



JOSHUA BASIN WATER DISTRICT  
SPECIAL WORKSHOP MEETING OF THE BOARD OF DIRECTORS  
AND CITIZENS ADVISORY COMMITTEE  
TUESDAY, NOVEMBER 14, 2017 1 PM  
61750 CHOLLITA ROAD, JOSHUA TREE, CALIFORNIA 92252

## AGENDA

1. **CALL TO ORDER**
2. **PLEDGE OF ALLEGIANCE**
3. **DETERMINATION OF A QUORUM**
4. **APPROVAL OF AGENDA**
5. **PUBLIC COMMENT**  
Members of the public may address the Board at this time with regard to matters within the Board's jurisdiction that are not listed on the agenda. State law prohibits the Board of Directors from discussing or taking action on items not included on the agenda. Members of the public will have the opportunity for public comment on any item listed on the agenda when it is addressed on the agenda. Please limit comments to three (3) minutes or less.
6. **RESERVE FUNDING**
7. **ADJOURNMENT**

### INFORMATION

The public is invited to comment on any item on the agenda during discussion of that item. Any person with a disability who requires accommodation in order to participate in this meeting should telephone Joshua Basin Water District at (760) 366-8438, at least 48 hours prior to the meeting in order to make a request for a disability-related modification or accommodation.

Materials related to an item on this Agenda submitted to the Board of Directors after distribution of the agenda packet are available for public inspection in the District's office located at 61750 Chollita Road, Joshua Tree, California 92252 during normal business hours.



## **RESERVE POLICIES FOR SPECIAL DISTRICTS**

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**Special District Reserve Policies**

*How much is enough?*

Presented by David Becker, CPA  
Partner  
James Marta & Company LLP  
Certified Public Accountants



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**Agenda**



- › Introductions
- › Background
- › What are Reserves
- › Why Must We Have Reserves
- › How Much is Enough: Establishing Reserve Level Policies
- › The Backing of a Solid Capital Plan
- › The Art of Communicating Reserve Policies

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**Background**



- › 2000 Little Hoover Commission
  - “Special Districts: Relics of the Past or Resources for the Future?”
  - “Hundreds of independent special districts have banked multi-million dollar reserves that are not well publicized and often not considered in regional or statewide infrastructure planning?”
  - News media “obscure public agencies have hoarded billions in reserves.”
  - Or – they have money, we need money, can we get some of theirs?

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### Case study

- › Two similar water districts
- › Each with about \$20 million in reserves
- › Both had their financial reports reviewed by the grand jury.
- › One without a reserve policy; concluded there was excess reserves
- › One with an articulated plan and reserve policy; concluded there were not excess reserves.



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### Little Hoover Commission Recommendations



- › Districts establish guidelines for prudent reserves
- › Investment policies and practices be reviewed for additional oversight
- › Results:
  - CSDA put together a task force in 2001 to study and draft guidelines and promote policies



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### What Are Reserves?

- ›  $Assets - Liabilities = Reserves$
- › Going by other names
  - Equity
  - Fund Balance
  - Net Assets
  - Net Position
- › What reserves aren't: CASH
- › Discipline



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### Reserves

- › Reserves are what you have left
- › It shouldn't be by chance
- › It should be part of a plan
- › How will you fund reserves?

› Net Position

- Restricted
- Unrestricted
  - Designated
  - Undesignated



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### Why Have Reserves?



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### Why Have Reserves?

- › Prudent reserves allow for
  - Balanced budgets
  - Emergency preparedness
  - Stable rates for customers
  - Well-maintained infrastructure
  - Investing for the future
  - Access to financing
- › To address volatility and uncertainty
- › Key question – how much is enough?



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### What are the stake holder's concerns

- › Board members
- › Management
- › Customers / District members
- › Other governments
- › Regulators
- › Financing




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### What happens if you don't have a reserve policy?

- › Unanticipated expenses
- › Large infrastructure costs
- › Jump in rates
- › Lack of funding
- › Emergency financing (costs more)
- › Failure to deliver your mandated services



*Failing to plan is planning to fail?*




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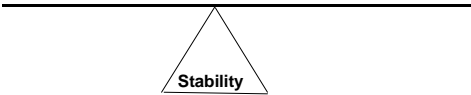
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### Balancing wants and needs

Low Rates

Program Funding



"If you have money you have options"




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## The Importance of Your Capital Improvement Plan

- › Having a well developed CIP will help answer fundamental questions
  - Be strategic and think long term
  - Maintain/preserve current infrastructure
  - Prioritize future mission critical projects and equipment
  - Assess financial capacity/identify funding
  - Be able to articulate CIP and its relationship to reserves



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## Establishing Reserve Level Policies



- › Reserve Policy Objectives Should:
  - Provide adequate funding for short - term and long - term plans
  - Minimize adverse budgetary impacts from anticipated and unanticipated expenditures
  - Strengthen the financial stability of the agency against uncertainties in an ever-changing environment

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## Foundational Elements of a Reserve Policy

1. Clear organizational policy/mission
2. Policy-oriented board of director with a long term focus on sustainability
3. Standardized method of reporting
  - Follow GASB 34 and GASB 54
  - Regular communications about reserves = trust among stakeholders



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### Establishing a Reserve

- › Shared Vision
- › Objectively determined
- › Fiscal justification
- › Public awareness



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### Developing a Policy

- › Identify needs and uniqueness of district
- › Form a complete understanding of the district's core business and significant cost drivers.
- › Engage in Strategic Planning
- › Make communicating a priority
- › Recognize that a good policy must be consistent with financial, budget and investment policies



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### Developing a Policy

- › Create and maintain a well-developed capital improvement plan
- › Estimate ebb and flow of cash; when short-term and long-term financing would be needed.
- › Clearly identify reserves; categories and purposes. Set targets



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### Broad reserve policy

- › Rate stabilization
- › Fees and charges
- › Debt issuance and management
- › Deferred maintenance
- › Level of unrestricted (contingency) funds
- › Long-term repair and replacement



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### Is it enough?

- › Does it meet your plan?
- › Other measures
  - Debt to equity
  - User charges/Property taxes to equity
  - Current ratio
  - Capital outlay to equity
  - Capital outlay to operating expenses



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### Budgeting Net Position

- › Fund Balance, Net Assets, Net Position
- › Define objectives
  - Short-term
  - Long-term
  - Operating
  - Capital
- › Where are funds used
  - Operating
  - Special purpose
  - Debt proceeds
  - One-time revenues



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## Public Awareness

- } Keeping the policy and making it a practice up front.
  - o News Letters
    - Display target
    - Describe future needs
    - Show progress
  - o Website
  - o Boardroom wall
  - o Part of the budget process



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## Communicating the Vision

- } A sound reserve policy allows for
  - o Shared vision
  - o Objectivity
  - o Fiscal justification
  - o Public awareness
- } Involve the stakeholders
  - o Going through the process creates ownership
  - o Use language stakeholders can relate to
  - o Keep the policy and goals part of the ongoing conversation



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## Political Pressure

- } Keep rates down
- } You don't need the money now
- } You can get the money later
- } Let's spend this money on something else
  - o Other projects
  - o CIP funds collected as part of water rates
  - o Increased salaries and benefits



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### Key Principles in Creating a Reserve Policy

- › Identify the uniqueness of your district
- › Form a complete understanding of the district's business and cost drivers
- › Engage in strategic planning
- › Make communicating the policy a top priority
- › Recognize a good reserve policy is consistent with other sound financial policies
- › Create and maintain a capital improvement plan
- › Estimate the ebb and flow of cash during the fiscal year and understand of the degree of short-term borrowing necessary to meet such needs
- › Clearly identify reserves – categories and purposes
- › Include sub-policies as needed in your broad reserve policy

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### Discussion of Sample Reserve Policies

- › #1 Water District
- › #2 Wastewater District
- › #3 Water District
- › #4 Water District



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# **SAMPLE RESERVE POLICIES**

XYZ Water District  
Statement of Reserve Fund Policy  
DATE

**Purpose:**

It is the intent of the Board to maintain adequate reserves for ongoing needs, to minimize the need for new debt financing for future capital projects and to maintain an affordable and stable rate structure. This statement is intended to provide guidelines for the maintenance of the financial reserves of the District. The ultimate goal of this statement is to identify the categories of reserves to be maintained, to establish the method for identifying the need for each category of reserves, to identify the sources of contribution to reserves and to provide for periodic review of both reserve levels and this reserve policy.

**Scope:**

This reserve fund policy applies to all financial reserves of the District, as well as other funds that may be created from time to time which shall also be administered in accordance with the provisions of this policy. It includes reserves in the form of investments monitored and controlled by the Board as well as reserves held in trust in accordance with the covenants of specific debt issue instruments.

**Policy:**

The budget for the District shall be prepared in a manner that assures adequate reserves for ongoing needs while minimizing the need for new debt. In particular contributions to reserves shall be established at levels that will accumulate necessary funds to:

- Ø increase system capacity and accommodate growth;
- Ø replace assets of the District as required;
- Ø meet unanticipated emergencies;
- Ø stabilize service rates and dampen the effect of one-time expenditures that may otherwise require an adjustment in the District rate structure; and,
- Ø meet the covenants of outstanding debt issues and other agreements.

All reserves must be identifiable to one of these purposes; Reserves shall not be accumulated in excess of levels needed to satisfy these purposes. Reserves may, as deemed prudent by the Board, be used to satisfy more than one purpose.

### **Classification of Reserves:**

Two primary classifications of reserves are established, each with several categories to earmark reserves for specific purposes identified in the policy above.

***Restricted Assets*** - There are three primary categories of restricted assets as follows:

- a. *Debt Covenant Reserves* - are established in accordance with covenants of specific debt issuance instruments.
- b. *Specific Agreement Reserves* - are established in accordance with agreements between the District and other agencies.
- c. *CIP Reserves* - are funds earmarked for near-term expenditure under the approved Capital Improvement Plan (CIP) for the current fiscal year.

These reserves may only be used for the specific purposes outlined in the debt issuance instrument, the agreement with another agency or the annual CIP and may not be used to meet reserve levels required for other purposes.

***Designated Reserves*** - are established by the Board to meet purposes other than those identified to restricted assets. The categories of reserves that fall under this classification are:

- a. *Water Capital Improvement Fund (WCIF)* - Capital cost recovery fees collected from developers to obtain entitlement to existing water capacity and to fund construction of capacity expansion are segregated in the WCIF.
- b. *Wastewater Capital Improvement Fund (WWCIF)* - Capital cost recovery fees collected from developers to obtain entitlement to existing wastewater capacity and to fund construction of capacity expansion are segregated in the WWCIF.
- c. *Water Capital Replacement Fund (WCRF)* - Funds earmarked by the Board of Directors for replacement of deteriorating or non-functional water production, storage, distribution and fixed assets.
- d. *Wastewater Capital Replacement Fund (WWCRF)* - Funds earmarked by the Board of Directors for replacement of deteriorating or non-functional wastewater collection, treatment and fixed assets.
- e. *Water Rate Stabilization Fund (WRSF)* - Funds designated to balance short-term fluctuations in revenues to provide rate stability for ratepayers. A secondary purpose is to assure minimum debt service coverage of the water bond covenants. In calculating debt service coverage, contributions to the WRSF will be treated as expense and withdrawals will be treated as revenue.
- f. *Wastewater Rate Stabilization Fund (WWRSF)* - Funds designated to balance short-term fluctuations in revenues to provide rate stability for ratepayers. A secondary purpose is to assure minimum debt service coverage of the wastewater bond covenants. In calculating debt service coverage, contributions to the WWRSF will be treated as expense and withdrawals will be treated as revenue.
- g. *Operating and Emergency Reserves (OER)* - Funds designated to provide financial flexibility in the day-to-day conduct of district business and to respond quickly to emergency situations that may pose threats to public health and the District's ability to sustain safe or reliable service.

The Board of Directors may review fund designations from time-to-time and establish new or eliminate established designated reserve funds as operational needs may dictate.

**Sources of Funds:**

The source of funds for each category of reserve varies. For Restricted Assets, the source of funds to meet bond covenants or terms of individual agreements is specified in the debt issuance instrument or agreement that mandated the establishment of a reserve. Use of the funds is limited as specified in the covenants of the agreement. Reserves earmarked for near-term expenditure under the approved Capital Improvement Plan (CIP) for the current fiscal year will be deducted from the appropriate Designated Reserve and established as a Restricted Asset.

In the case of Designated Reserves, contributions may come from several sources as follows:

- a. *Water Capital Improvement Fund (WCIF)* - accumulated water capital fees collected during property development to ensure adequate water system capacity
- b. *Wastewater Capital Improvement fund (WWCIF)* - accumulated wastewater capital fees collected during property development to ensure adequate future wastewater system capacity
- c. *Water Capital Replacement Fund (WCRF)* - contribution from revenues of the District at the discretion of the Board or as specified in the District Annual Budget.
- d. *Wastewater Capital Replacement Fund (WWCRF)* - contribution from revenues of the District at the discretion of the Board or as specified in the District Annual Budget.
- e. *Water Rate Stabilization Fund (WRSF)* - contribution from remaining net profit/loss from water operations at the discretion of the Board to maintain the fund balance and to stabilize rates and meet the District's water bond covenants.
- f. *Wastewater Rate Stabilization Fund (WWRSF)* - contribution from remaining net profit/loss from wastewater operations at the discretion of the Board to maintain the fund balance and to stabilize rates and meet the District's wastewater bond covenants.
- g. *Operating and Emergency Reserves (OER)* - contribution from remaining net profit/loss from the income statement after all other contributions to reserves have been made.

The contribution of revenues of the District to meet replacement needs is estimated in capital replacement schedules prepared by staff and based upon expected replacement costs and expected remaining life of the various assets.

**Expenditure of Reserves:**

Expenditure of reserves is authorized as part of the annual budget process. Capital Replacement projects are individually authorized and may be designated either as Capital Improvement, Capital Replacement or a combination of the two and funded from the appropriate reserve fund.

Prior to the expenditure of funds from any capital replacement fund, an analysis shall be conducted to determine if the asset has truly come to the end of its expected life and the asset is still required to meet the needs of District customers for the foreseeable future. In all cases, application of new technology should be considered to improve efficiency and economy of District operations.

Designated Reserves may also be used at the discretion of the Board to meet unanticipated financial needs such as equipment failures, damage caused by natural disaster or other emergencies requiring funds beyond annual revenues. Funds contained in the two Rate Stabilization Funds may be used to manage rates and rate increases and to offset sudden and unanticipated losses in revenue, such as reduced water and wastewater sales. These funds may be used to compensate for losses resulting from sudden increases in wholesale water rates and increases in water and wastewater operating costs and may be used to meet the minimum debt service coverage required in accordance with specific debt covenants. The contribution to and utilization of the Water and Wastewater Rate Stabilization Fund is budgeted in the District's Annual Budget.

