ABAG FINANCE AND PERSONNEL COMMITTEE

Thursday, May 19, 2011, 5:00 p.m.
ABAG Conference Room
MetroCenter—8th and Oak Streets
Oakland, CA

		Recommendation**
1.	**Public Comments**	**Information**
*2.	**Minutes of March 17, 2011 Meeting**	**Action**
*3.	**Financial Reports – ABAG** *The February and March 2011 Financial reports are enclosed with the agenda packet.*	**Action**
*4.	**Payment of *Per Diems* to Invited Board Members** *Committee to discuss possible changes to per diem policy; guidance from Legal Counsel provided in attached memorandum.*	**Action**
*5.	**ABAG Fund Balance and Proposed Reserve Policies** *Staff will present information on ABAG Fund Balances and recommend a reserve policy. Staff will also present budget balancing initiatives in both the current and next fiscal year.*	**Information**
6.	**Update on Proposed Regional Facility**	**Information**
	THE FOLLOWING ITEMS WILL BE DISCUSSED IN CLOSED SESSION PURSUANT TO THE REQUIREMENTS OF THE RALPH M. BROWN ACT.	
7.	**Personnel Matter** *Public Employee Performance Evaluation* *Title: Executive Director*	**Information/ Action**
8.	**Adjournment**	**Action**

* Attachments enclosed with packet.

** The Committee may take action on any item on the agenda, which action may be the recommended action, any other action or no action.

ABAG FINANCE AND PERSONNEL COMMITTEE

Summary Minutes

March 17, 2011

Members Present	Jurisdiction
Supervisor Rose Jacobs Gibson, Chair	County of San Mateo
Supervisor Susan Adams	County of Marin
Supervisor David Cortese	County of Santa Clara
Mayor Mark Green	City of Union City
Supervisor Scott Haggerty	County of Alameda
Vice Mayor Peter McHugh	City of Milpitas
Councilmember A. Sepi Richardson	City of Brisbane

Members Not in Attendance	
Supervisor John Gioia	County of Contra Costa
Supervisor Barbara Kondylis	County of Solano

Officers and Staff Present
Ezra Rapport, Executive Director
Patricia Jones, Assistant Executive Director
Kenneth Moy, Legal Counsel
Herbert Pike, Finance Director
Susan Hsieh, Assistant Finance Director

1) The meeting was called to order at 5:10 p.m.

2) Summary Minutes of the January 20, 2011 meeting were approved.
/M/McHugh/S/Cortese/C/approved.

3) Pike provided an overview of the December 2010 and January 2011 Financial Reports.
/M/Green/S/McHugh/C/approved.
/M/Cortese/S/McHugh/C/approved request to have staff come back to the Committee at the next meeting with a Reserve policy proposal.

4) Jones updated the committee as to the selection of CBRE as the broker/dealer to solicit and review potential sites for the proposed Regional Facility. A solicitation for proposals has been distributed with proposals from possible site managers due by April 1.

(continued)

5) Pike presented the issue, with assistance from Jones and Moy, regarding the authorization to pay *per diem* to Board members specifically requested to participate in another Committee of which they are not a regular member.
/M/McHugh/S/Cortese/C/approved directing staff to return with a formal resolution back at next meeting (May 19).

6) Jones presented the status of the cities with membership dues for FY 2010-11 not yet fully paid.

7) Meeting adjourned at 6:12 p.m.

TO: Finance and Personnel Committee

DT: April 28, 2011

FM: Herbert Pike, Finance Director

Re: Financial Reports --February 2011

The following are highlights of the financial reports for February 2011.

Overall Summary (Figures 3, 4, 7 & 8)

At February 28th, the Agency's net financial position is only marginally off from the forecast with a deficit of roughly $36 thousand, or about 0.27 percent of year-to-date revenues, a decrease of $105 thousand from the deficit noted at the end of January. As certain new grant projects come on line, they should generate both more grant revenue, reduce overhead expense and contribute overhead recoveries, thereby reducing the projected deficit by year-end. Also, as noted previously, a greater proportion of labor costs become reimbursable as leaves diminish in the second half of the fiscal year. ABAG is working with MTC to obtain additional funding to cover Planning/Research funding shortfalls; some anticipated grant projects did not materialize and MTC has given preliminary assurances they will assist in maintaining staffing to move forward with the SCS process. With the trends already in place, gap funding from MTC and anticipated one-time transfers from FAN, ABAG is expected to finish the fiscal year with balanced revenues and expenditures.

Cash on Hand (Figure 1)

Cash on hand increased to $1.27 million on February 28th from $1.07 million on January 31st. The increase is attributed almost totally on the $197 thousand reduction in receivables through collections. The February balance includes approximately $0.65 million invested in the Local Agency Investment Fund (LAIF). Currently, ABAG does not hold any other investments. The February 28th cash balance is approximately $540 thousand less than the prior year. This strongly, inversely relates to the increase in receivables of $561 thousand over the same period.

