



Central Marin Police Authority

Staff Report

TO: Central Marin Police Council

FROM: Management Committee
Todd Cusimano, Chief of Police

DATE: January 4, 2016

RE: **AMENDING MINIMUM BALANCES FOR THE CENTRAL MARIN POLICE
AUTHORITY RESERVE FUND AND AUTHORIZING ITS FISCAL OFFICER TO APPLY
EXCESS MONIES FROM THE RESERVE FUND AND ITS YEARLY BUDGET TO THE
INSURANCE FUND**

ACTION REQUESTED

That Council hear the staff report, take comment, and adopt Resolution No. 2016/01.

REFERENCE

Resolution 2016/01.

FISCAL IMPACT

The Authority's current policy is to maintain a dry period reserve for the General Fund of \$750,000 or ten percent (10%) of expenditures, whichever is greater. Ten percent of this year's budgeted expenditures is \$1,099,561. The Authority projected reserve at year end is \$825,000, with plans to reach the policy's target by the end of Fiscal Year 2018-19.

The proposed action would establish a policy that the reserve will be five percent (5%) of budgeted expenditures. The proposed action would free money currently held in the dry period reserve for transfer to the Authority's Insurance Fund. The net result is no overall fiscal impact, but a shift in where monies are held and under what restrictions.

DISCUSSION

An audit for Fiscal Year 2014-15 identified an emerging deficit in the Insurance Fund as an issue that should be addressed as soon as possible. The Central Marin Police Authority maintains a dry period reserve for the General Fund to help provide fiscal stability by holding monies to cover cash flow and budget challenges created by unanticipated changes in revenues and expenditures.



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In 2014, the Central Marin Police Council set forth a minimum dry period reserve budget under Central Marin Police Authority Resolution No. 04/14. This resolution set the dry period reserve at \$750,000 or ten percent (10%) of the current budget, whichever is greater. Industry practices with respect to reserve policies vary greatly, with anywhere from five to ten percent being a common goal for a joint powers authority to have in reserve. The ten-percent target was selected consistent with the Authority's longstanding practice of being extremely conservative in its fiscal practices.

When San Anselmo became part of the Authority, the two existing member agencies, Corte Madera and Larkspur, had contributed \$375,000 to the Authority's reserve. To smooth the fiscal impact on San Anselmo of building the Authority's reserve, it was decided that the dry period reserve would run below the required ten-percent threshold while San Anselmo made annual contributions of \$75,000 for five years (through Fiscal Year 2018-19). Corte Madera and Larkspur would only be asked to make new payments to the reserve if their respective one-third shares would exceed \$375,000 before Fiscal Year 2018-19. At the end of the current fiscal year, it is anticipated that the dry period reserve will hold \$825,000.

Recently, the Management Committee, working with the Chief of Police and the Authority's Finance Director, considered the historical trends of the Authority's budget (dating back to Twin Cities Police Authority) and concluded a policy of holding five percent of expenditures in a dry period reserve should be more than sufficient to meet the intent and purpose of establishing such a reserve. Concurrently, the Management Committee, Police Chief, and Finance Director evaluated long-standing practices with respect to the Authority's Insurance Fund, a reserve for addressing claims against the Authority (including workers compensation claims), and concluded that a change in practice and the establishment of clear policy is in order. The amount of money that the Authority should have in its insurance fund is evaluated annually by actuaries working for the Bay Cities Joint Powers Insurance Authority, a risk pool of which the Authority is a member. A high number of workers compensation claims in the past few years have depleted the Insurance Fund.

Staff has been monitoring this issue with the Insurance Fund for some time, but has not proposed addressing it until now because of the Authority's need to resolve issues relating to pension and OPEB liabilities. Staff now believes the Insurance Fund should be addressed.

ANALYSIS

Based on current year numbers, reducing the Authority's dry period reserve from ten to five percent will lower the amount required to be held in reserve from \$1,099,561 to \$549,782. The collective assessment of the Management Committee, Chief, and Finance Director is that \$549,782 will be sufficient for the Authority in a dry period.



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The Authority needs to take action to begin meeting the Insurance Fund targets established by the Authority's risk pool. For Fiscal Year 2015-16, the Insurance Fund should have \$300,000 in it. A first step in meeting this goal was to budget \$200,000 in contributions from the member agencies the current year budget. A second step in meeting this goal would be to assign dry period reserve monies in excess of \$549,782 to the Insurance Fund. This amount would be \$275,220.

The Authority also has \$65,000 sitting in its Equipment Replacement Fund that the Chief does not believe will be needed in the near term. He is recommending – and the Management Committee concurs – that this money should be moved to Insurance Fund.