### **Levels of Reserve Funds:**

Adequate levels of reserves are critical to the successful and stable short- and long-term operation of the District. Sufficient reserve fund balances will ensure that customers experience both stable rates for service and the security that the District can respond to short-term emergencies. Sufficient reserves will provide the overall financial strength to the District to protect its bonding capacity and to finance and construct the infrastructure necessary to renew existing systems and expand service levels to meet future needs. Rates and fees should be maintained at a level to ensure the balance within the various reserve funds are sufficient to meet the specified needs for the reserve funds without generating funds surplus to the District's needs.

- a. *Restricted Assets* - reserves required by debt agreements, unexpended proceeds from debt issuances and funds designated to fund the current year CIP will be maintained at 100% of level required by each reserve category. Funds in these reserve accounts will not be used to meet the required reserve fund balance for any other category of reserves.
- b. *Capital Improvement and Capital Replacement Reserves* - At the beginning of each budget year, each reserve fund balance should be a minimum of 100% of the following year's CIP budget and a maximum of 50% of the total CIP outlays from these five funds as outlined in the CIP plan for the following five years. Projects which will be funded with capital obtained from outside sources (loans, grants or bond funding) will be excluded from the calculation. Fund balance in excess of 100% of the following year's CIP requirement may be used to satisfy the Operating and Emergency Reserve fund balance requirement as outlined below.
- c. *Rate Stabilization Fund (RSF)* - At the beginning of the budget year, the minimum combined fund balance in the two RSF will be equal to anticipated property tax receipts of a normal budget year. The maximum combined fund balance in the two Rate Stabilization funds shall not exceed an amount equivalent to 2 times the property tax receipts expected in a normal budget year.
- d. *Operating and Emergency Reserves (OER)* - The minimum OER balance shall be equal to the greater of a 45-Day average of operations and maintenance budget (excluding wholesale water costs) or the expected replacement value of the most costly capital asset but shall not exceed a maximum of \$1,250,000.

**Review:**

An annual review of reserve levels is necessary during the budget preparation process to ensure surplus reserves, in excess of identified needs, are not accumulated. In addition, this reserve policy shall be reviewed by the Board on a biennial basis to ensure continued conformance with long-term Board strategy.

## **XYZ Wasterwater District Reserve Fund Policy**

### **A. POLICY STATEMENT:**

One key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital and debt service cost needs. An additional critical element of fiscal responsibility is to anticipate and prepare for future funding requirements as well as for unforeseen disasters and other unforeseen events. The XYZ Wastewater District (XYZ) will at all times strive to have sufficient funding available to meet its operating, capital, and debt service cost obligations. Reserve funds will be accumulated and maintained in a manner, which allows XYZ to fund costs consistent with XYZ's Long Range Capital Plan and Long Range Financial Plan while avoiding significant rate fluctuations due to changes in cash flow requirements. XYZ will also maintain an emergency reserve position that may be utilized to fund unexpected disasters or unanticipated major failures. The Board of Directors will annually review the level of reserve funds maintained.

### **B. DEFINITIONS:**

Restricted Reserves: Restrictions on their use are imposed by an outside source such as creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Reserves: Have no externally imposed use restriction. The use of Unrestricted Reserve funds is at the discretion of the Board of Directors. There are two categories of Unrestricted Reserves -Designated and Undesignated. At XYZ, all Unrestricted Reserves are Designated Reserves.

Designated Reserves: Set-aside for a specific purpose, which is determined by the Board of Directors. The Board of Directors also has the authority to redirect the use of these reserve funds as needs of XYZ change.

### **C. XYZ WASTEWATER DISTRICT RESERVES:**

XYZ maintains the following reserve funds:

#### **1.0 RESTRICTED RESERVES:**

##### **a) Capital Improvement Reserve:**

The purpose of the Capital Improvement Reserve is to finance future capital facilities that are expansion /growth related. These capital improvements are identified in XYZ's Asset Management Plan and Comprehensive Financial Plan Update. These reserve funds are accumulated in an orderly manner in conformance with State law and drawn down as required by growth related capital projects.

## **2.0 UNRESTRICTED DESIGNATED RESERVES:**

### a) Operating Reserve:

Since the majority of operating revenues are received periodically over the fiscal year and operating expenses are incurred uniformly over the fiscal year, an operating reserve is necessary to fund those costs attributable to daily operations. To meet daily operational needs, XYZ has established an Operating Reserve balance at 33% of annual operating expenses.

### b) Replacement Reserve:

The Replacement Reserve provides funds for capital replacement and refurbishment of existing facilities. These capital improvements are identified in XYZ's Asset Management Plan and Comprehensive Financial Plan Update. Replacement reserve funds are accumulated in an orderly manner and drawn down as required to fund capital replacement projects. To avoid abrupt sewer service rate changes, this reserve may be used to stabilize rates. The Replacement Reserve shall not exceed the 20-year capital replacement costs as identified in the Comprehensive Financial Plan Update. XYZ's capacity fee represents a system buy-in that takes into account the value of existing capacity pre-built by current users that will benefit future users, and is a source of funding for the Replacement Reserve.

### c) Water Recycling Reserve:

The Water Recycling Reserve will fund capital improvements and replacement of water recycling facilities. This reserve will also be used to fund operating expenses in the Water Recycling Fund whenever there is a shortfall of recycled wastewater sales revenue to operating expenses. These capital improvements are identified in XYZ'S Asset Management Plan and Comprehensive Financial Plan Update. The Replacement Reserve shall not exceed the 20-year capital replacement costs as identified in the Comprehensive Financial Plan Update.

### d) Emergency Reserve:

The Emergency Reserve provides funds for emergency response for potential repair or replacement of capital facilities due to damage from a natural disaster or unanticipated major failure in a period when capital improvements funds have otherwise been purposely spent down to preset limits on planned projects. The Emergency Reserve is at the discretion of the Board of Directors and is maintained at a level of \$7,500,000, which is based on the recommendation by XYZ staff and the District Engineer (Exhibit A).



**D. SOURCES AND USE OF FUNDS:**

**RESTRICTED RESERVES**

RESERVE	SOURCE OF FUNDS	USE OF FUNDS	NOTES
Capital Improvement	Interest earned on reserve	Growth related capital expenditures	Funds previously accumulated from capacity fees. Now capacity fees reflect 100% buy-in to the system and are transferred to the replacement reserve

**UNRESTRICTED DESIGNATED RESERVES**

RESERVE	SOURCE OF FUNDS	USE OF FUNDS	NOTES
Operating	Operating income and interest earned on reserve	Wastewater operating expenses	Reserve balance maintained at 33% of budgeted operating expenses. Excess (deficiency) funds transferred to/from replacement reserve
Replacement	Property taxes and other non-operating income, 100% of capacity fees, excess operating revenues and interest earned on reserve	Replacement related capital expenditures and rate stabilization	Limited to 20-year capital replacement costs as identified in the comprehensive financial plan update
Water Recycling	Recycled water sales and interest earned on reserve	Recycled water capital improvement and replacement as well as operating expenses	Limited to 20-year capital replacement costs as identified in the comprehensive financial plan update
Emergency	Originally funded by board action. Interest earned on reserve	Emergency repair or replacement expenditures	Reserve balance maintained at \$7,500,000 level. Excess funds transferred to replacement reserve.

**EXHIBIT A**  
**XYZ Wastewater District**  
**Discussion of Emergency Reserve Fund**

Maintenance of an Emergency Reserve Fund (ERF) would provide the benefit of providing funds for emergency response for repair or replacement of capital facilities potentially necessary due to natural disaster damage or unanticipated major failure in a period when capital improvement funds have otherwise been purposely spent down to preset limits on planned projects. Separately, Capital Reserve Funds will be accumulated in a planned manner through financing, setting aside a portion of sewer service fees, or a combination of both methods, as determined by Board policy. The amount to be recommended for maintenance in the ERF has been evaluated and discussed by Leucadia Wastewater District (XYZ) staff and the District Engineer. The following table lists some pros and cons for three potential levels of ERF.

ERF Alternatives	Pros	Cons
Alternative 1: LWD maintain small ERF of \$1.0 million	<ol style="list-style-type: none"> <li>1. Reduces initial reliance on borrowing.</li> <li>2. Would extend period of reduced rate increases.</li> </ol>	<ol style="list-style-type: none"> <li>1. Not enough reserve to respond to many reasonably possible emergency events.</li> <li>2. Increased risk at point of ERF exhaustion that emergencies could not be responded to timely.</li> <li>3. Reduced district liquidity and lesser financing qualifications.</li> <li>4. Increased long term reliance on borrowing.</li> </ol>
Alternative 2: LWD maintain a moderate ERF of \$7.5 million	<ol style="list-style-type: none"> <li>1. Sufficient funds to adequately replace or repair two major district facilities on an emergency basis.</li> <li>2. Sufficient funds to replace or repair about six or seven concurrent intermediate size facility problems at any given time.</li> <li>3. Unlikely to deplete ERF in a time period that would not allow establishment of additional financing, if necessary.</li> <li>4. Provides opportunity for investment of modest amount of about 1.5 years worth of sewer service fee collections.</li> <li>5. Provides ability to fund one to two years of typical CIP schedule projects, while additional funding is being established.</li> <li>6. Increases liquidity of district that would be considered positively by financial markets when considering other financing issues.</li> </ol>	<ol style="list-style-type: none"> <li>1. Ties up \$7.5 million of funds that could be used to offset or defer rate increases.</li> <li>2. May be considered as ability to pay discretionary fines in the potential event of a major wastewater spill.</li> <li>3. Over time, it may be determined that the \$7.5 million amount should be decreased or increased depending on facility performance and risk tolerance.</li> </ol>
Alternative 3: LWD maintain a large ERF of \$15 million	<ol style="list-style-type: none"> <li>1. Very little risk that any emergency situation would result that funds were not available for immediate response.</li> </ol>	<ol style="list-style-type: none"> <li>1. Maintenance of large reserves is considered by some watchdog entities as a negative attribute.</li> </ol>

Based on an analysis of the above three ERF funding alternatives above, XYZ staff and the District Engineer recommend that XYZ adopt Alternative 2 - XYZ Maintain a Moderate ERF of \$7.5 million.

**ABC WATER DISTRICT  
RESERVE FUND POLICY  
Adopted DATE  
Resolution No. # (#-#)**

**Introduction:**

ABC Water District recognizes the importance of adopted policies relative to reserves and reserve funds. Written adopted financial policies relative to designated reserves and reserve funds have many benefits, and represents a critical element of sound fiscal management. Reserves and reserve funds are prudent fiscal management tools, which are a cornerstone of long-term financial planning. A written and adopted Reserve Fund Policy provides for and facilitates attainment of program and financial goals relative to the prudent accumulation and management of designated reserves and reserve funds. This Reserve Fund Policy was developed to clearly identify specific designated reserves and reserve funds. It is the intent of this Reserve Fund Policy to clearly identify both reserve fund categories and purposes, and set target levels for reserves that are consistent with the District's mission statement, the uniqueness of the District, and the philosophy of the District's Board of Directors. This policy shall be known and may be cited as the ABC Water District Reserve Fund Policy.

**Objectives:**

This Reserve Fund Policy has been developed to consider and appropriately provide for the following:

1. To assure continued operation and solvency of the District for the carrying out of its stated mission and purposes.
2. To maintain a financially viable District that can preserve adequate levels of service.
3. To maintain and enhance the sound fiscal condition of the District
4. To maintain financial flexibility in order to be able to continually adapt to change, and permit an orderly adjustment to unanticipated events.
5. To maintain a diversified and stable long-term financial plan.
6. The accumulation and maintenance of an amount equal to the stated target fund level for each specific reserve fund created by the District.
7. The review of this policy on an annual basis in order to determine appropriate changes, additions and/or deletions.
8. To maintain a written ABC Water District Reserve Fund Policy.

## **Reserve Fund Policy:**

In order to achieve the objectives of this Policy, the Board of Directors shall adhere to the following guidelines:

1. Reserve funds may be established from time to time by the Board of Directors as an important component of sound financial management to meet both short and long-term financial objectives, and to ensure prudent financial management practices.
2. Reserve funds may be designated by the Board of Directors as a “restricted reserve fund” or “non-restricted reserve fund”.
3. Restricted reserve funds shall be segregated, and limited in use to specific and designated purpose(s) as defined and established by the Board of Directors.
4. Assets of a restricted reserve fund shall be held separately from the general Water Fund, and shall only be used for the stated purpose(s) of the specific reserve fund.
5. Non-restricted reserve funds shall have no reference to specific accounting assets.
6. Non-restricted reserve funds do not require the physical segregation of funds.
7. All investment earnings from restricted and non-restricted reserve funds shall be credited to the District’s general Water Fund, unless otherwise stated herein.
8. Board of Director approval shall be required prior to the expenditure of restricted reserve funds, unless otherwise stated herein.
9. The Board of Directors shall maintain a written ABC Water District Reserve Fund Policy.
10. The Board of Directors shall annually review the ABC Water District Reserve Fund Policy at a public meeting in order to determine appropriate changes, additions, and/or deletions.

## **Reserve Funds:**

The Board of Directors hereby establishes and designates the following reserve funds:

1. Working Capital Reserve Fund. See Attachment 1.
2. Emergency Reserve Fund. See Attachment 2.
3. Watershed Property Asset Reserve Fund. See Attachment 3.
4. Capital Replacement/System Improvement Reserve Fund. See Attachment 4.
5. Equipment Replacement Reserve Fund. See Attachment 5.
6. Rate Stabilization Reserve Fund. See Attachment 6.
7. Sick/Annual Leave Reserve Fund. See Attachment 7.

## **Target Fund Levels:**

The Board of Directors shall establish a stated target fund level for each designated reserve fund. See Attachment 8 for a compendium of established target fund levels for designated reserve funds.

**Annual Evaluation:**

The District Manager shall perform a review and analysis of each designated reserve funds for presentation to the Board of Directors at a public meeting upon the occurrence of the following:

1. Upon consideration by the Board of Directors of the annual budget.
2. Upon any significant change to and/or expenditure(s) from a designated reserve fund.
3. Upon determination that a fund balance is less than the established target fund level for a designated reserve fund.