Receivables (Figure 2)

Receivables from grant and service programs amounted to about $3.63 million on February 28th, a decrease of $197 thousand from the month prior. During February, staff continues to process grants on both the monthly billing cycles and the grants billed quarterly for the second quarter ending on December 31st. Because of this cycle, unbilled receivables decreased by $182 thousand during February. February receivables are $561 thousand higher than the year prior. Causes for this significant increase include new grants (especially CEC) for which new billing guidelines are being implemented and, thereby, causing delays in recovery, and an increase in deferred subcontractor payments for which grant reimbursement is anticipated.

Actual vs. Budgeted Expenses (Figure 9)

Total expenses through February 28th amounted to about $13.40 million, or 63.8 percent, of the projected annual expense of $21.0 million for FY 10-11.

F&PC AGENDA ITEM #3-A

Actual vs. Budgeted Revenues (Figure 10)
As of February 28th, total revenues amounted to about $13.36 million, or 63.6 percent, of the projected annual revenue of $21.0 million for FY 10-11.

As of February 28th, both revenues and expenses are below pro rated (66.7 percent) "projected" annual totals. While revenues and expenditures might be expected to be 66.7 percent after the first eight months of the new fiscal year, they are less largely due to the lag between when contractors perform the work and when the contractor bills ABAG.

Fund Equity (Figure 5)
As of February 28th, general fund equity was approximately $985 thousand, an increase of $105 thousand from January 31st. The increase is primarily attributed to the decelerated use of leave associated with the vacations and holidays in December, a trend that should continue through the remainder of the year as holidays and vacations are fewer. The Agency's restricted fund equity, consisting of capital, self-insurance and building maintenance, remained unchanged at $510 thousand.

Indirect Cost (Figure 6)
The Agency's actual indirect cost (overhead) rate was 43.45 percent of direct labor cost as of February 28th, or about 0.50% above the budgeted rate of 42.95 percent for FY 10-11. The decrease from the prior month is encouraging and reinforces the expectation that it will continue to decline to the budgeted amount by the end of the fiscal year. For the same month in the prior year, the rate was 44.88 percent but ended at 42.95 percent for the year. Some administrative staff is expected to be diverted to some new energy projects that should result in reduced overhead spending.

