

ITEM B - Staff Report on Reserves Policy

The Ranch currently operates without a formal reserve policy. The Covid-19 pandemic proved particularly challenging for the Ranch, with the Recreation Director moving expeditiously to lay off workers and cut staff hours, including her own. The Ranch asked for, and received, capital injections from the Town of Tiburon and the City of Belvedere of a combined \$193,326, according to the usual 80:20 split. Thanks to this proactive stance, the Ranch emerges from the pandemic with reserves projected to reach \$295,000 at the end of FY 21/22 (February 28, 2022), an all-time high.

The toll of the Covid-19 adjustment was felt primarily by the Ranch’s staff. Given the current healthy level of reserves, and to prevent decision making that would intentionally drain reserves during times of economic stability, formal adoption of a reserve policy may be warranted. The goal of the policy is to create a buffer of funds to lean into during future natural disasters, pandemics, and other economic shocks (and to cover unforeseen budget shortfalls). This would allow the Ranch more time to review its financial position, plan strategically, and ward off drastic, unplanned cuts.

The recommended reserve policy targets a reserve balance (fund equity net of capital assets) equal to six months of administrative and facility expenses. If adopted, the Ranch will create future budgets with this policy goal in mind, such that the projected year-end reserve balance is moving towards or equal to six months of budgeted administrative and facility expenses, except during economic shocks. Intentional accumulation of reserves above this target is not desirable.

The goal of this policy is not to unnecessarily constrain the Ranch, or force mid-year adjustments in the face of unforeseen budget shortfalls. The level of reserves will be considered within the context of the budget and reviewed annually.

In the event of a natural disaster, pandemic, or other economic shock, the Recreation Director will inform the Board of the need to utilize the Reserve Fund and provide regular updates on the use of funds and remaining reserve balance.

As mentioned, the Ranch expects to close out FY 2021/22 with a reserve balance of approximately \$295,000, net of capital assets. The proposed FY 2022/23 budget projects net income (net of depreciation) of \$30,000, increasing reserves to a projected \$324,000 by the end of FY 2022/23. With administrative and facility expenses projected to be \$710,000 in FY 22/23, this gives the Ranch a projected reserve ratio of 45.7%, above the expected outcome of FY 21/22 and very close to the reserve policy goal.

The Recreation Director supports this policy.

Reserve Ratio Forecast

	FY 2021-22 Initial	FY 2022-23 Forecast
Reserve Balance End Year (a)	A - \$296,626	A- \$325,000
Administrative + Facility Expenses (b)	B - \$652,068	B- \$710,680
Reserve Ratio (a/b) Goal is 50% of B	45.5%	45.7%