# **ATTACHMENT 1**

## **ABC WATER DISTRICT**

### **WORKING CAPITAL RESERVE FUND**

#### **Fund Purpose:**

The purpose of the Working Capital Reserve Funds is to accumulate sufficient reserve funds necessary to satisfy the general cash flow demands and requirements of the District. This reserve fund will preserve credit worthiness, ensure adequate financial resources are available for timely payment of District obligations, and provide liquidity throughout the fiscal year.

#### **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the “Working Capital Reserve Fund”.
2. The Working Capital Reserve Fund shall be designated as a non-restricted reserve fund.
3. The District Manager is authorized to approve the expenditure of Working Capital Reserve Funds, without prior approval of the Board of Directors, in response to day-to-day cash flow requirements.
4. The Working Capital Reserve Fund may be invested in financial institutions and instruments which maintain the highest level of liquidity, such as checking, savings and LAIF.
5. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

#### **Target Fund Level:**

The target fund level for the Working Capital Reserve Fund is to maintain a balance in the general Water Fund, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$750,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

1. The District shall maintain a balance in the general Water Fund equal to approximately two (2) months budgeted expenditures for the fiscal year.
2. For the purpose of this policy, budgeted expenditures shall include all expenditures associated with the following:
  - a. Personnel Services
  - b. Materials & Services
  - c. Debt Service (Debit service relative to special assessment districts which are collected with ad valorem tax bills shall not be included for the purpose of this policy guideline.)

## **ATTACHMENT 2 ABC WATER DISTRICT EMERGENCY RESERVE FUND**

### **Fund Purpose:**

The purpose of the Emergency Reserve Funds is to accumulate sufficient financial reserves necessary to insure a timely response by the District to natural disasters and/or other emergencies. This reserve fund will provide for rapid response and continued operation of the District's essential services during periods of natural disasters and/or other emergencies.

### **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Emergency Reserve Fund".
2. The Emergency Reserve Fund shall be designated as a restricted reserve fund.
3. The Emergency Reserve Fund shall be expended solely for the purpose of responding to and maintaining District operations during a natural disaster and/or emergency.
4. The District Manager is authorized to approve the expenditure of Emergency Reserve Funds, without prior approval of the Board of Directors, for purposes of restoration and/or maintenance of essential service levels in response to a natural disaster or other emergency.
5. Upon expenditure of any Emergency Reserve Funds, the District Manager shall notify the Board of Directors at the earliest possible opportunity.
6. Expenditures from this designated reserve fund which are subsequently recovered, either partially or fully, from FEMA, OES, insurance and/or any other sources, said revenue shall be utilized solely for the purpose of refunding the Emergency Reserve Fund.
7. All investment earnings from the Emergency Reserve Fund shall be credited to the District's general Water Fund.
8. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

### **Target Fund Level:**

The target fund level for the Emergency Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$1,000,000, unless otherwise directed by the Board of Directors at a public meeting.

**ATTACHMENT 3**  
**ABC WATER DISTRICT**  
**WATERSHED PROPERTY ASSET RESERVE FUND**

**Fund Purpose:**

The purpose of the Watershed Property Asset Reserve Fund is to establish general rules to guide the District's use for the principal received by the District pursuant to the DATE sale of the XYZ property.

**Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Watershed Property Asset Reserve Fund".
2. The Watershed Property Asset Reserve Fund shall be designated as a restricted reserve fund.
3. Approval for expenditures from the Watershed Property Asset Reserve Fund shall require the affirmative approval by four (4) members of the Board of Directors at a duly noticed public meeting.
4. All investment earnings from the Watershed Property Asset Reserve Fund shall be credited to the District's general Water Fund.
5. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

**Target Fund Level:**

The target fund level for the Watershed Property Asset Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$6,500,000, unless otherwise directed by the Board of Directors at a public meeting.



**ATTACHMENT 4**  
**ABC WATER DISTRICT**  
**CAPITAL REPLACEMENT/SYSTEM IMPROVEMENT**  
**RESERVE FUND**

**Fund Purpose:**

The purpose of the Capital Replacement/System Improvement Reserve Fund is to accumulate sufficient reserve funds necessary to insure timely acquisition, replacement and upgrade of the District's water system infrastructure and capital assets.

**Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Capital Replacement/System Improvement Reserve Fund".
2. The Capital Replacement/System Improvement Reserve Fund shall be designated as a restricted reserve fund.
3. Each adopted budget of the District shall contain a transfer from the general Water Fund to the Capital Replacement/System Improvement Reserve Fund in an amount approved by the Board of Directors.
4. Monies transferred into the Capital Replacement/System Improvement Reserve Fund shall be expended solely for the construction of new and/or replacement water system infrastructure and capital assets.
5. The District Manager is authorized to approve the expenditure of Capital Replacement/System Improvement Reserve Funds, without prior approval of the Board of Directors, in accordance with approved budget authorizations.
6. All investment earnings from the Capital Replacement/System Reserve Fund shall be credited to the District's general Water Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

**Target Fund Level:**

The target fund level for the Capital Replacement/System Improvement Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$1,250,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

The District shall maintain a balance in the Capital Replacement/System Improvement Reserve Fund equal to approximately five percent (5%) of the District's total net assets.

# **ATTACHMENT 5 ABC WATER DISTRICT EQUIPMENT REPLACEMENT RESERVE FUND**

## **Fund Purpose:**

The purpose of the Equipment Replacement Reserve Funds is to accumulate sufficient reserves necessary to insure timely replacement and upgrade of the District's vehicles, mobile equipment, and appurtenances thereto. Safe, reliable and up-to-date vehicles and equipment, in good working order, are essential for the provision of public services in a timely and professional manner. Due to the need for depreciation and replacement of vehicles and other mobile equipment it is desirable for the District to set aside funds on an on-going basis for this purpose.

## **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Equipment Replacement Reserve Fund".
2. **The Equipment Replacement Reserve Fund shall be designated as a restricted reserve fund.**
3. The initial procurement for new vehicles and/or equipment (not replacement of existing) shall be funded by the general Water Fund, not by the Equipment Replacement Reserve Fund.
4. Each adopted budget of the District shall contain an allocation in the sum of \$70,000 for the replacement and/or upgrade of existing vehicles and mobile equipment.
5. In any one (1) fiscal year, whenever the total actual expenditures for replacement and/or upgrade of existing vehicles and mobile equipment is less than said \$70,000 allocation, the remaining balance shall be transferred to the Equipment Replacement Reserve Fund.
6. In any one (1) fiscal year, whenever the total actual expenditures for replacement and/or upgrade of existing vehicles and mobile equipment exceed said \$70,000 allocation, the necessary balance to accomplish the procurement(s) shall be transferred from the Equipment Replacement Reserve Fund.
7. Funds transferred from the Equipment Replacement Reserve Fund shall be expended solely for the purpose of replacement and upgrade of existing District vehicle, mobile equipment and appurtenances thereto.
8. The District Manager is authorized to approve the expenditure of Equipment Replacement Reserve Funds, without prior approval of the Board of Directors, in accordance with approved budget authorizations.
9. The allocation amount shall be reviewed every five (5) years for appropriate vehicle and equipment retention schedules, depreciation schedules and acquisition costs.

10. All investment earnings from the Equipment Replacement Reserve Fund shall be credited to the District's general Water Fund.

11. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

**Target Fund Level:**

The target fund level for the Equipment Replacement Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$350,000, unless otherwise directed by the Board of Directors at a public meeting.

**ATTACHMENT 6**  
**ABC WATER DISTRICT**  
**WATER RATE STABLIZATION RESERVE FUND**

**Fund Purpose:**

The purpose of the Water Rate Stabilization Reserve Funds is to establish a means to provide more stable water service charges to the District's customers. The Water Rate Stabilization Reserve Fund will be used to accumulate reserves for District use during periods of unanticipated fluctuations in general Water Fund revenues. Unanticipated fluctuations in general Water Fund revenues include, but are not be limited to, periods of drought and /or natural disasters. The Water Rate Stabilization Reserve Fund will reduce and/or eliminate the need for unanticipated changes to water service charges, and provide for more stable rates.

**Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Water Rate Stabilization Reserve Fund".
2. **The Water Rate Stabilization Fund shall be designated as a restricted reserve fund.**
3. Each adopted budget of the District shall contain a transfer from the general Water Fund to the Water Rates Stabilization Reserve Fund in an amount approved by the Board of Directors.
4. Monies transferred from the Water Rate Stabilization Reserve Fund shall be expended solely as directed by the Board of Directors.
5. The District Manager is authorized to approve the expenditure of Water Rate stabilization Funds, without prior approval of the Board of Directors, in accordance with budget authorizations.
6. All investment earnings from the Water Rate Stabilization Reserve Fund shall be credited to the District's general Water Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

**Target Fund Level:**

The target fund level for the Water Rate Stabilization Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$350,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

1. The District shall maintain a balance in the Water Rate Stabilization Fund equal to approximately ten percent (10%) of the District's estimated annual revenue to be received from all charges for water service.
2. For the purpose of this policy charges for water service shall be defined as the aggregate sum of all bi-monthly basic service charges and consumptive charges.

**ATTACHMENT 7**  
**ABC WATER DISTRICT**  
**SICK/ANNUAL LEAVE RESERVE FUND**

**Fund Purpose:**

The purpose of the Sick/Annual Leave Reserve Funds is to accumulate sufficient reserves necessary to insure payment of outstanding accrued sick and/or annual leave upon a District employee's separation of service from the District. Pursuant to the current Memorandums of Understanding by and between the District and designated employee representative bargaining group, District employees may accumulate annual leave in accordance with a maximum accumulation schedule. Previous Memorandums of Understanding also provided for the accumulation of Sick Leave. Any employee separated from the service of the District shall receive pay for all accumulated annual/sick leave in accordance with designated schedules. It is desirable for the District to set aside funds on an on-going basis for this purpose.

**Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Sick/Annual Leave Reserve Fund".
2. **The Sick/Annual Leave Reserve Fund shall be designated as a restricted reserve fund.**
3. Each adopted budget of the District shall contain a transfer from the general Water Fund to the Sick/Annual Leave Reserve Fund approved by the Board of Directors.
4. Monies transferred into the Sick/Annual Leave Reserve Fund shall be expended solely for the purpose of compensation to District employees upon separation of service from the District for accumulated sick/annual leave.
5. The District Manager is authorized to approve the expenditure of Sick/Annual Leave Reserve Funds, without prior approval of the Board of Directors, for the purpose expressly stated herein.
6. All investment earnings from the Sick/Annual Leave Reserve Fund shall be credited to the District's general Water Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

**Target Fund Level:**

The target fund level for the Sick/Annual Leave Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$300,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

The District shall maintain a balance in the Sick/Annual Leave Reserve Fund equal to approximately one hundred percent (100%) of the accrued liability for compensated absences.

**ATTACHMENT 8  
ABC WATER DISTRICT  
SUMMARY OF RESERVE FUND  
TARGET FUND LEVELS**

<b>RESERVE FUND</b>	<b>TARGET LEVEL</b>
Working Capital Reserve Fund	\$ 750,000
Emergency Reserve Fund	\$1,000,000
Watershed Property Asset Reserve Fund	\$6,500,000
Capital Replacement/System Improvement Reserve Fund	\$1,250,000
Equipment Replacement Reserve Fund	\$ 350,000
Rate Stabilization Reserve Fund	\$ 350,000
Sick/Annual Leave Liability Reserve Fund	\$ 300,000



## ABC WATER DISTRICT RESERVE POLICY

Reserves are essential to ensuring fiscal responsibility, a key organizational goal of the District. They can also provide the savings necessary to balance budgets during periods of fiscal constraint, allow for emergency preparedness, assist in maintaining stable water service rates, provide for a well-maintained infrastructure, and demonstrate a commitment to investing in the future. The Government Finance Officers Association recommends adopting a policy governing the amount of resources to be held in reserve and conditions under which those reserves can be used. A reserve policy is central to a strategic, long-term approach to financial management.

This Policy will be reviewed annually during the budget process to ensure conformance with the District's goals and objectives and compliance with any changes in regulations or standards.

The District maintains reserves in two categories: Operating Reserves (encompassing the Operating Contingency Reserve and the Rate Stabilization Reserve) and Capital Facilities Reserves.

### **Operating Reserve**

#### **Purpose**

The purpose of the District's Operating Reserve Policy is to ensure that the District will at all times have sufficient funding available to meet annual operating costs. Operating Reserves will be managed in a manner that allows the District to fund costs consistent with the annually updated Budget and Capital Improvement Program as well as the Ten-Year Financial Plan. Adequate reserves along with sound financial policies provide financial flexibility in the event of unanticipated expenditures or revenue fluctuations.

### **Definitions and Goals**

The Operating Reserve Fund is defined as the designated fund set aside by action of the Board of Directors. The Operating Reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The minimum Operating Reserve Fund target when combined with the Rate Stabilization Reserve will approximate 40% of Operating Costs as outlined in the annual Budget. Depreciation will not be included in the calculation of operating expenses.

The District's goal is to replenish funds used within twelve months to restore the Operating Reserve Fund to the target minimum amount. To the extent possible, the District will control operating expenditures and direct budget surpluses to replenish the fund balance.

### **Accounting for Reserve**

The Operating Reserve Fund will be recorded in the financial records as a Board designated operating reserve. The Reserve Fund will be funded in cash or cash equivalent funds which will be commingled with the general cash and investment accounts of the District. All investment accounts will be in accordance with the District's Investment Policy which is reviewed and approved annually.

### **Funding of Reserves**

The Operating Reserve Fund will be funded with surplus unrestricted operating funds. The Board of Directors may from time to time direct that a specific source of revenue be set aside for Operating Reserves. Annual contributions will be designated during the budget process to maintain a target minimum of 40% of Operating Costs.

### **Use of Funds**

The use of Operating Reserve funds will be for unanticipated operating costs or revenue shortfalls and also for repairs or improvements and fixed asset acquisitions. Staff will identify the need to access the reserves and will submit written requests to the Board at a public meeting. Reserve Fund requests will include the amount of funds needed, confirmation that the use is consistent with the purpose of the reserve funds as described in this Policy, and the reason for the shortfall. The funds can only be used with specific Board approval.

A schedule of approved reserve funds requests will be maintained by the Financial and Business Services Manager and presented monthly to the Board as part of the Income & Investment Report.

## **Capital Facilities Reserve**

### **Purpose**

The purpose of the District's Capital Facilities Reserve Policy is to ensure that the District is committed to funding the repair, maintenance, or replacement of the water system's infrastructure assets. Adequate reserves, along with sound financial policies, provide financial flexibility and a commitment to long-term financial planning. Establishing a capital facilities reserve allows the cost of large infrastructure expenditures to be spread over time rather than impacting just one budget year when the assets necessary to operate the District need to be repaired or replaced.