ABAG FINANCIAL REPORTS

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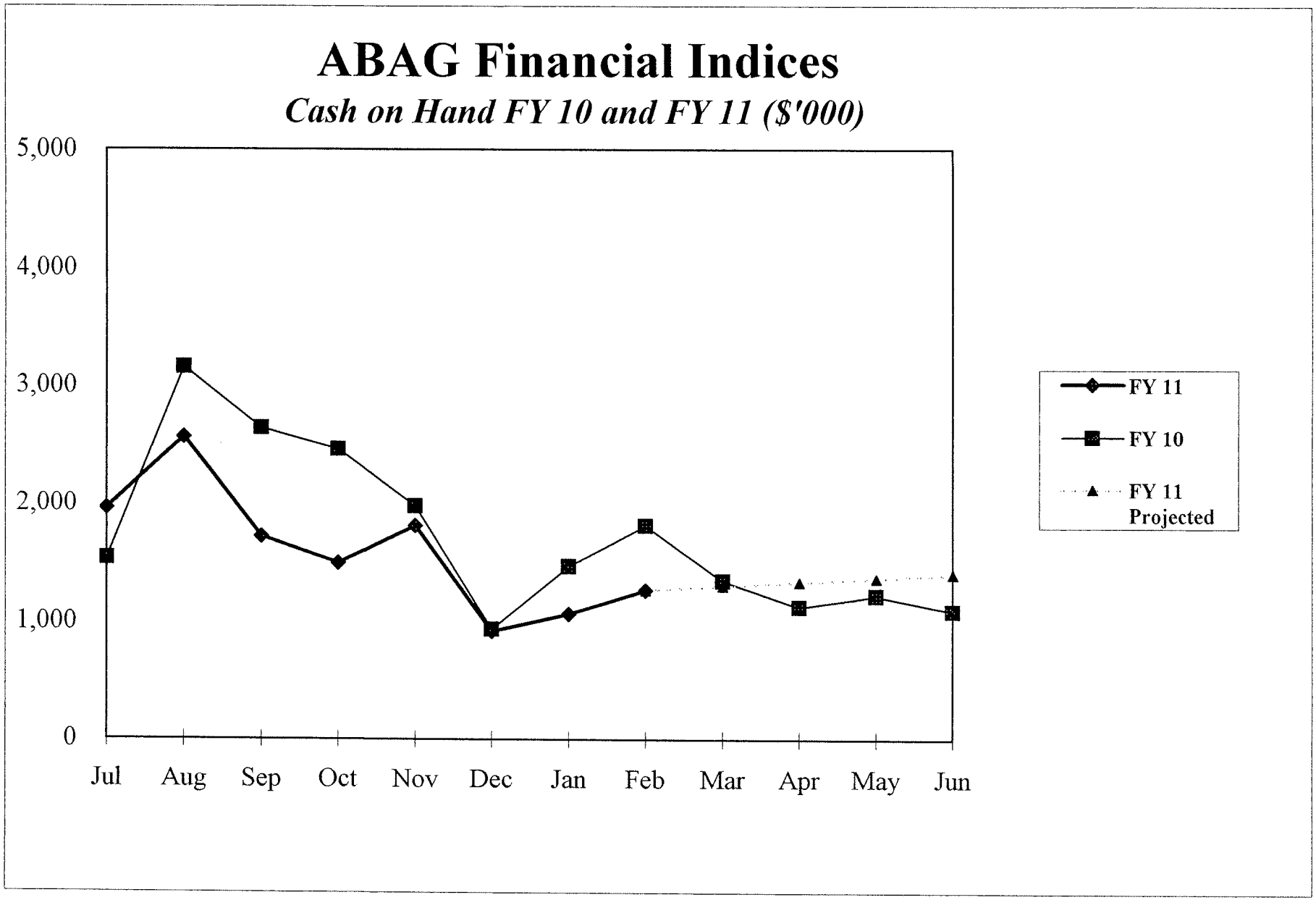
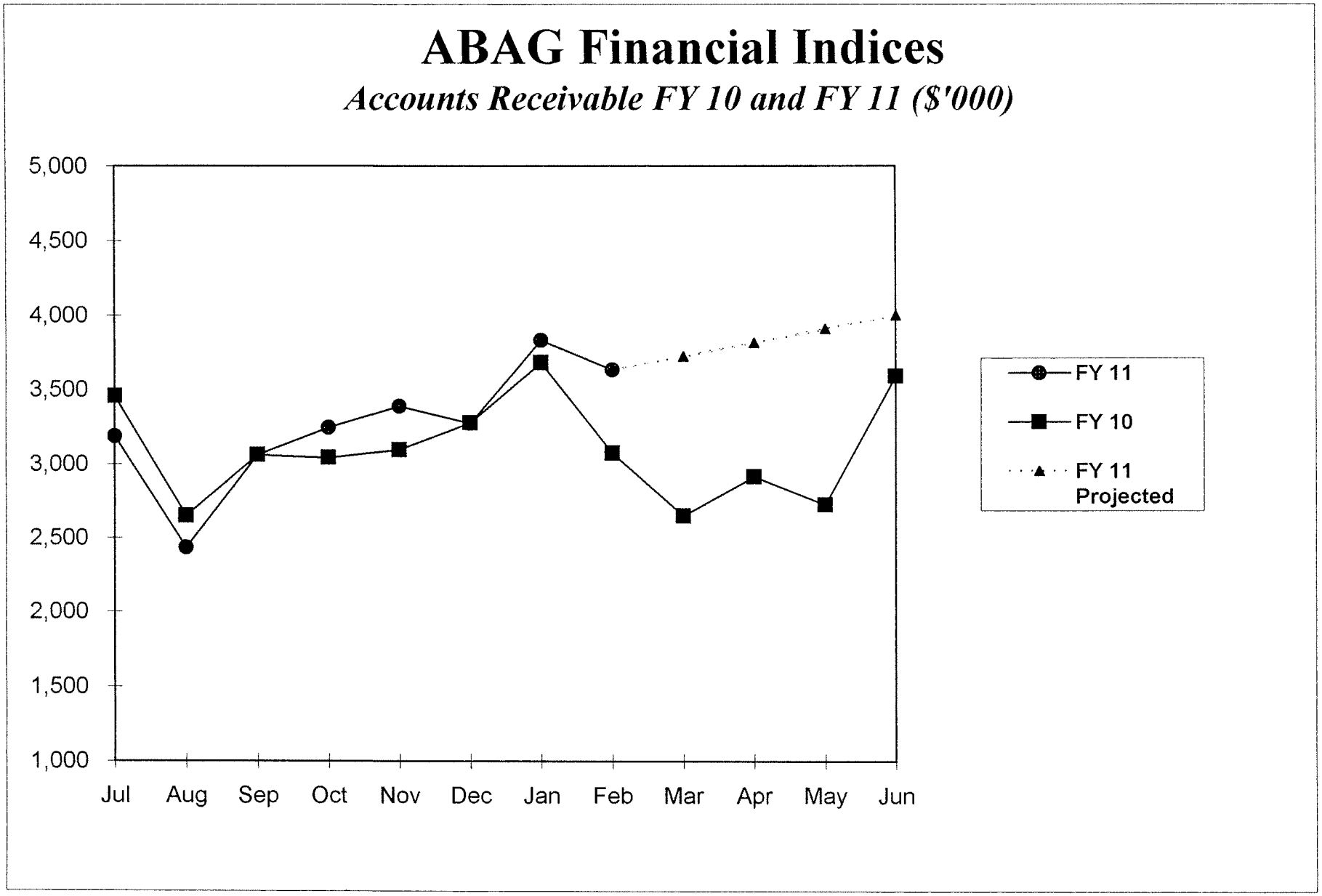
* Description of Charts