Further, the Authority has approximately \$100,000 in excess revenues from Fiscal Year 14-15 that have not been assigned by the Council. Staff is recommending these monies be placed in the Insurance Fund.

Taking these various steps means that at the Fiscal Year's end, the Insurance Fund will hold \$640,220 minus claims paid.

The attached resolution would authorize these steps and establish as policy that the Finance Director should move excess monies at the end of a fiscal year to the Insurance Fund.

If the Police Council approves of these changes to the policies guiding the dry period reserve and the Insurance Fund, there should be some clarification regarding the annual \$75,000 contributions required of San Anselmo. The goal of these contributions remains to have San Anselmo contribute \$375,000 over five years to the Authority's reserve programs, as \$375,000 is the amount both Corte Madera and Larkspur had contributed at the time San Anselmo joined the Authority.

If the Police Council approves the attached resolution making staff's recommended changes, staff would consider and documents would reflect that San Anselmo is a full, one-third partner in the Authority's dry-period reserve at the end of Fiscal Year 2016-17, rather than Fiscal Year 2018-19. The \$75,000 payments made in Fiscal Years 2017-18 and 2018-19 would be applied to the Insurance Fund (which is essentially what the proposed actions of this resolution will do with a portion of the monies previously contributed by Corte Madera and Larkspur).

STAFF RECOMMENDATION

It is recommended for the Council to adopt Resolution 2016/01.

Attachments:

1. Resolution No. 2016/01



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When San Anselmo became part of the Authority, the two existing member agencies, Corte Madera and Larkspur, had contributed \$375,000 to the Authority's reserve. To smooth the fiscal impact on San Anselmo of building the Authority's reserve, it was decided that the dry period reserve would run below the required ten-percent threshold while San Anselmo made annual contributions of \$75,000 for five years (through Fiscal Year 2018-19). Corte Madera and Larkspur would only be asked to make new payments to the reserve if their respective one-third shares would exceed \$375,000 before Fiscal Year 2018-19. At the end of the current fiscal year, it is anticipated that the dry period reserve will hold \$825,000.

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1. Resolution No. 2016/01

**CENTRAL MARIN POLICE AUTHORITY
RESOLUTION NO. 2016/01**

**A RESOLUTION OF THE CENTRAL MARIN POLICE COUNCIL OF THE CENTRAL
MARIN POLICE AUTHORITY AMENDING MINIMUM BALANCES FOR THE
CENTRAL MARIN POLICE AUTHORITY RESERVE FUND AND AUTHORIZING
ITS FISCAL OFFICER TO APPLY EXCESS MONIES FROM THE RESERVE FUND
AND ITS YEARLY BUDGET TO THE INSURANCE FUND**

WHEREAS, the Central Marin Police Council has established an unrestricted reserve that provides fiscal stability to the organization during cash flow fluctuations and against unanticipated changes in revenues and expenditures; and

WHEREAS, the Central Marin Police Authority has a current deficit in its insurance fund due to worker's compensation claims; and

WHEREAS, under Central Marin Police Council Resolution No. 04/14, the Authority has a reserve policy that set forth a minimum dry period reserve of \$750,000 or ten percent (10%) of the Authority's annual adopted budget, whichever is greater; and

WHEREAS, the Central Marin Police Authority would like to lower this percentage rate from ten percent (10%) to five percent (5%) and would like to authorize its fiscal officer to apply excess funds from the reserve fund to its insurance fund, created by the lowering of the reserve fund's percentage rate; and

WHEREAS, the Central Marin Police Authority would like to authorize its fiscal officer to apply any future excess Central Marin Police Authority budgetary monies which exist at the end of each fiscal year to the insurance fund, if those funds are in excess of the new reserve fund cap; and

NOW, THEREFORE, IT IS HEREBY RESLOVED, that the Central Marin Police Council rescinds Resolution No. 04/14 and hereby authorizes the establishment of the new reserve structure and payments to the Reserve Fund for the Central Marin Police Authority; and

IT IS HEREBY CERTIFIED, that the forgoing resolution was duly introduced and adopted at a public meeting of the Central Marin Police Council of the Central Marin Police Authority held on the 7th day of January 2016 by the following vote, to wit:

AYES: COUNCILMEMBERS:
NOES: COUNCILMEMBERS:
ABSENT: COUNCILMEMBERS:
ABSTAIN: COUNCILMEMBERS:
ATTEST:

Zaneta Feleo, Authority Clerk
Central Marin Police Authority

Tom McInerney, Council Chair
Central Marin Police Authority