### **Definitions and Goals**

The Capital Facilities Reserve is defined as a designated reserve fund set aside by action of the Board of Directors. The reserve can be reviewed and adjusted in response to internal and external changes upon approval of the Board.

The District's goal is to set aside reserves to repair and maintain the District's water system infrastructure in alignment with the primary strategic goal of maintaining a reliable water infrastructure to ensure the delivery of high-quality, safe drinking water to District customers. At the same time, setting aside reserves helps accomplish the strategic goal of fiscal responsibility and financial sustainability.

### **Accounting for Reserves**

The Capital Facilities Reserve will be recorded in the financial records as a Board designated operating and capital improvement reserve. The reserve fund will be funded in cash or cash equivalent funds which will be commingled with the general cash and investment accounts of the District. All investment accounts will be in accordance with the District's Investment Policy, which is reviewed and approved annually.

### **Funding of Reserves**

The Capital Facilities Reserve will be funded with gains in unrestricted net position as determined annually by the audited financial statements. The amount of net gain allocated to the reserve will be at the discretion of the Board of Directors. In addition, the Board of Directors may, from time to time, direct that a specific source of revenue be set aside for the Capital Facilities Reserve.

### **Use of Funds**

The use of the Capital Facilities Reserve will be for the maintenance, repair or replacement of water system infrastructure. Examples of projects eligible for use of the funds include, but are not limited to, main replacements, tank recoats, filter and media replacements, pump replacements, and other projects that preserve the District's existing water system assets.

Staff will identify the need to access the reserves and will submit written requests to the Board at a public meeting. The funds can only be used with specific Board approval. Reserve fund requests will include the amount of funds needed, confirmation that the use is consistent with the purpose of the reserve funds as described in this policy, and a description of the capital investment. Use of the Capital Facilities Reserve funds for a specific project or projects may also be requested and approved by the Board during the budget appropriation process.

A schedule of approved reserve funds requests will be maintained by the Financial and Business Services Manager.

# **CSDA RESERVE GUIDELINES**



**California Special  
Districts Association**

*Districts Stronger Together*

# Special District Reserve Guidelines

SECOND EDITION



**A GUIDE TO DEVELOPING A PRUDENT RESERVE.**



## Acknowledgements

In preparing the Special District Reserve Guidelines, the California Special Districts Association (CSDA) greatly benefited from individuals who were generous with their time and insightful with their views. Our task force consisted of finance staff and general managers from independent special districts, as well as professional financial consultants.

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 *Printed on recycled paper.*







## The Formation of Special District Reserve Guidelines

Answering a  
Call, Fulfilling  
a Need

The genesis for CSDA's Special District Reserve Guidelines was a 2000 Little Hoover Commission report entitled, *"Special Districts: Relics of the Past or Resources for the Future?"* The report included a section on special district reserves with an introductory finding that stated: *"Hundreds of independent special districts have banked multi-million dollar reserves that are not well publicized and often not considered in regional or statewide infrastructure planning."*

The 2000 report raised a number of issues relating to special district reserves including:

- Lack of guidelines and consistency
- Lack of visibility and publication of district financial information
- Lack of understanding among constituents and policymakers of district finances
- Lack of districts incorporating reserve information into infrastructure planning

News media reacted to the Little Hoover Commission report with banner headlines claiming that "obscure" public agencies have "hoarded" billions in reserves. Legislative hearings on special district finances were held and interest was spiked among grand juries, leading them to investigate how special districts within their counties handle reserves.

Ultimately, the Little Hoover Commission recommended that guidelines for prudent reserves be established, and that investment policies and practices be reviewed to determine if additional oversight was warranted.



**...many independent special districts already have established reserve policies and most, if not all, special district officials recognize their fiduciary responsibilities and take them seriously.**

## **CSDA Reserve Guidelines Task Force**

Although special district advocacy organizations disagreed with some of the Little Hoover Commission's findings and data interpretation, CSDA concurred that the establishment of reserve guidelines would assist special district governing officials and administrators in fulfilling their fiduciary responsibilities. To accomplish this, CSDA formed a task force in 2001 to identify both the essential elements of a reserve policy and the issues to be discussed during policy development.

The Special District Reserve Guidelines were developed by the task force as a tool for special district governing officials and administrators to assist them in fulfilling their commitment to provide cost-effective and efficient public services for the communities they serve.

## **Special District Reserve Guidelines**

### **Second Edition**

Today, with over a decade having passed since CSDA convened its original task force in 2001, many special districts have utilized the guidelines to evaluate their reserve policies, develop new reserve policies, and/or promote comprehensive and easily understood policies.

Through this decade-long process, special districts have gained new insights on improved best practices. Furthermore, certain accounting practices and terminologies have evolved. Therefore, in order to ensure the most accurate and updated guidelines, and in continuance of efforts to promulgate widespread adoption, CSDA commissioned a second task force in 2012 to produce a Special District Reserve Guidelines, Second Edition. CSDA encourages district officials to incorporate these new guideline elements into their policies, where applicable, based on size and services offered.

In developing and updating the second edition, the CSDA task force recognized that many independent special districts already have established reserve policies and most, if not all, special district officials recognize their fiduciary responsibilities and take them seriously. What may have generated most of the concern regarding special district reserves in 2000 is not lack of policy, but lack of outreach to constituents and others regarding district operations. It is essential that special districts continue to promote understanding outside their boardroom and perform outreach on district financial management to facilitate understanding among the public, media and legislators.



## Introduction

Reserves are the foundation of the sustainable delivery of core services.

### *Importance of Maintaining a Reserve*

Reserves are the foundation of the sustainable delivery of core services. Through prudent reserves, special districts offer taxpayers and ratepayers significant benefits including:

1. Savings to balance budgets
2. Emergency preparedness
3. Stable rates
4. Well-maintained infrastructure
5. Investment in the future

The fundamental question in maintaining a reserve is, how much is enough? In other words, when are reserves too low and when are they too high? These can be delicate questions because unwarranted reserves could undermine taxpayer and ratepayer support, while insufficient reserves could jeopardize the district's long-term sustainability.

There is also the question of where reserve funds should be spent. Pressure to expend reserves on making current services cheaper, rather than planning for the future, is all too frequent. Adopting a reserve policy will assist your agency in answering these fundamental questions.

---

## Reasons for Adopting a Reserve Policy

In addition to the over-arching taxpayer and ratepayer benefits of reserves noted earlier, there are many specific reasons for a special district to adopt reserve policies:

### Shared Vision:

A formally adopted policy promulgates a shared understanding of the proper level and use of reserves, which facilitates healthy working relationships.

### Objectivity:

Revenue decisions represent some of the most controversial and difficult choices that governing boards must face. Utilizing reserve policies reduces political gamesmanship and promotes responsible long-term planning.

### Fiscal Justification:

Inevitably, public agencies will face scrutiny over whether to raise or reduce rates, taxes or fees. Having reserve policies in place prior to such occasions serves as a valuable tool for both making and explaining difficult decisions.

### Public Awareness:

Keeping the public informed about what you do is a fundamental responsibility for any public agency. They are the boss, after all, and all of us understand from personal experience that our jobs are a lot easier and a lot less stressful when the boss knows about and approves of what you are doing. Adopting a policy can help the district better communicate to the public the motives for adopting a reserve, as well as convey the reasons for maintaining the reserve at a certain level.



### Important questions about reserves

The fundamental question in maintaining a reserve is, how much is enough? In other words, when are reserves too low and when are they too high? These can be delicate questions because unwarranted reserves could undermine taxpayer and ratepayer support, while insufficient reserves could jeopardize the district's long-term sustainability.



## Prudent Accumulation and Management of Reserves: Developing Policy

Each special district should develop and adopt a reserve policy.

The Special District Reserve Guidelines reflect the common belief among special districts that there should be a clear and well-articulated rationale for the accumulation and management of reserve funds. Each special district should develop and adopt a reserve policy as a commitment to financial prudence and careful stewardship of community assets. It is critical to understand that a reserve fund is designated by a public agency to carry out specific purposes in a manner consistent with other financial policies, budgetary practices, district programs, and legal requirements.

### ***Reserve Policy Objectives:***

1. To provide adequate funding to meet the agency's short-term and long-term plans.
2. To minimize adverse annual and multi-year budgetary impacts from anticipated and unanticipated expenditures, thus minimizing the possibility of unplanned service fees or rate fluctuations.
3. To strengthen the financial stability of the agency against present and future uncertainties in an ever-changing environment.

### ***Foundational Elements of a Reserve Policy:***

Prior to developing a reserve policy, a district should first establish the three prerequisites below.

1. Clear, organizational philosophy/mission.
2. Policy-oriented board of directors, with long-term focus on fiscal sustainability.
3. Standardized method of financial reporting, such as Governmental Accounting Standards Board (GASB) Statement Nos. 34 and/or 54.

## Communicating regularly about district financials and reserve priorities creates trust.

### Principles for Developing a Reserve Policy:

#### 1. Identify the uniqueness of the district.

- a. Consider district goals, needs and constraints.
- b. Utilize life-cycle analysis if district is capital intensive.
- c. Regularly measure condition of assets.

#### 2. Form a complete understanding of the district's core business and significant cost drivers for district operations.

#### 3. Engage in strategic planning.

- a. By developing, regularly evaluating and, when necessary, modifying strategic plans, districts can more efficiently plan and shape their futures. Strategic planning can help district boards anticipate and adapt to changing environmental, regulatory and demographic conditions. This assists districts in establishing appropriate reserve funds and adopting adequate target levels.
- b. Seek community input in the strategic planning process, i.e., ratepayers and taxpayers, business groups, community organizations, other public agencies serving the same constituency, etc.

#### 4. Make communicating a priority.

- a. A regular newsletter and annual report are good starting points; it is critical for districts to reach out to the public and explain their financial position.
- b. Seek input through customer surveys, community meetings, and other meaningful engagement.
- c. Inform customers and constituents of output and seek their input in evaluating policies.

#### 5. Recognize that a good reserve policy must be consistent with other financial policies, such as a balanced operating budget and investment policies.

#### 6. Create and maintain a well-developed capital improvement plan.

#### 7. Estimate the ebb and flow, or "seasonality," of cash-flow during the fiscal year and build a basic understanding of the degree of short-term borrowing necessary to meet such needs.

#### 8. Clearly identify reserves—both categories and purposes. Set target levels for reserves that are consistent with the district's mission, the district's uniqueness and the philosophy of the district's board and community.

#### 9. A broad reserve policy may include many elements or sub-policies. Some areas that may need sub-policies include:

- a. Rate-stabilization funds
- b. Fees and charges
- c. Debt issuance and management
- d. Deferred maintenance
- e. Level of unrestricted (contingency) funds
- f. Long-term repair and replacement



## Fund Balance and Net Position/Net Assets

Every district has unique circumstances and a proper fund balance should be considered on a case-by-case basis.

There are many factors that must be considered when establishing an appropriate fund balance and ensuring the prudent management of your district's finances. Every district has unique circumstances and a proper fund balance should be considered on a case-by-case basis. Thoughtfully accounting for variables such as your district's revenue sources and income volatility will assist your district in determining its reserve amount. On the following pages are issues that should be considered when adopting a reserve level.





# Specific Considerations for Budgeting and Allocating Fund Balance or Net Position/Net Assets

Considerations
<p>1. Define the special district's fiscal objectives:</p> <ul style="list-style-type: none"><li>a. Short-term</li><li>b. Long-term</li><li>c. Operating</li><li>d. Capital</li></ul>
<p>2. Identify where funds are used:</p> <ul style="list-style-type: none"><li>a. Operating revenues are the general-purpose funds through which ongoing activities are funded.</li><li>b. Special-purpose revenues often are legally restricted for a particular use. For example, a special assessment for infrastructure must be separately accounted for and spent on designated infrastructure costs.</li><li>c. Debt proceeds should be used to fund costs that provide a benefit across fiscal years. The issuance of debt allows the district to allocate these costs by spreading the debt service to these periods. Debt proceeds should never be used for short-term operating costs because this would entail allocating current operating costs to future periods.</li><li>d. One-time revenues should be used for one-time expenses. If a special district gets one-time revenues and uses it to provide additional full-time positions or to fund on-going operating costs, it may lead to a budget crisis when the one-time funding runs out.</li></ul>



## One-time Revenue

According to the Government Finance Officers Association, "Examples of one-time revenue include: infrequent sales of government assets, bond refunding savings, infrequent revenues from development and grants. These revenue may be available for more than one year (e.g. , a three-year grant) but are expected to be non-recurring."

## One-time Expenditures

According to the Government Finance Officers Association, "Examples of expenditures which a government may wish to use one-time revenue include start up costs, stabilization (e.g. to cover expenditures that temporarily exceed revenues), early debt retirement, and capital purchases."

## Components of Fund Balance

In governmental funds, “reserves” typically comprise a portion of the total fund balance. Fund balance reporting standards play a part in describing how much of fund balance might be available for a reserve and how much is limited to other purposes. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, changes how fund balance has traditionally been reported.

In the past, reporting of fund balance focused on whether resources were available for appropriation (i.e., budgeting) and distinguished between “unreserved fund balance” (i.e., available for appropriation) and “reserved fund balance” (i.e., not available for appropriation). GASB Statement No. 54 changes the focus to the “extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent” and establishes five different components of fund balance:

### COMPONENTS OF FUND BALANCE

NONSPENDABLE FUND BALANCE	RESTRICTED FUND BALANCE	COMMITTED FUND BALANCE	ASSIGNED OR DESIGNATED FUND BALANCE	UNASSIGNED OR UNDESIGNATED FUND BALANCE
This category is inherently nonspendable, such as the long-term portion of loans receivable, the principle of an endowment and inventories.	This classification has externally enforceable limitations on the use of fund balance, imposed by parties such as creditors, grantors or laws or regulations of other governments.	This encompasses limitations imposed by the special district upon itself at its highest level of decision making (e.g., governing board through a resolution). For example, the governing board might commit a portion of fund balance to a “stabilization fund” to provide a cushion against unknown economic shocks and revenue declines.	This portion is earmarked for an intended use. The intent is established at either the highest level of decision making or by a body or official designated for that purpose. For example, a share of fund balance might be assigned to offset a gap in the budget stemming from a decline in revenues or an allotment could be assigned for an upcoming special project.	This comprises all fund balances that are left after considering the other four categories. Use is least constrained in this category of fund balance.



