26-21.~~ **Governmental Fund Financial Statements:** Governmental Fund Financial Statements report using the modified accrual basis of accounting and generally reports financial resources collected and used within 90 days of fiscal year end. Capital assets are expenditures when purchased.
- ~~27-22.~~ **Government-Wide Financial Statements:** Government-Wide Financial Statements are reported using the accrual basis of accounting. The Statement of Net Assets in the Government-Wide Financial Statements include all capital assets, and the Statement of Activities shows annual depreciation of the capital assets
- ~~23.~~ **Grant Fund:** For budgeting and reporting purposes, Metro Fire records all grant related revenue and expenditures in the Grant Fund. ~~On occasion large grants may be assigned their own fund. Currently a federal grant is being accounted for in the Simulator Fund.~~
- ~~28-24.~~ **Intergovernmental Transfer (IGT) Fund:** For budgeting purposes, Metro Fire records all transactions associated with Medi-Cal intergovernmental transfers in the IGT Fund.
- ~~29-25.~~ **Labor Agreements:** All agreements with Local 522, along with resolutions and employment agreements passed by the Board of Directors covering ~~exempt~~ unrepresented employees.
- ~~26.~~ **Leased Properties Fund:** For budgeting purposes, Metro Fire records all transactions for surplus real property in the Leased Properties Fund. In addition, real property temporarily not in use is also recorded in this fund. Rent from these properties offsets non-operating expenditures such as utilities and special assessments.
- ~~30-27.~~ **Net Budgeted General Fund Operating Expenditures:** Current year budgeted operating expenditures in the General Fund, adjusted to exclude one-time expenditures and include transfers out for ongoing expenditures.
- ~~31-28.~~ **Non-spendable Fund Balance:** A classification of Fund Balance. Non-spendable Fund Balance amounts cannot be spent because they are not in spendable form or cannot be spent because legally or contractually are required to be maintained intact.
- a. Examples of Non-Spendable Fund Balance are inventory and prepaid items.

~~32. **Operating Reserves: General Fund reserves** that are used for unexpected costs, revenue shortfalls, and smoothing cash flow prior to the receipt of expected revenue. In particular, cash flow is needed prior to the receipt of property taxes in January, May and June.~~

33-29. **Pension Obligation Bonds:** Bonds issued by Metro Fire in 2004 to pay down unfunded pension liabilities with CalPERS and the Sacramento County Employee Retirement System (SCERS).

34-30. **Reserve Analysis:** Comparing actual reserve levels to target reserve levels.

35-31. **Restricted Fund Balance:** A classification of Fund Balance. Restricted Fund Balance amounts can only be spent for specific purposes, which are stipulated outside the control of Metro Fire's Board of Directors by State law, granting entities, legal agreements, or enabling legislation, etc.

- a. Restricted Fund Balance examples are grant funds, debt proceeds, and Development Impacter Fees, and special assessment fees.

36-32. **Self-Insurance Reserves:** Reserves accumulated for the payment of workers' compensation claims.

~~37. **Simulator Fund:** For budgeting purposes, all transactions related to the Homeland Security Grant Program CalEMA award for the development of disaster simulation.~~

38-33. **Unassigned Fund Balance:** A classification of Fund Balance. Any Fund Balance amounts not classified as Restricted Fund Balance, Committed Fund Balance, and Assigned Fund Balance.

Policy

1. Unassigned Fund Balance
 - a. General Fund Operating Reserves will be used for unexpected costs or revenue shortfalls.
 - I. The minimum amount of General Fund Operating Reserves shall be 1.8 months of Net Budgeted General Fund Operating Expenditures (15%). Metro Fire is able to operate with this minimum amount due to a County of Sacramento "Dry Period Funding" credit line used in anticipation of property tax receipts.
 - II. The maximum amount of General Fund Operating Reserves shall be 6 months of Net Budgeted General Fund Operating Expenditures (50%) as reflected in the most current Metro Fire budget. This amount would allow Metro Fire the cash flow needed to operate without the County of Sacramento "Dry Period Funding" credit line.
2. Committed Fund Balance

