

TURLOCK MOSQUITO ABATEMENT DISTRICT STATEMENT OF FUND BALANCE POLICY

I. Background & Purpose.

It is the Turlock Mosquito Abatement District's ("District") policy to maintain an adequate fund balance for public health emergency, contingencies, operating cash flow, future liabilities, replacement of equipment, and for future construction. It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks and to ensure stable tax rates. The Fund Balance Policy follows the guidelines set in the Governmental Accounting Standards Board ("GASB") Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

II. Fund Balance Classifications.

GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB 54 provides for classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

- *RESTRICTED FUND BALANCE:*

GASB 54 states that the restricted fund balance category includes amounts that can only be spent for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *COMMITTED FUND BALANCE:*

GASB 54 states that the committed fund balance classification includes amounts that can only be used for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

- *ASSIGNED FUND BALANCE:*

GASB 54 states that the amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

- *UNASSIGNED FUND BALANCE:*

GASB 54 states that the unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

III. Fund Structuring.

The fund structure includes the General Fund and the VCJPA Member Contingency Fund.

- *GENERAL FUND:*

The General Fund is the primary operating fund of the District. It accounts for all activities of the District, except those required to be accounted for in another fund.

- *VCJPA MEMBER CONTINGENCY FUND:*

The VCJPA Member Contingency Fund is a side fund managed by the Vector Control Joint Powers Association designed to cover the District for liabilities resulting from a claim(s) that go beyond the District's self-insured insurance limits.

The District's Adjusted Operating Expenses shall be determined by including the following budget categories:

Wages	Operating Supplies	Aerial Services
Aerial Pesticides	Uniforms	Public Education
Office Expense	Professional Services	Transportation

IV. General Fund

- *RESTRICTED FUND BALANCE:*

- **Public Health Emergency Fund (Restricted)**

The *California Health and Safety Code Section 2070* provides that the Board of Trustees can divide the annual budget into categories including a restricted reserve for public health emergencies. The Public Health Emergency Fund may only be spent to respond to public health emergencies. Public Health Emergencies are defined using the *California Mosquito-Borne Virus Surveillance and Response Plan* and the *California Operational Plan for Emergency Response to Mosquito-Borne Disease Outbreaks* prepared by the California Department of Health Services.

These plans include necessary actions in situations of Emergency Response Planning and Epidemic Response Planning, summarized below, and they will be paid for from the Restricted Reserve for Public Health Emergency.

Emergency Response Planning includes the following actions:

- Securing the necessary labor needed for additional mosquito surveillance/trapping for 3 months.
- Broadening geographic coverage of mosquito sample testing.
- Increasing the number of mosquito samples tested.
- Increasing frequency and geographic coverage of mosquito larvae surveillance.
- Increasing frequency and geographic coverage of mosquito larvae control measures.
- Securing additional products for aerial and ground-based adult/larvae mosquito control.
- Contracting for increased aviation service on a “stand-by” basis.

Epidemic Response Planning includes the following actions:

- In addition to actions listed above, *Epidemic Response Planning* includes a contract with aviation companies that use twin turbine aircraft available for routine spray operations over urban/populated areas.
- The contract would include:
 - The cost of a control product per acre
 - The cost of application per acre
 - The size of the application area(s)
 - The number of flights required

The recommended minimum funding amount for the Public Health Emergency Fund is 16% (2-months) of the District’s Operating Expenses. The recommended maximum funding amount is 32% (4-months) of the District’s Adjusted Operating Expenses. This funding is based on the estimated cost to implement the above actions for several months during a public health emergency event.

- COMMITTED FUND BALANCE
 - **Compensated Absences Fund (Committed)**

The District shall maintain a Compensated Absences Fund to cover the District's liability should an employee(s) separate from the District and be owed money for accumulated vacation and overtime.

The recommended minimum level for this fund balance should be set to cover the District's current compensated absences liability; while the maximum level should not exceed the highest compensated absences liability observed over the previous 5-year period.

- **Invasive Species Fund (Committed)**

The District shall maintain a fund balance account in preparation for the arrival of invasive mosquito species, such as the Yellow Fever mosquito (*Aedes aegypti*) or the Asian Tiger mosquito (*Aedes albopictus*). The finding of either of these species within the District would have a large impact on the District as current operation procedures would not be effective against these mosquitoes. The control of these mosquitoes would require much more surveillance and is very labor intensive – house-to-house, backyard-to-backyard. In addition, public education and outreach becomes even more critical to recruit public support and assistance in controlling these mosquitoes in their own backyards.

It is recommended that the District establish this fund so that if and when an invasive mosquito species, such as these, are found, it has minimal impact on the District's current control operations and WNV disease prevention program. As a Committed Fund Balance account, the funds would be committed towards activities specific to controlling an invasive mosquito species found within the District; unless an action approved by a majority of the Board approved otherwise.