Unassigned fund balance is typically the primary subject of a reserve policy. However, committed and assigned fund balance may also be thought of as part of a reserve policy as the governing board or management, respectively, has some control over the balances. Conversely, restricted fund balances or nonspendable fund balances are fundamentally constrained, making it unnecessary to place parameters on them through reserve policy in order to achieve prudent savings and expenditures of public resources.

It is recommended that every district establish policies regarding minimum fund balance and spending priorities in order to communicate to users the importance of a reserve for economic uncertainties, why it consists of amounts that are unassigned and that it is not available for spending.

Districts' policies should specify the order in which fund balances are spent when more than one amount is available for a specific purpose. Where such policies do not exist, GASB 54 prescribes that the default order in which these amounts should be spent is committed, assigned, and then unassigned.



### **GASB 54**

According to the Governmental Accounting Standards Board, statement No. 54 was issued after, "...research revealed that the existing standards guiding fund balance reporting were being interpreted inconsistently by different governments. Consequently, the fund balance information reported by many governments also was inconsistent. It also became clear that the understandability of fund balance information was affected and that financial statement users were unable to readily interpret reported fund balance information."

*GASB fact sheet about Fund Balance Reporting and Governmental Fund Type Definitions*



### **Sample Policy Language**

The "X" district maintains a minimum unassigned fund balance of not less than "X" percent of budgeted general fund expenditures and other financing uses as a reserve for economic uncertainties. The district believes a reserve of this level is prudent to maintain a high bond rating and to protect the district from the effects of fluctuations in property tax revenues to which special districts are vulnerable. Because amounts in the nonspendable, restricted, committed and assigned categories are subject to varying constraints on their use, the reserve for economic uncertainties consists of balances that are otherwise unassigned.

## Reserve Level Targets

A reserve policy must set a target level of reserves to maintain. The target is typically defined in terms of unrestricted fund balance as a percentage of either regular operating revenues or regular operating expenditures. The choice between revenue and expenditures as a basis depends on which element is more predictable. A government that relies heavily on property taxes typically would choose revenues, whereas a government with a less predictable revenue portfolio might choose expenditures. In either case, the base should only reflect operating numbers and should remove the effect of unusual spikes or drops that would distort long-term trends.

With the basis of the target defined, the next step is to select a reserve-level target number. The Government Finance Officers Association (GFOA) offers guidance as to the amount of unassigned fund balance governments should maintain in their general fund operating revenues or regular general fund operating expenditures, regardless of size. As special-purpose governments, special districts should carefully balance such general advice with the unique circumstances associated with the district's operational environment.

In considering what constitutes adequate reserves, a special district may want to establish key benchmarks or ratios. Many industries have key equity target formulas or ratios that establish minimums to provide a red flag warning when equity may be too low. Some of those ratios may include the following:

- Debt to Equity
- Property Taxes to Equity
- Current Ratio
- Capital Outlay to Equity
- Capital Outlay to Operating Expenses

Certain districts may establish their own ratios based on the unique aspects of the district or an operating environment that may be different than other organizations in their industry.



### Local Conditions as a Basis

The Government Finance Officers Association notes that fund balance is ultimately a local decision based on local conditions. "...Finance staff should analyze the risks that influence the need for maintaining reserves as a hedge against uncertainty and loss."

*(p.57, GFOA, Financial Policies)*

## Articulating Financial Position and Decisions

Is this organization in good financial shape? That depends on the condition of the current assets and the short-term and long-term needs of the organization as they relate to its resources. If there exists significant current infrastructure needs, then financing may be required. Is enough set aside for contingencies? If water costs increase by 10 percent, or new environmental or health standards are issued, how will that affect total net assets?

Governmental entities collect, hold and expend resources in public trust. If too little is collected, they risk failing to meet mandated needs. If too much is collected, they overburden the public and tie up resources that taxpayers and ratepayers could use in the economy. Historically, governments have been known to spend most of their resources each year and too often fail to properly plan for long-term needs. Special districts should carefully examine their operations and budget to ensure that expenses, such as capital needs and contingencies, are anticipated and appropriate resources are set aside.

Some governments, either through good fortune or good planning, have reserved net assets for future plans and needs. What most governments have failed to do, as emphasized in the 2000 Little Hoover Commission's report, is to effectively communicate their plans for the net assets and explain why the balance is appropriate.

Each special district needs to:

1. Analyze its financial position.
2. Examine its current and long-term needs, including a capital improvement plan.
3. Establish its target fund balance or net assets.
4. Outline its goals and needs through policy, budgets and enhanced financial statement note disclosures.
5. Anticipate public scrutiny of financial statements and proactively communicate how finances are being used in a manner the public can easily digest.

It is recommended that special districts, at minimum, conduct a review of their reserve policy annually to ensure it meets the needs of the district and is in compliance with any requirements/standards that may have changed.

## Conclusion

Each special district's financial and legal professionals should review reserve policies prior to adoption to ensure they are in compliance with all current laws and regulations. Reserve policy should be established based on each district's unique financial situation. Any reserve policy needs to be reviewed regularly as the financial environment within which it functions is dynamic and there may be applicable legislative or regulatory changes.

The 2000 Little Hoover Commission report concluded that there was a disconnect between special districts and their constituents and other local government entities. Therefore, it is important that each agency not only develop a reserve policy, but ensure that stakeholders know and understand the district's financial position and decision-making process.

Districts should consider preparation of a public outreach program to communicate financial and program information on a regular basis to affected or interested populations. How involved each respective public outreach program is for a district is typically determined by the size and complexity of the district. A first step may be as simple as adding the information to an agency's website or the development of an annual report. CSDA encourages districts to take the next step and proactively engage the public to ensure its awareness.

We hope you find these guidelines helpful and if you have any comments or suggestions on how we can improve this document, please contact us at 877.924.2732.



## Addendum I: Glossary

**Assigned Fund Balance:** Amounts that are intended to be used by the special district for specific purposes but do not meet the criteria to be classified as restricted or committed.

**Capital Improvement Program (CIP):** A short-range plan that identifies capital projects and equipment purchases, provides a planning schedule and identifies options for financing the plan.

**Committed Fund Balance:** Amounts that can only be used for the specific purposes as determined by a formal action of the special district's highest level of decision-making authority.

**Net assets:** The amount of assets in excess of liabilities. For non-enterprise fund types, this excess is referred to as "fund balance." For enterprise-fund types, this excess is referred to as "net assets" or, as of July 1, 2012, "net position."

**Nonspendable Fund Balance:** Amounts that cannot be spent or where cash has been spent previously to produce a fund balance – for example, inventory, pre-paid expenses or restricted assets.

**Pay-Go:** Is the practice of financing expenditures with funds that are currently available rather than borrowed.

**Restricted Fund Balance:** Amounts that can only be spent for specific purposes which are stipulated outside the control of the special districts, such as the constitution, external resource providers (such as granting entities) or enabling legislation.

**Unassigned Fund Balance:** The residual of all other funds that are not nonspendable, restricted, committed or assigned. Unassigned balances are not in special revenue, capital projects, permanent or debt service funds unless the fund is in deficit.



## Addendum II: Special District Reserves Talking Points

### **PRUDENT RESERVES MAKE FOR SOUND BUDGETING**

For countless families, saving for a rainy day is common-sense. For special districts, reserve funds are not just money in a bank; they are fundamental resources for ensuring reliable core services and community security.

#### *How Taxpayers and Ratepayers Benefit*

Special districts designate money toward savings in order to balance their budget, respond to emergencies, keep rates affordable, maintain current infrastructure and plan for future public works projects.

- **Balancing Budgets** – Over the course of the fiscal year, short-term reserves help balance the ebb and flow of revenues verse expenditures.
- **Emergency Preparation** – In the event of a disaster, communities can't afford not to have savings readily available to quickly repair critical local infrastructure and bring core services back online.
- **Affordable Rates** – With appropriate savings, special districts are able to use resources wisely and smooth out the highs and the lows of volatile economic conditions, rather than spend their entire surplus and then seek new revenue or jeopardize services.
- **Infrastructure Maintenance** – Reserves mean the pipes are fixed, roofs are patched, and worn equipment is replaced without going back to the taxpayers or ratepayers to pay for routine upkeep.
- **Planning for the Future** – A long-term, thoughtful approach to public infrastructure requires the foresight to plan for, and discipline to save for, future needs.

#### *Reserves are Much More than Liquid Assets*

- What comprises a reserve fund? Reserve fund balances and net assets are not just cash and investments. They also include the net value of capital facilities, land and equipment measured from the very inception of the district.
- Assigned funds are budgeted for specific long-term public needs as planned by the board of directors.
- Committed funds are set aside via established policies for specific uses such as cash-flow, capital improvements, contingencies, and rate stabilization.
- Restricted funds are limited by legal or contractual requirements, or cannot otherwise be spent.

#### *Best Practices for Sensible Budgets*

- Historically, governmental agencies and departments have been known to spend everything they have before the end of the fiscal year in order to justify increased future allocations from their larger bureaucracy.
- Special districts are different because they empower core local service providers with budgetary control, encouraging efficiency and fiscal restraint rather than punishing it.
- The CSDA Reserve Guidelines Task Force identified both the essential elements of reserve policies and key issues to be discussed during reserve policy development to assist districts in fulfilling their commitment to provide cost-effective and efficient public services to their communities.





## Addendum III: Capital Planning

A Capital Improvement Program (CIP), also referred to as a capital plan, exists to identify and prioritize a special district's need for capital goods. A CIP should prioritize the importance and timing of the various assets to be acquired. In addition, a CIP should contemplate how those goods will be paid for – cash (equity) or debt. A capital plan is a strategic and comprehensive plan for the acquisition and implementation of the district's capital assets over time. In that sense, it is different from a finance plan, which focuses on individual acquisitions and how to pay for them.

To fulfill their mission, every district makes capital investments. Debt, especially tax-exempt debt, is recognized as an important and continuing source of a district's capital to fund improvements necessary to achieve its mission and strategic objectives. A CIP provides the framework by which decisions will be made regarding the use of cash and debt to finance capital projects.

Debt is defined to include all short and long-term obligations, guarantees and instruments that have the effect of committing the district to future payments. The assumption of debt, both direct and indirect, is subject to the district's approval. Any debt issued by subsidiary entities is subject to these policies. In satisfying their fiduciary responsibilities, it is important that a district's board and management know the extent of debt obligations.

### **CIP Objectives**

1. To provide guidelines to management on the use of reserves and debt to support a special district's capital needs while achieving the lowest overall cost of capital.
2. To provide selected financial measures, with specific targets, to ensure that the district continues to operate within appropriate financial parameters while allowing the agency to maintain financial stability and the highest acceptable credit rating that permits it to issue debt at favorable rates.
3. To bridge the cash flow gap between the district's available funds and its capital needs when the assumption of debt is deemed prudent.

### **Creating a Capital Plan**

1. Establish goals
2. Assess needs
3. Determine pay-go or borrow
4. Identify methods available for funding
5. Design the loan—the tactical plan
6. Organize approach

*Details on the following pages.*

## ***Establish Goals***

The key elements in setting clear capital plan goals include:

- 1. *Understanding the role of the planning horizon.*** Planning horizons are important considerations in well-developed capital plans. For example, it makes little sense to try to plan for a 10-year or 20-year horizon if innovation, technology, demographics or legislative threats to the plan occur frequently or on short notice. Conversely, agencies that are in low-technology businesses and stable demographic circumstances can more effectively and more appropriately plan for long periods. Planning horizons should mirror long-term repair and replacement requirements of existing facilities.
- 2. *Integrating the use (or lack thereof) of reserves.*** The extent to which a particular district has accumulated reserves will dramatically impact the CIP. The development of, and adherence to, strong reserve policies can greatly simplify funding choices for a capital plan, but blind adherence to arbitrary reserve levels can be just as inhibiting as no reserves at all. The key is to make reserve accumulation, or depletion, work in harmony with the CIP, operating budget and risk management of the district.
- 3. *Recognizing the repetitive nature of implementing the CIP.*** A capital plan is by its nature repetitive. For that reason, many districts choose to review and update it annually, usually as an adjunct to deliberation of the operating budget. This keeps the CIP current and tempered by present information on the priorities of the district.

## ***Assess Needs***

Every capital plan starts with a needs assessment. The assessment should be based on a comprehensive review of the agency's assets at the time an asset is recorded and an estimated useful life is assigned to each asset. This information later will be used as an indicator of when an asset is scheduled to be replaced. Estimated future replacement costs need to be obtained in order to reasonably estimate CIP fund requirements within an agency's long term financial plan.

## ***Determining Pay-Go or Borrow***

The "pay-go" method of using current revenues to pay for long-term infrastructure and other projects is often considered when sufficient revenues and reserves are available and long-term borrowing rates are higher than expected cash reserve fund earnings.

On the other side of the spectrum, the "pay-as-you-use" or "borrow" strategy limits the need for building of major amounts of equity in capital assets. Such accumulation can be less economically efficient, particularly for those districts that are capital intense and whose capital goods are "used up" over long periods of time. Similarly, financing of smaller capital goods, or those with short or uncertain useful lives, is also inefficient. The rationale behind the borrow approach is that the district's stakeholders should "pay" for the assets required to deliver the goods or services of the agency over a time period that more closely mirrors the useful life of those assets.

Most districts use a blended approach based on their debt management policy. Often, a district's approach is dictated as much by affordability as by philosophy, given that few public bodies are capable of paying cash for all capital assets.

### ***Identify Methods Available for Financing***

Once the goals have been set, the needs assessed and the decision whether to pay cash or finance the asset has been made, some thought must be given to the method of financing. For example, even if an asset is to be procured for cash, and the cash is on hand in a reserve set aside for that purpose, a decision still must be made on whether to replenish or restore that reserve, and over what time period and from what source it will be replenished.

Choosing to issue debt means that the following choices must be made: form of debt, mode (fixed or variable rate), repayment terms and method of sale. These are the tactical decisions that often blur the understanding of the strategic elements of the capital plan.

### ***Design the Loan – The Tactical Plan***

If a decision is made to borrow, an array of choices will follow. Some districts choose to borrow from banks or private lenders; others choose public offerings of debt. Lease financing may be considered as an alternate to bond financing. Some districts pool their needs with other similarly situated districts in order to reduce costs through economies of scale.

Regardless of the choice of lenders or approach matching the useful life of the financed asset to the borrowing term is an important consideration. Common sense tells us that we should hesitate to finance automobiles with 30-year bonds. By the same token, a water treatment plant with a design-life of 50 years can be safely and prudently financed over long periods of time. Still, debt issuances over 30 years are rare.