- a. Metro Fire is self-insured for most workers' compensation claims, and maintains excess coverage for extraordinary claims of \$3 million or more. This coverage amount may be adjusted each budget cycle.
 - I. To allow for future payment of workers' compensation claims, the minimum General Fund Self-insurance Reserves should equal the most recent short-term liability disclosed in Metro Fire's Audited Financial Statements.
 - II. The maximum General Fund Self-insurance Reserve should equal the most recent total liability of unpaid claims and expenses as reported in the most recent Audited Financial Statements.
- ~~a. Metro Fire has obligations to its employees for certain earned but unused compensated absences for sickness, vacation, paid time off, and time off in lieu of overtime pay. Reserves should be accumulated to settle compensated absence amounts upon employee retirement, termination or other times when employees are allowed to cash out a portion of their compensated absence balances.~~
 - ~~I. The minimum General Fund Compensated Absence Reserves should be the amount expected to be paid in the next 12 months.~~
 - ~~II. The maximum General Fund Compensated Absence Reserves should be the total obligation owed to all employees.~~
- e.b. Reserves should be accumulated to replace existing infrastructure upon the end of the assets' useful life. Capital Replacement Reserves should be in keeping with the Metro Fire CIP.
 - I. The minimum ~~General Fund~~ Capital Replacement Reserves should be equivalent to the annual depreciation in Metro Fire's most recent audited Government-Wide Financial Statements.
 - II. The maximum ~~General Fund~~ Capital Replacement Reserves should be equal to the accumulated depreciation in Metro Fire's most recently audited Government-Wide Financial Statements.
- c. The District's Pension Funding Bonds Early Payoff Policy, ~~156.0401.014.02~~, adopted in 2008 ~~and revised in 2017~~, extinguishes the Pension Obligation Bonds at the earliest dates allowed under the Bond Indenture, to avoid the interest rate associated with the variable rate securities. Each year additional reserves will be budgeted pursuant to the Pension Funding Bonds Payoff Schedule incorporated within the revised Early Payoff Policy.
 - I. The minimum amount of Early Debt Extinguishment Reserves should be the ~~ratable amount needed to retire the Pension Obligation Bonds at the earliest dates provided for in the Bond Indenture~~ beginning balance plus the annual deposit amount calculated according to the procedures outlined in the Early Payoff Policy.

- II. The maximum amount of Early Debt Extinguishment Reserves should be the total outstanding Pension Obligation Bond principal due to the Bondholders.

3. Restricted Reserves

- a. ~~Capital Facilities~~Development Impact Fees Fund CIP Reserves will be accumulated to fund Metro Fire's new infrastructure needed to maintain Metro Fire's service level standards. CIP funding will be from the Development Impact Fees that mitigate the impact of new development. All Development Impact Fee amounts collected are restricted in use until such time as they are spent on capital outlay as provided for in State law. Capital spending over and above the Development Impact Fees should be provided as a transfer from the General Fund.
 - I. The minimum CIP Reserves shall be 10% of the current year's planned CIP expenditures. These reserves are a buffer for deviations in bid amounts or construction costs.
 - II. The maximum CIP Reserves shall be the amount needed to fully fund the CIP plan.
- ~~b.~~ Bondholders and other lenders require Debt Service Reserves to provide additional security for obligations due to them from Metro Fire. Metro Fire will maintain at all times the Debt Service Reserve levels provided for in all outstanding debt and capital lease agreements.
- ~~c.b.~~ Metro Fire receives funding to operate its Deferred Compensation Plan (Plan) from participants via the record keeper. Metro Fire will maintain an accounting of these Fiduciary Reserves, and will use them exclusively for the benefit of Plan participants.

4. Trust Fund

- a. Post-retirement medical insurance coverage is currently, and will continue to be, pre-funded in CERBT:
 - I. At a minimum, an amount should be the cumulative of ARG contributionsFunding Policy Contributions plus earnings. This amount is reported to Metro Fire by CERBT on a quarterly basis.
 - II. At a maximum, an amount should be accumulated in CERBT to equal the Actuarial Present Value. This amount is determined by Metro Fire's actuary in its most recent Actuarial Valuation of Other Post-Employment Benefits.

5. Transition to Target Reserve Amounts

- a. Any budgeted Unassigned Reserve amounts remaining at fiscal year-end will initially be General Fund Operating Reserves. The Board of Directors will review appropriate levels and uses for reserves during the budget process and may reclassify reserves as deemed appropriate.