The recommended minimum funding amount for the Invasive Species Fund is 8% (1-month) of the District's Adjusted Operating Expenses. The recommended maximum funding amount is 16% (2-months) of the District's Adjusted Operating Expenses. This funding is based on the estimated cost of control and public outreach efforts aimed at eradicating an invasive species found in a specific area or areas within the District.

- *ASSIGNED FUND BALANCE:*
 - **Operations Fund (Assigned)**

The District shall maintain an Operations Fund equal to 50-60% of Adjusted Operating Expenses. These funds are set-aside because the District receives the majority of its funding from property taxes collected by the County of Stanislaus. These funds are typically not transmitted to the District until late December or January, six months into the fiscal year. Therefore, it is important that the District have an operating fund to fulfill its general operating costs. The delay in receiving funding and not having reserves could inhibit the District's ability to provide services for the benefit of public health.

The recommended minimum level for the Operations Fund is equal to 50% of District Adjusted Operating Expenses. The recommended maximum level for the Operations Fund is equal to 60% of the District Adjusted Operating Expenses.

- **Capital Replacement Fund (Assigned)**

The District will maintain a fund for replacing District vehicles, spray equipment, IT equipment, structural improvements and other capital assets in a uniform fashion. By establishing a fund for capital asset replacement, it is hoped that District finance and operations become more stabilized during economic upswings and downturns. The District's replacement policy shall be based on the useful life determination of equipment contained in the Turlock Mosquito Abatement District's By-laws and Administrative Policies Manual.

The District shall maintain a fund amount that reflects the District's future capital replacement needs projected at least 5-10 years into the future. Replacement costs shall be calculated using the original purchase price adjusted for regional inflation using the Consumer Price Index (CPI).

V. **VCJPA-Member Contingency Fund**

- *ASSIGNED FUND BALANCE:*

- **Self-Insured Assigned Reserve (VCJPA-Member Contingency Fund)**

The Vector Control Joint Powers Agency (VCJPA) manages a side fund in which members may invest to cover potential claims over and above a district's insurance limits or to cover potential liabilities not covered under the VCJPA's pooled programs. The VCJPA has determined that a

prudent fund balance to be \$200,990; however, the District has decided to invest over this dollar amount to cover possible future liabilities not originally considered.

In a letter to the VCJPA dated February 2, 2010, the District opted to set its maximum member trust fund amount to \$421,478. This amount was determined by assessing potential liabilities not covered under the VCJPA's pooled programs, such as: environmental clean-up costs (Turlock Air Park - \$150,000) and potential environmental lawsuits (NPDES - \$100,000). It is recommended that this value be set as the maximum for this fund balance. It is further recommended that the VCJPA suggested fund balance of \$200,990 be established as the minimum fund balance amount.

VI. Use and Replenishment of Reserves

- *RANGE STRUCTURE*

Ranges are established based on the percentage (%) of the subsequent year's Budgeted Expenditures or Revenue to allow for stability over time. This policy will require additional funding of reserves as Budgeted Expenditures or Revenues increase.

- *MINIMUM/MAXIMUM RANGE*

The goal of this Policy is to maintain reserves above the minimum range level and never above the maximum range, when listed. If fund balances fall below the minimum range listed, a plan shall be developed to increase the fund balance amount until it is at least at, or higher than, the minimum fund balance range (see "Replenishment of Reserves" below). The Government Financial Officer Association recommends, at absolute minimum, that government entities, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues.

- *USE OF RESERVES TO ADDRESS STRUCTURAL IMBALANCE*

To the extent that there is an imbalance between revenues and Budgeted Expenditures, it is important that reserves are utilized carefully and judiciously, since reserves are a one-time, nonrecurring funding source. Just as reserves are

built up over a series of years, drawing down on reserves should also be done in measured amounts. The long-term health of the fund requires that a structural imbalance must be addressed promptly. If an imbalance occurs, a multi-year plan shall be developed to address the imbalance concurrently with the planned reserve draw down. The implementation of the replenishment plan will be done in accordance with the guidelines below (see 6 “Replenishment of Reserves”). A planned draw down of a fund’s reserves should not reduce the reserve below the midpoint of the range.

- *REPLENISHMENT OF RESERVES*

The following criteria should be used to restore reserves based upon the remaining reserve compared to the respective maximum reserve guideline:

- If the reserves are drawn down below the minimum fund balance range, then a budgetary plan shall be implemented to return the reserve level to the minimum fund balance range over a 5-year maximum period.

- *ANNUAL STATUS REPORTING AND PERIODIC REVIEW*

Annually, as part of the budgetary process, the District’s Board of Trustees will be presented an updated Fund Balance Worksheet showing the fund balance of each account and any associated minimum and maximum fund balance ranges. Any recommended changes to funding levels will be included with accompanying reasons for recommending the changes. For any funds drawn down below the minimum fund balance range, then a budgetary plan shall be developed and approved by the Board to restore the reserve according to the criteria stated in the Replenishment of Reserves section listed above.