This element of the CIP should also carefully consider other needs within the strategic plan when pledging assets or revenues to lenders. A generous package to a lender on today's asset may make tomorrow's asset financing problematic or impossible. The key is to ensure that each tactical financing plan within the capital plan works harmoniously with other elements of the plan and is flexible enough to allow for the inherently changing nature of the CIP.

### ***Organize the Approach***

The successful capital planning process looks a great deal like the successful budgeting process. The end-result articulates the goals and objectives of the organization to all stakeholders and relies on an accurate and unbiased assessment of needs. It provides for an evaluation of the desired assets to distinguish between "wants" and "needs." It is written and shared with the district's stakeholders.

The capital plan is revisited often and provisions for changing or amending it are straightforward. Finally, it incorporates periodic analysis of results and achievements for management and the governing body.

## **Summary**

A CIP need not be elaborate or weighty to be effective. Many effective capital plans consist of a single spreadsheet and several paragraphs of supporting text. The development of the program is vital to the efficient use of capital. It is a key ingredient in a lender's assessment of management's effectiveness and control. It is among the most important tools an elected official possesses to discharge the duties of office.

Readers who are interested in additional information about the development of capital plans should consider a variety of books, and other information sources, on the topic. Some suggested examples are shown in the attached resource listing at the back of this document.



## Addendum IV: Resources

The Government Finance Officers Association (GFOA) is a great source for more information regarding various government financial matters, including fund balance and financial reporting. GFOA has an extensive publications department. View a list of its full offerings at [www.gfoa.org](http://www.gfoa.org). The following publications may be useful:

1. "An Elected Official's Guide to Financial Reporting"
2. "Best Practice – Replenishing Fund Balance in the General Fund"
3. "Governmental Accounting, Auditing, and Financial Reporting"
4. "Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting"

The Governmental Accounting Standards Board (GASB) has a number of user guides written by the standard setter for use in many types of governments. These include:

1. *An Analyst's Guide to Government Financial Statements—revised, updated, and significantly expanded*
2. *What You Should Know about the Finances of Your Government's Business-Type Activities—a completely new guide for 2012*
3. *What You Should Know about Your Local Government's Finances*

In addition, in 2013, GASB is expecting to publish a guide directed at "Business-Type Activities." Most special districts in California are "Business-Type Activities."



**CSDA**

**California Special  
Districts Association**

*Districts Stronger Together*

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**INSTITUTE FOR LOCAL  
GOVERNMENTS**

**GOOD GOVERNANCE CHECKLIST**

## Good Governance Checklist: Good and Better Practices



What practices can a local agency put in place to promote public trust and confidence? What practices can minimize the risk of missteps that could undermine or damage this trust and confidence?

The Institute for Local Government (ILG) has created a checklist to help elected officials, county administrative officers, city managers, agency counsel, local agency staff and the community-at-large answer these fundamental questions. Some of the “good practices” are those necessary to comply with California law. Others set the agency’s sights higher and take good practices to a level of “better practices.” Whenever possible, the checklist offers references for further information on a topic.

The checklist is divided into the following areas:

1	Stewardship of Public Resources (Financial Practices, Use of Public Resources, Procurement and Contracting)
2	Transparency (Open Government Practices, Meetings, Decision-Making)
3	Education, Training and Personnel
4	Campaigns

This checklist can be used by elected officials and staff to evaluate the current practices of an agency, identify deficiencies in policy and procedures, set goals and foster communication within the agency about its practices.

The checklist combines legal requirements included in California law as well as practices suggested by the following resources:

- Government Finance Officers Association’s best practices, available at [www.gfoa.org/best-practices](http://www.gfoa.org/best-practices)
- Institute for Local Government’s “Ethics Law Compliance Best Practices,” available at [www.ca-ilg.org/ethicsbestpractices](http://www.ca-ilg.org/ethicsbestpractices)
- League of California Cities City Managers Department, “Transparency and Your City Self-Assessment Checklist,” draft version available at [www.cacities.org/Resources-Documents/Member-Engagement/Professional-Departments/City-Managers/Transparency-Subcommittee/Transparency-and-Your-City-checklist](http://www.cacities.org/Resources-Documents/Member-Engagement/Professional-Departments/City-Managers/Transparency-Subcommittee/Transparency-and-Your-City-checklist)
- California Special District Leadership Foundation, “District Transparency Certificate of Excellence Checklist,” available at [www.sdlf.org/transparency.htm](http://www.sdlf.org/transparency.htm)
- Sunshine Review, “2013 Transparency Report Card,” available at [http://ballotpedia.org/Transparency\\_report\\_card\\_%282013%29](http://ballotpedia.org/Transparency_report_card_%282013%29)

In addition, the League of California Cities helped develop an extensive fiscal assessment tool designed to probe more extensively into local agency fiscal conditions. This tool is available at [www.californiacityfinance.com/Diagnostic1405.pdf](http://www.californiacityfinance.com/Diagnostic1405.pdf).

## ABOUT THE INSTITUTE FOR LOCAL GOVERNMENT

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The Institute for Local Government is the nonprofit 501(c)(3) research and education affiliate of the League of California Cities and the California State Association of Counties. For more information and to access the Institute's resources on ethics visit [www.ca-ilg.org/trust](http://www.ca-ilg.org/trust). If you would like to access this resource directly, go to [www.ca-ilg.org/goodgovernance](http://www.ca-ilg.org/goodgovernance).

The Institute welcomes feedback on this resource:

- Email: [ethicsmailbox@ca-ilg.org](mailto:ethicsmailbox@ca-ilg.org) Subject: Good Governance Checklist: Good and Better Practices
- Mail: 1400 K Street, Suite 205 ▪ Sacramento, CA ▪ 95814

## THANKS TO OUR SUPPORTERS

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## HOW TO USE THIS INFORMATION

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Although the Institute endeavors to help local officials understand technical and legal concepts that apply to their public service, these materials are not technical or legal advice. Officials are encouraged to consult technical experts, attorneys and/or relevant regulatory authorities for up-to-date information and advice on specific situations.



# STEWARDSHIP OF PUBLIC RESOURCES

## FINANCIAL PRACTICES | GENERAL

### Minimum Standards/Good Practices

- Consistent with generally accepted accounting principles, agency fully and accurately discloses both positive and negative financial information to the public and financial institutions including:
  - Summaries of all municipal funds, fund balances and changes
  - Summaries of all municipal revenues and expenditures
  - Five year financial forecast
  - General status of reserves and any unfunded obligations (for example, pension obligations)
  
- Agency creates and documents accounting policies and procedures

**Resource:**

- [www.gfoa.org/documenting-accounting-policies-and-procedures](http://www.gfoa.org/documenting-accounting-policies-and-procedures)

### Beyond the Minimum/Better Practices

- Agency discloses budget and financial documents on agency website. See Government Finance Officers Association's (GFOA) Best Practice: Using Websites to Improve Access to Budget Documents and Financial Reports, available at [www.gfoa.org/sites/default/files/CCIUsingWebsites.pdf](http://www.gfoa.org/sites/default/files/CCIUsingWebsites.pdf)
  
- Agency prepares five year financial forecasts for both general and other funds, examining issues such as overall economic trends, environmental and regulatory risks, unfunded liabilities, adequacy of fee levels, fund balances, cost deferrals and infrastructure condition
  
- Agency officials discuss forecasts, comparing actual results to forecasts, accompanied by a broader discussion of risks that could affect core agency service levels and facilities during public meetings
  
- Agency officials and the public they serve are clear on the financial implications (short and long term) of the policy and other decisions being made; management and decision-makers support a culture of transparency regarding the agency's financial situation
  
- Agency engages in energy efficiency and conservation measures to save money and natural resources

**Resource:**

- [www.ca-ilg.org/energy-efficiency-conservation](http://www.ca-ilg.org/energy-efficiency-conservation)

# STEWARDSHIP OF PUBLIC RESOURCES

## FINANCIAL PRACTICES | INTERNAL AGENCY CONTROLS

### Minimum Standards/Good Practices

- Agency segregates duties among staff to minimize risk of error or misconduct
- Agency has created a system of authorizations, approval and verification for transactions
- Diligent reconciliation process requirements are in place and followed to compare various sets of data to one another; discrepancies are identified and investigated and corrective action is taken when necessary

**Resource:**

- [www.osc.state.ny.us/agencies/ictf/docs/intcontrol\\_stds.pdf](http://www.osc.state.ny.us/agencies/ictf/docs/intcontrol_stds.pdf)

### Beyond the Minimum/Better Practices

- Managers are given information and training to take responsibility for internal controls
- Manager involvement follows GFOA's best practices including:
  - Trainings for all employees
  - Documentation of internal controls
  - Practical means for employees to report management override of internal controls that could indicate fraud
  - Periodic evaluation of internal controls

**Resource:**

- [www.gfoa.org/getting-management-involved-internal-control](http://www.gfoa.org/getting-management-involved-internal-control)

## FINANCIAL PRACTICES | PERIODIC FINANCIAL REPORTS

### Minimum Standards/Good Practices

- A certified public accountant prepares agency annual financial reports in accordance with generally accepted accounting principles
- Agency officials receive periodic financial reports (mid-year at a minimum)
- Reports provide a clear and complete picture of the agency's assets and liabilities
- Periodic financial investment reporting occurs in open meetings

### Beyond the Minimum/Better Practices

- Agency complies with the Government Finance Officers Association, financial reporting best practices. For more information see [www.gfoa.org/conforming-governmental-accounting-auditing-and-financial-reporting-standards](http://www.gfoa.org/conforming-governmental-accounting-auditing-and-financial-reporting-standards)
- Agency posts and archives periodic reports on the agency website
- Reviewing officials receive training/information on how to evaluate reports

**Resources:**

- [www.ca-ilg.org/FinancialReportingandAccounting](http://www.ca-ilg.org/FinancialReportingandAccounting)

# STEWARDSHIP OF PUBLIC RESOURCES

## FINANCIAL PRACTICES | BUDGET

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<ul style="list-style-type: none"> <li><input type="checkbox"/> Agency makes complete current fiscal year budget available on agency website</li> <li><input type="checkbox"/> Agency has a clear capital financing and debt management policy that addresses how it selects external consultants such as bond counsel, financial advisors, trustees, engineering consultants and underwriters</li> <li><input type="checkbox"/> Capital financing and debt management policies address disclosure and relations with rating service agencies</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Agency complies with Government Finance Officers Association’s, “Best Practices in Public Budgeting” available at <a href="http://www.gfoa.org/services/nacslb/">www.gfoa.org/services/nacslb/</a></li> <li><input type="checkbox"/> Agency makes budgets for the past three years available on agency website</li> <li><input type="checkbox"/> Agency officials receive training and information of how to review and/or comment on a budget and questions to ask</li> </ul> <p><b>Resource:</b></p> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/budget-creation-and-monitoring">www.ca-ilg.org/budget-creation-and-monitoring</a> (materials and informational video)</li> </ul> <ul style="list-style-type: none"> <li><input type="checkbox"/> Agency provides information on the budget to the public through a variety of channels, with an emphasis on presenting the information in plain and understandable terms</li> </ul> <p><b>Resource:</b></p> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/engaging-public-budgeting">www.ca-ilg.org/engaging-public-budgeting</a></li> </ul> <ul style="list-style-type: none"> <li><input type="checkbox"/> Agency holds public budget workshops to get community input on perceived needs</li> </ul>

## FINANCIAL PRACTICES | EXPENSE REIMBURSEMENT POLICY

See Use of Public Resources section below

# STEWARDSHIP OF PUBLIC RESOURCES

## FINANCIAL PRACTICES | AUDITS

### Minimum Standards/Good Practices

- Agency auditing practices meet California State Controller’s requirements
- Resource:**
- [www.sco.ca.gov/ard\\_local\\_info\\_resources.html](http://www.sco.ca.gov/ard_local_info_resources.html)
- Agency secures independent audits of financial reports no later than 180 days after year end
  - Agency fully cooperates with state and federal audits
  - Agency posts most recent audit, including opinions on internal controls and other matters, on agency website as well as making such reports available at libraries
  - Agency periodically changes auditors to provide a fresh view of agency finances (no less than every six years)<sup>1</sup>
  - Agency governing body meets with auditor to review results of audit in a full and frank manner during a public meeting; officials treat any issues identified as opportunities to improve agency practices and not as opportunities to blame staff

### Beyond the Minimum/Better Practices

- Agency auditing practices exceed State Controller’s requirements
- Resource:**
- [www.sco.ca.gov/ard\\_local\\_info\\_resources.html](http://www.sco.ca.gov/ard_local_info_resources.html)
- Auditors review agency procedures for handling potential conflicts of interests among agency staff
  - Agency posts the past three years’ audits on agency website
  - Agency officials receive information and training on how to review and comment on an audit
- Resource:**
- [www.ca-ilg.org/audits](http://www.ca-ilg.org/audits)

# STEWARDSHIP OF PUBLIC RESOURCES

## USE OF PUBLIC RESOURCES\* | EXPENSE REIMBURSEMENT

\*AGENCY FUNDS AND ANYTHING PURCHASED WITH THOSE FUNDS

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<p><input type="checkbox"/> Agency has required travel and expense reimbursement policies for elected and appointed officials,<sup>2</sup> as well as for staff</p> <p><b>Resource:</b></p> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/SampleReimbursementPolicies">www.ca-ilg.org/SampleReimbursement Policies</a></li> </ul> <p><input type="checkbox"/> Agency provides the expense reimbursement policy to all new employees and officials</p> <p><input type="checkbox"/> Staff carefully and consistently reviews compliance with expense reimbursement policy and receives support from top management and governing body in doing so</p> <p><input type="checkbox"/> Compliance with expense reimbursement policy is subjected to independent verification</p> <p><input type="checkbox"/> Legislative body members make required brief report of meeting attendance at the agency's expense at the next meeting of the body<sup>3</sup></p>	<p><input type="checkbox"/> Policy and organizational culture emphasizes the value of being conservative about using public resources</p> <p><b>Resources:</b></p> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/reimbursementpolicy">www.ca-ilg.org/reimbursementpolicy</a></li> <li>• "Buying Meals for Others on the Public's Dime" available at <a href="http://www.ca-ilg.org/dime">www.ca-ilg.org/dime</a></li> </ul> <p><input type="checkbox"/> Agency posts the expense reimbursement policy on agency website</p> <p><input type="checkbox"/> Staff and elected officials receive periodic reminders on the provisions of the policy that most likely apply to them</p> <p><input type="checkbox"/> Members make a brief report on meetings and conferences attended at agency expense, underscoring the value received</p>