- b. When reclassifying reserves, consideration will be made to all Metro Fire contractual obligations including the agreements with Local 522.

6. Use of Reserves

- a. Operating ~~and~~, Self-Insurance ~~and Compensated Absence~~ Reserves can be used at any time to meet cash flow requirements ~~and~~, Workers' Compensation claims, ~~and retirement of compensated absence liabilities~~ respectively. Authority to use the funds should be consistent with Metro Fire's budget, Purchasing and Contract Policy, and Labor Agreements. Any other use requires authorization of the Board of Directors.
- b. The Board of Directors will authorize use of ~~General Fund~~ Capital Replacement, and CIP Reserves during the budget process. ~~General Fund~~ Capital Replacement and CIP Reserves are also available for unplanned (unbudgeted) capital replacement. Authorization for the use of Capital Replacement Reserves for unplanned capital replacement will be consistent with Metro Fire's Purchasing and Contract Policy.
- c. Early Debt Extinguishment and Debt Service Reserves use, is limited to the repayment of principal and interest of the related debt obligations.
- ~~d. Use of the Fiduciary Reserves is under the authority of the Committee.~~
- e-d. CERBT Reserves will be used exclusively for the payment of retiree medical premiums and CERBT management fees.

Procedures

1. The Chief Financial Officer shall perform a Reserve Analysis to be submitted to the Board of Directors upon the occurrence of the following events:
 - a. Board of Directors' budget deliberations; or
 - b. When changes are made to the amount of Workers' Compensation self-insurance excess insurance coverage; or
 - c. When updated Post-Retirement Medical or Workers' Compensation actuarial valuations are issued; or
 - d. When a major change in conditions threatens the targeted reserve levels established within this policy.
2. If the Reserve Analysis indicates projected or actual reserve levels are not within the target levels outlined in this policy, the following shall be included with the analysis:
 - a. An explanation of why reserve levels are not at the targeted level, and;
 - b. A course of action to bring reserve levels within the minimum and maximum levels prescribed.

References

- ~~1. Sacramento Metropolitan Fire District, Actuarial Valuation of Other Post-Employment Benefits as of July 1, 2012, issued by Bickmore, June 12, 2013.~~
- ~~2. Sacramento Metropolitan Fire District, Audited Financial Statements, June 30, 2012, dated December 20, 2012.~~
- ~~2. Sacramento Metropolitan Fire District, Actuarial Review of the Self-Insured Workers' Compensation Program, as of June 30, 2011 and June 30, 2012, Forecast for Program Years 2011-12 and 2012-13, issued by Bickmore Risk Services, October 12, 2011.~~
- ~~3.1. Sacramento Metropolitan Fire District, Pension Fund Bonds Early Payoff Policy, 156.01 effective June 12, 2008 01.014.02 revised as of September 28, 2017.~~
- ~~4. Sacramento Metropolitan Fire District, Purchasing and Contracting Policy, 110.0101.010.02, adopted August 23, 2008 revised as of June 12, 2014.~~
- ~~5.~~
- ~~6. Sacramento Metropolitan Fire District, Ordinance 2-05, An Ordinance Amending the Capital Fire Facilities Fee Schedule for new Construction and Development within the District.~~
- ~~8. Sacramento Metropolitan Fire District, Pension Funding Bonds Early Payoff Policy 156.01, adopted June 12, 2008.~~
- ~~9.2.~~
- ~~8. National Advisory Council on State and Local Budgeting, Recommended Practices 4.1.~~
- ~~93. Government Finance Officers Association of United States and Canada, Best Practice for Appropriate Level of Unrestricted Fund Balance in the General Fund.~~
- ~~104. Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, effective for fiscal years June 30, 2011 and later.~~
- ~~11. California Special District Association, Special District Reserve Guidelines, Second Edition.~~
- ~~12. Moody's Investors Service, Rating Update, February 20, 2013.~~

Appendix

- ~~1. Appendix 1 (link below), is a table of the various reserves covered in this memo showing various target reserve amounts as of June 30, 2013. This is a dynamic table that will be adjusted when obligations or resources available change over time.~~