## USE OF PUBLIC RESOURCES\* | ALLOWANCES

\*AGENCY FUNDS AND ANYTHING PURCHASED WITH THOSE FUNDS

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<p><input type="checkbox"/> Any allowance (for example, a telephone or technology allowance) is backed up by documentation explaining the factual basis for the allowance</p>	<p><input type="checkbox"/> Officials decline overly generous or duplicative allowances/benefits that could create public perception issues or present ethical concerns</p>

# STEWARDSHIP OF PUBLIC RESOURCES

## USE OF PUBLIC RESOURCES\* | AGENCY RESOURCES AND EQUIPMENT

\*AGENCY FUNDS AND ANYTHING PURCHASED WITH THOSE FUNDS

### Minimum Standards/Good Practices

- Agency adopts policy which takes into account proscriptions against:
  - Gifts of public resources
  - Personal use of public resources
  - Political use of public resources (see Campaign section below)

Agency policy is consistently applied

Staff and elected officials understand and comply with mass mailing prohibitions<sup>4</sup>

**Resource:**

- [www.ca-ilg.org/massmailing](http://www.ca-ilg.org/massmailing)

Those with special access to agency equipment receive training and periodic reminders on prohibitions of use of agency resources for personal or political purposes

### Beyond the Minimum/Better Practices

Orientation of newly elected officials, newly appointed officials and newly hired staff address the issue of permissible and impermissible uses of public resources

Agency periodically reminds team members of policies and proscriptions at relevant time points (for example, before election season)

Agency explores opportunities to share limited resources among a network of local agencies (cities, schools, special districts, counties, etc.) to leverage capital and staff resources through joint training programs, sharing services, and joint use of facilities and equipment

**Resource:**

- [www.ca-ilg.org/shared-services-and-joint-use](http://www.ca-ilg.org/shared-services-and-joint-use)

# STEWARDSHIP OF PUBLIC RESOURCES

PROCUREMENT AND CONTRACTING	RULES AND POLICIES
<p>Minimum Standards/Good Practices</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Agency has a transparent and fair process for selecting with whom it will do business</li> <li><input type="checkbox"/> Agency complies with state competitive bidding requirements for public works projects<sup>5</sup></li> <li><input type="checkbox"/> Agency has clear organization-wide standards and guidelines regarding procurement and contracting</li> <li><input type="checkbox"/> Agency has policy for advertising contracts open for bidding</li> <li><input type="checkbox"/> Agency has policies in place for the proper disposal of surplus property – policies are communicated to staff</li> <li><input type="checkbox"/> Local officials involved in contracting decisions receive information and/or training on the laws prohibiting self-dealing in agency contracts<sup>6</sup></li> <li><input type="checkbox"/> Officials involved in contracting and purchasing decisions must be included in an agency’s conflict of interest code and regularly file a Statement of Economic Interests (Form 700)<sup>7</sup> <ul style="list-style-type: none"> <li>• Form 700 is available at: <a href="http://www.fppc.ca.gov">www.fppc.ca.gov</a></li> </ul> </li> <li><input type="checkbox"/> Agency completes Agency Report of Consultants (Form 805)<sup>8</sup> and ensures that all consultants in designated positions complete and file a Statement of Economic Interests (Form 700) <ul style="list-style-type: none"> <li>• Form 805 is available at: <a href="http://www.fppc.ca.gov/forms/805.pdf">www.fppc.ca.gov/forms/805.pdf</a></li> </ul> </li> </ul>	<p>Beyond the Minimum/Better Practices</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Agency complies with both the letter and the spirit of procurement laws and policies, that all interested parties are given the opportunity to do business with the agency on an equal basis</li> <li><input type="checkbox"/> Agency website explains processes for doing business with the agency</li> <li><input type="checkbox"/> Agency website includes information about contract opportunities and Requests for Proposals (RFPs)</li> <li><input type="checkbox"/> Vendors receive information about ethics standards for doing business with the agency</li> <li><input type="checkbox"/> Agency conducts periodic training and outreach to educate prospective and current vendors on the agency contracting process</li> <li><input type="checkbox"/> Agency engages in climate friendly purchasing practices <ul style="list-style-type: none"> <li><b>Resource:</b> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/climate-friendly-purchasing">www.ca-ilg.org/climate-friendly-purchasing</a></li> </ul> </li> </ul> </li> <li><input type="checkbox"/> Agency engages in regional or shared bidding processes among local agencies in a geographic area to reduce costs.</li> </ul>

# TRANSPARENCY

## OPEN GOVERNMENT PRACTICES | PROMOTING TRANSPARENCY

### Minimum Standards/Good Practices

- Agency anticipates information the public needs concerning the agency’s activities and makes the information available through a variety of channels including the agency website
- Local officials and designated staff are current in making their Statement of Economic Interests (Form 700) disclosures
  - Form 700 is available at: [www.fppc.ca.gov](http://www.fppc.ca.gov)
- Agency institutes a policy for receipt of free tickets/event admissions for officials and ensures reporting compliance on the FPPC Agency Report of Ceremonial Role Events and Ticket/ Admission Distributions (Form 802)<sup>9</sup>
  - Form 802 is available at: [www.fppc.ca.gov/forms/802.pdf](http://www.fppc.ca.gov/forms/802.pdf)

### Beyond the Minimum/Better Practices

- Agency creates a “transparency portal” on its website that provides anticipated information the public needs from all agency departments in one easy to find location
- Agency makes Statement of Economic Interests (Form 700) disclosures available on the agency website
- Agency makes Ticket/Admission Distribution Report (Form 802) available on the agency website
- Agency makes Payment to Agency Report (Form 801) available on the agency website
  - Form 801 is available at: [www.fppc.ca.gov/forms/801.pdf](http://www.fppc.ca.gov/forms/801.pdf)
- Agency uses an electronic filing system to make posting and completion of the required disclosures easier

## OPEN GOVERNMENT PRACTICES | PUBLIC RECORDS ACT REQUESTS

### Minimum Standards/Good Practices

- Agency adopts policy for handling Public Records Act requests and makes the policy available on website and through other channels
- A designated staff member handles all records requests in order to ensure prompt compliance with records requests
- (Alternative for Larger Agencies) Designated staff members within each department receive training on Public Records Act compliance to enable the department to properly respond to such requests.

### Beyond the Minimum/Better Practices

- Agency accepts online records requests
- Agency anticipates commonly requested records and posts them on the agency website, including all Fair Political Practices Commission forms
- Agencies participating in joint use or shared services provide online access to documents and materials about cross-agency relationships



# TRANSPARENCY

## OPEN GOVERNMENT PRACTICES | PUBLIC ENGAGEMENT

### Minimum Standards/Good Practices

- Agency has an easy to use website that makes public information readily available
- Agency website uses plain language and minimizes the use of acronyms to ease understanding
- Agency provides information explaining how the decision-making process works and how people can provide input

**Resource:**

- [www.ca-ilg.org/PEOrientations](http://www.ca-ilg.org/PEOrientations)

- Agency engages in regular communications through a variety of channels to keep the public up-to-date on agency activities

**Resource:**

- [www.ca-ilg.org/PEstrategiccommunications](http://www.ca-ilg.org/PEstrategiccommunications)

- Communications are translated as needed and distributed to appropriate community groups

**Resource:**

- [www.ca-ilg.org/EthnicMediaInfographic](http://www.ca-ilg.org/EthnicMediaInfographic)

- Agency officials maintain regular office hours

- Department heads maintain an “open door policy” for the public

### Beyond the Minimum/Better Practices

- Residents can subscribe to an e-notification system for meetings, summaries of actions taken at meetings, workshops or other events/information

- Agency uses social media and other digital tools to engage and communicate with the public

**Resource:**

- [www.ca-ilg.org/online-engagement-guide](http://www.ca-ilg.org/online-engagement-guide)

- Agency uses mobile app for community members to report issues

**Resource:**

- [www.ca-ilg.org/technology-and-public-input](http://www.ca-ilg.org/technology-and-public-input)

- Agency develops relationships with community based organizations, neighborhood groups, ethnic media and clergy/congregations to distribute information and solicit input on issues of potential interest to those groups

**Resource:**

- [www.ca-ilg.org/partnering-community-based-organizations](http://www.ca-ilg.org/partnering-community-based-organizations)

- For potentially controversial and/or complex issues, the agency creates additional opportunities for individuals to learn about and have input into decisions on those issues

**Resource:**

- [www.ca-ilg.org/DeeplyHeldConcerns](http://www.ca-ilg.org/DeeplyHeldConcerns)

- Agency has or creates youth commissions as an opportunity to connect with younger generations about public services and needs

**Resource:**

- [www.ca-ilg.org/engaging-youth](http://www.ca-ilg.org/engaging-youth)

- Agency collaborates and partners with other local agencies to engage shared constituencies, through activities such as joint meetings and newsletters

## OPEN GOVERNMENT PRACTICES | INFORMATION ABOUT KEY ELECTED AND APPOINTED OFFICIALS AND STAFF

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<ul style="list-style-type: none"> <li><input type="checkbox"/> Contact information, including telephone numbers, mailing addresses, office locations and email addresses are available on agency website and kept current</li> <li><input type="checkbox"/> Terms of office/appointment and next election date are disclosed</li> <li><input type="checkbox"/> Agency Report of Appointments (Form 806) is posted on agency website<sup>10</sup> <ul style="list-style-type: none"> <li>• Form 806 is available at: <a href="http://www.fppc.ca.gov/forms/806.pdf">www.fppc.ca.gov/forms/806.pdf</a></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Website and other communications explain terms of office and next election/appointment date for elected and appointed officials</li> <li><input type="checkbox"/> Materials and information on how to seek election and appointment are available on agency website</li> <li><input type="checkbox"/> Agency website contains a dedicated page for links to other local, state and federal agencies, clarifying the functions and services of each agency and makes referrals to other agencies where appropriate</li> </ul>

## OPEN GOVERNMENT PRACTICES | BOARDS AND COMMISSIONS

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<ul style="list-style-type: none"> <li><input type="checkbox"/> Agency complies with California law relating to creation of a Local Appointments List (Maddy Act), which is a list of all appointed positions that expire within the next calendar year. The list is made available to members of the public by various means and provided to the local library with the largest service population<sup>11</sup></li> <li><input type="checkbox"/> Agency posts unexpected vacancies in the agency's clerk's office, the local library with the largest service population and other locations as directed by the legislative body<sup>12</sup></li> <li><input type="checkbox"/> Agency posts the Local Appointments List on the agency website on or before January 2 of each year</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Agency supports leadership program(s) to familiarize potential applicants who are thinking of applying to boards and commissions with relevant roles and responsibilities</li> <li><input type="checkbox"/> Agency distributes the Local Appointments List broadly through social and print media, ethnic media, community-based organizations, and clergy and congregations</li> <li><input type="checkbox"/> Agency publicizes unexpected vacancies broadly through press releases, social and print media, ethnic media, community-based organizations, and clergy and congregations</li> <li><input type="checkbox"/> Agency encourages local officials to engage in widespread outreach through their networks to inform all segments of the community about opportunities to serve on boards and commissions</li> </ul>

# TRANSPARENCY

## MEETINGS | POLICIES AND PROCEDURES

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<p><input type="checkbox"/> All elected and appointed officials have received information/training related to California’s open meeting laws<sup>13</sup></p> <p><b>Resources:</b></p> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/abc">www.ca-ilg.org/abc</a></li> </ul> <p><input type="checkbox"/> Chairperson receives training/information about the role of the chairperson</p> <p><b>Resources:</b></p> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/chairmeeting">www.ca-ilg.org/chairmeeting</a></li> </ul> <p><input type="checkbox"/> All members of the decision-making body receive training/information about roles, responsibilities and purpose</p> <p><input type="checkbox"/> Agency has adopted rules of procedure to govern meetings that meet the needs of the agency and the public</p> <p><b>Resources:</b></p> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/parliamentarysimplified">www.ca-ilg.org/parliamentarysimplified</a></li> </ul>	<p><input type="checkbox"/> Agency promotes civility in public meetings</p> <p><b>Resources:</b></p> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/PromotingCivility">www.ca-ilg.org/PromotingCivility</a></li> </ul> <p><input type="checkbox"/> A statement of basic rules and protocol related to public participation is included on meeting agendas and orally stated at the beginning of public comment period</p> <p><input type="checkbox"/> Agency engages in processes to enable the public to understand how to most effectively communicate concerns about issues before the agency</p> <p><b>Resources:</b></p> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/publicmeetings">www.ca-ilg.org/publicmeetings</a></li> </ul>

## MEETINGS | WEBSITE CONTENT

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<p><input type="checkbox"/> Agency posts regular meeting agendas 72 hours in advance and special meeting agendas 24 hours in advance on agency website<sup>14</sup></p> <p><input type="checkbox"/> Current year meeting minutes and agendas are available on agency website</p> <p><input type="checkbox"/> Community members can sign up for email notices/reminders of public meetings</p> <p><input type="checkbox"/> Calendar of date, time, location of meetings is available on the agency website</p>	<p><input type="checkbox"/> Agency posts meeting agendas for regular meetings earlier than required to enable the public to understand upcoming issues before the agency</p> <p><input type="checkbox"/> Agency makes archives of meeting minutes and agendas for three years or longer</p> <p><input type="checkbox"/> Agency makes available live audio/video streams and archived recordings of meetings available on the agency website</p> <p><input type="checkbox"/> Agency posts video recordings of meetings with relevant accompanying materials</p> <p><input type="checkbox"/> Agency emails meeting agendas to subscribers with information on how to view related materials on the website</p>

# TRANSPARENCY

## DECISION-MAKING | DECISION-MAKERS

### Minimum Standards/Good Practices

- California Fair Political Practices Commission’s Form 700 (Statement of Economic Interests) is distributed and collected in a timely manner on an annual basis (required by law<sup>15</sup>)
- Decision-makers know where the 500-foot boundaries are with respect to their various property interests<sup>16</sup>
- Officials are advised of prohibitions against self-dealing in addition to the Political Reform Act<sup>17</sup>

### Beyond the Minimum/Better Practices

- Agency staff creates a map of the 500-foot boundaries for each decision-maker to help him or her determine if there is a potential conflict of interest in a decision

## DECISION-MAKING | PROCESSES

### Minimum Standards/Good Practices

- Agency has adopted a conflict of interest code as required by the Political Reform Act<sup>18</sup>
- Decision-makers receive training on due process rules applicable to quasi-adjudicatory (administrative) hearings.
 

**Resources:**

  - [www.ca-ilg.org/bias](http://www.ca-ilg.org/bias)
- Decision-makers know the agency’s policies for disclosure of information they receive outside of adjudicatory hearings
- Agency policies are applied consistently to those seeking agency approvals, regardless of personal connections
- Decision-makers listen attentively at public hearings, particularly adjudicatory hearings
- Decision-makers consider potential impacts to the resources of other local, state, federal or tribal agencies when making decisions

### Beyond the Minimum/Better Practices

- Decision-makers voluntarily abstain when their ability to make decisions in the public interest (as opposed to personal or political interests) might be reasonably questioned

**Resource:**

- [www.ca-ilg.org/abstentions](http://www.ca-ilg.org/abstentions)

# EDUCATION, TRAINING & PERSONNEL

## EDUCATION/TRAINING | ONBOARDING

### Minimum Standards/Good Practices

- Agency provides materials on duties and responsibilities for all newly elected and appointed officials and staff

**Resources:**

- [www.ca-ilg.org/new-local-public-service](http://www.ca-ilg.org/new-local-public-service)

- Agency provides information on policies, including ethics policy, upon onboarding

### Beyond the Minimum/Better Practices

- Orientation on duties and responsibilities is available to all newly elected and appointed officials and staff

**Resources:**

- [www.ca-ilg.org/OrientationMaterials](http://www.ca-ilg.org/OrientationMaterials)

- When appropriate agency shares training services and costs among neighboring local agencies

## EDUCATION/TRAINING | ONGOING EDUCATION

### Minimum Standards/Good Practices

- Agency supports continuing education activities for staff, appointed and elected officials (including those that are required by law for certain professional license-holders)
- Agency requires attendance at sexual harassment prevention training for elected officials and those in supervisory positions (two hours every two years required for those in supervisory positions)<sup>19</sup>
- Agency publicizes and makes available resources to help local officials understand ethics laws

### Beyond the Minimum/Better Practices

- Agency encourages regular attendance at local and/or statewide continuing education activities
- Agency plans regular training sessions and budgets for attendance at trainings
- Agency provides information and guidance on handling ethical dilemmas in the workplace
- Agency conducts joint education and information sessions among city, county, school and special district elected officials about roles, responsibilities and purpose of each local government agency to clarify and raise awareness among decision-makers
- When appropriate agency shares training services and costs among neighboring local agencies (e.g. computer classes for fundamental software programs)

# EDUCATION, TRAINING & PERSONNEL

## EDUCATION/TRAINING | PROMOTING ORGANIZATIONAL ETHICS

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<input type="checkbox"/> Ethics values are included in the agency's mission statement <input type="checkbox"/> Agency has adopted a value-based code of ethics <p><b>Resources:</b></p> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/ethicscodes">www.ca-ilg.org/ethicscodes</a></li> </ul> <input type="checkbox"/> Ethics are part of agency's hiring practices and interview process <input type="checkbox"/> Agency values collaboration and partnerships with other local agencies and community-based organizations	<input type="checkbox"/> Agency's leadership leads by example by consistently demonstrating agency's values through actions <input type="checkbox"/> When collaborating with other agencies, staff and leadership show respect and decorum for the formal and informal processes of partners and the community, developing and formalizing agreements when necessary

## EDUCATION/TRAINING | ETHICS TRAINING (AB 1234)<sup>20</sup>

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<input type="checkbox"/> Elected and appointed officials receive two hours of ethics training every two years (and basic overview training within one year of assuming position) <sup>21</sup> <ul style="list-style-type: none"> <li>• Online training available at: <a href="http://www.fppc.ca.gov">www.fppc.ca.gov</a></li> </ul> <input type="checkbox"/> All local officials who must receive AB 1234 training are current on their training <input type="checkbox"/> Top level staff voluntarily receives training on ethics laws and principles as relevant to their duties within the agency	<input type="checkbox"/> Elected and appointed officials receive basic overview training within two months of assuming position <input type="checkbox"/> Agency takes steps to make AB 1234 training meaningful, understandable and helpful <input type="checkbox"/> AB 1234 training is in-person (as opposed to online) to enable discussion and questions <input type="checkbox"/> Certificates of compliance are easily accessible to the public and media (for example posted on the agency website) <input type="checkbox"/> Agency requires top level staff to participate in training on ethics laws and principles as relevant to their duties within the agency <input type="checkbox"/> Compliance is a condition of continuing appointment (for appointed officials) and reimbursement (elected officials) <input type="checkbox"/> Subsequent trainings are more in depth examinations of required topics <sup>22</sup> <input type="checkbox"/> Agency coordinates with other local agencies to provide AB 1234 training to all local officials and designated staff, including cities, counties, schools and special districts

# EDUCATION, TRAINING & PERSONNEL

## PERSONNEL | PRACTICES AND POLICIES

### Minimum Standards/Good Practices

- Agency has fair and merit based processes in place for hiring and advancing employees
- Agency consistently makes a concerted effort to advertise widely for open positions
- Elected officials generally play a role in selection of chief executive, department heads, agency counsel, and non-elected or appointed staff and provide regular guidance and feedback to those employees

**Resources:**

- [www.ca-ilg.org/Board-Chief-Executive-Relations](http://www.ca-ilg.org/Board-Chief-Executive-Relations)

- Officials understand and abide by agency's adopted policies relating to who makes hiring and other personnel decisions relating to subordinate staff
- Agency has a non-discrimination policy and abides by its terms
- Agency has adopted and follows an anti-nepotism policy
- Agency has adopted a whistleblower protection policy and posted it on the agency website<sup>23</sup> (see Speaking Truth to Power section below)
- Agency has adopted policies regarding second jobs and other potentially incompatible activities<sup>24</sup>

### Beyond the Minimum/Better Practices

- Agency posts compensation and benefits information for all officials and employees on the agency website
- Agency completes salary comparison/benchmarking for staff positions using a reputable salary survey every five years - agency posts summary of results on agency website



# EDUCATION, TRAINING & PERSONNEL

## PERSONNEL | INCENTIVES FOR SPEAKING TRUTH TO POWER<sup>25</sup>

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<ul style="list-style-type: none"> <li><input type="checkbox"/> Agency has an adopted policy clearly explaining procedures for reporting and investigating allegations of misconduct and protection of those that report misconduct</li> <li><input type="checkbox"/> Unlawful conduct is dealt with swiftly, firmly and consistently within the agency</li> <li><input type="checkbox"/> Agency supervisors and staff are familiar with legal protections related to whistle-blowing activities and receive ongoing training</li> </ul> <p><b>Resource:</b></p> <ul style="list-style-type: none"> <li>• <a href="http://www.ca-ilg.org/whistle">www.ca-ilg.org/whistle</a></li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Agency supports employees who bring forward truthful, but potentially unwelcome, unsolicited, unpopular or difficult information to the attention of relevant decision-makers</li> <li><input type="checkbox"/> Governing bodies encourage chief executive and financial staff to regularly analyze financial trends for areas of potential concern/risks so the body can discuss and address them</li> <li><input type="checkbox"/> Staff participates in professional associations that provide guidance on ethics as it relates to their role in the organization - for a list of local agency professional associations with ethics codes see <a href="http://www.ca-ilg.org/associationsethicscodes">www.ca-ilg.org/associationsethicscodes</a></li> </ul>

## PERSONNEL | CHIEF EXECUTIVE

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<ul style="list-style-type: none"> <li><input type="checkbox"/> Agency chief executive has a college degree in relevant field and a minimum of five years of broad-based management experience</li> <li><input type="checkbox"/> Chief executive is or is willing to become a member of the International City/County Management Association (ICMA) in good standing and adheres to ICMA's declaration of ideals. For more information see <a href="http://www.icma.org">www.icma.org</a></li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> The hiring process includes ethics questions in interviews</li> </ul> <p><b>Resource:</b></p> <ul style="list-style-type: none"> <li>• "Promoting Personal and Organizational Ethics" available at <a href="http://www.ca-ilg.org/ppoe">www.ca-ilg.org/ppoe</a></li> </ul>

## PERSONNEL | AGENCY COUNSEL

Minimum Standards/Good Practices	Beyond the Minimum/Better Practices
<ul style="list-style-type: none"> <li><input type="checkbox"/> Agency counsel is an active member of the California State Bar in good standing with at least five years' experience in municipal law. See <a href="http://www.calbar.ca.gov">www.calbar.ca.gov</a></li> <li><input type="checkbox"/> Agency counsel is familiar with and adheres to the California State Bar's Rules of Professional Conduct. See <a href="http://www.calbar.ca.gov/ethics">www.calbar.ca.gov/ethics</a></li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> The hiring process includes ethics questions in interviews</li> <li><input type="checkbox"/> Agency counsel acts in accordance with the ethical principles and values set forth by the agency and other relevant organizations. For example, "Ethical Principles for City Attorneys" available at <a href="http://www.cacities.org/attorneys">www.cacities.org/attorneys</a></li> </ul>



# EDUCATION, TRAINING & PERSONNEL

## PERSONNEL | AGENCY CLERK

### Minimum Standards/Good Practices

- Agency clerk is or is willing to become a member of the International Institute of Municipal Clerks (IIMC) in good standing and adheres to IIMC's code of ethics. For more information see [www.iimc.com](http://www.iimc.com)

### Beyond the Minimum/Better Practices

- Agency encourages clerks to engage in education, mentorship and professional development activities through the California Clerk of the Board of Supervisors Association and the California City Clerks Association

**Resources:**

- [www.ccbsa.net](http://www.ccbsa.net)
- [www.californiacityclerks.org](http://www.californiacityclerks.org)

# CAMPAIGNS

## CANDIDATES

### Minimum Standards/Good Practices

- Candidates for the governing board receive information on how to comply with campaign laws<sup>26</sup>, including local requirements and restrictions<sup>27</sup>
- Agency distributes California’s Code of Fair Campaign Practices to all candidates<sup>28</sup>
- Agency provides candidates with information about ethics laws, including conflicts of interest, incompatible offices and governmental transparency requirements that will be relevant to their service if elected

**Resource:**

- [www.ca-ilg.org/CandidatePamphlet](http://www.ca-ilg.org/CandidatePamphlet)

### Beyond the Minimum/Better Practices

- A pledge of fair campaign practices is distributed to and signed by all candidates. Available at [www.ca-ilg.org/campaigncodes](http://www.ca-ilg.org/campaigncodes)
- Agency supports one or more leadership programs to familiarize potential candidates who are thinking of running for office with local issues and decision-making practices

## OFFICIALS AND EMPLOYEES

### Minimum Standards/Good Practices

- Officials and employees are advised of prohibitions relating to campaign fundraising directed at agency staff<sup>29</sup>
- Officials and employees are advised of restrictions relating to political activities of public employees<sup>30</sup>
- Officials and employees are reminded of the proscriptions against political use of public resources including the use of equipment, photocopying, or mailing of campaign related materials at the public’s expense<sup>31</sup>

**Resources:**

- [www.ca-ilg.org/massmailing](http://www.ca-ilg.org/massmailing)
- The Fair Political Practices Commission fact sheet on prohibited mass mailings available at [www.fppc.ca.gov](http://www.fppc.ca.gov)

### Beyond the Minimum/Better Practices

- Agency provides trainings to officials and employees on prohibitions and restrictions on the political activities of public employees

# References and Resources

Note: Sections in the California Code are accessible at <http://leginfo.legislature.ca.gov/>.

Fair Political Practices Commission regulations are accessible at [www.fppc.ca.gov/index.php?id=52](http://www.fppc.ca.gov/index.php?id=52). A source for case law information is [www.findlaw.com/cacases/](http://www.findlaw.com/cacases/) (requires registration).

- 1 See Cal. Gov't. Code § 12410.6 (“a local agency shall not employ a public accounting firm to provide audit services to a local agency if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local agency for six consecutive fiscal years.”).
- 2 Cal. Gov't Code § 53232.2.
- 3 Cal. Gov't Code § 53232.3.
- 4 Cal. Gov't Code § 89001; 2 Cal. Code Regs §§ 18901-18901.1.
- 5 See Cal. Pub. Cont. Code §§ 20121-20123, 20162-20163.
- 6 See Cal. Gov't Code § 1090.
- 7 See 2 Cal. Code Regs. § 18730.
- 8 Available at [www.fppc.ca.gov/forms/805.pdf](http://www.fppc.ca.gov/forms/805.pdf).
- 9 See 2 Cal. Code Regs. § 18944.1.
- 10 See 2 Cal. Code Regs. § 18705.5.
- 11 Cal. Gov't Code §§ 54970-54973.
- 12 Cal Gov't Code § 54974.
- 13 Cal. Gov't Code § 54950 and following.
- 14 Cal. Gov't Code § 54954.2.
- 15 2 Cal. Code Regs. § 18723.
- 16 See 2 Cal. Code Regs. § 18705.2(a)(11), (A financial effect in which an official has a financial interest, other than a leasehold interest, is material whenever the governmental decision would consider any decision affecting real property value located within 500 feet of the property line of the official's real property unless the FPPC provides written advice of the determination that there will be no reasonably foreseeable measurable impact on the official's property).
- 17 See Cal. Gov't Code § 1090.
- 18 See Cal. Gov't Code §§ 87300-14.
- 19 Cal. Gov't Code § 12950.1.
- 20 Cal. Gov't Code § 53235 requires ethics training for specified local government officials. For more information see [www.ca-ilg.org/ab1234compliance](http://www.ca-ilg.org/ab1234compliance).
- 21 See Cal. Gov't Code § 53235(a), (b).
- 22 See California Attorney General's Guidelines, available at <http://oag.ca.gov/ethics>.
- 23 See Cal. Lab. Code § 1101-06.
- 24 See Cal. Gov't Code §1126.
- 25 Aaron Wildavsky, *Speaking Truth to Power: The Art and Craft of Policy Analysis* (Boston: Little, Brown, 1979).
- 26 See generally Cal. Gov't Code §§ 84100 – 84511.
- 27 See Cal. Gov't Code § 81009.5 (Local government agencies that have adopted campaign finance ordinances must submit a copy to the FPPC). Copies or links to these ordinances are posted on the FPPC website at [www.fppc.ca.gov/index.php?id=9](http://www.fppc.ca.gov/index.php?id=9).
- 28 Cal. Elect. Code §§ 20440-20444.
- 29 See Cal. Gov't Code § 3205.
- 30 See Cal. Penal Code § 424; Cal. Gov't Code § 8314.
- 31 Cal. Penal Code § 424; Cal. Gov't Code §§ 8314, 89001; 2 Cal. Code Regs. § 18901.1.