Source: ABAG -INDICES 2011-02.xls

FIGURE 1



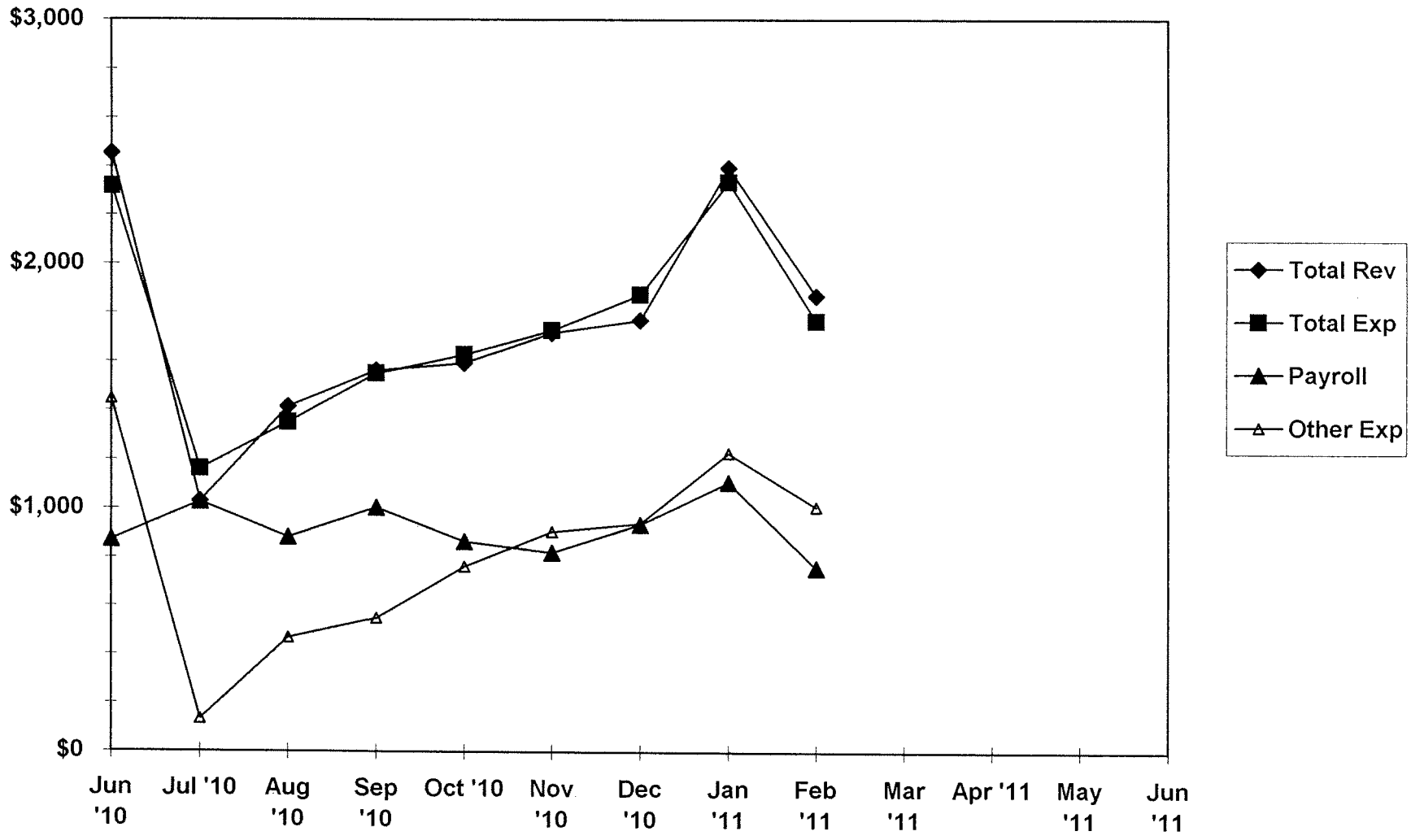
Source: ABAG -INDICES 2011-02.xls

FIGURE 2

ABAG Financial Indices

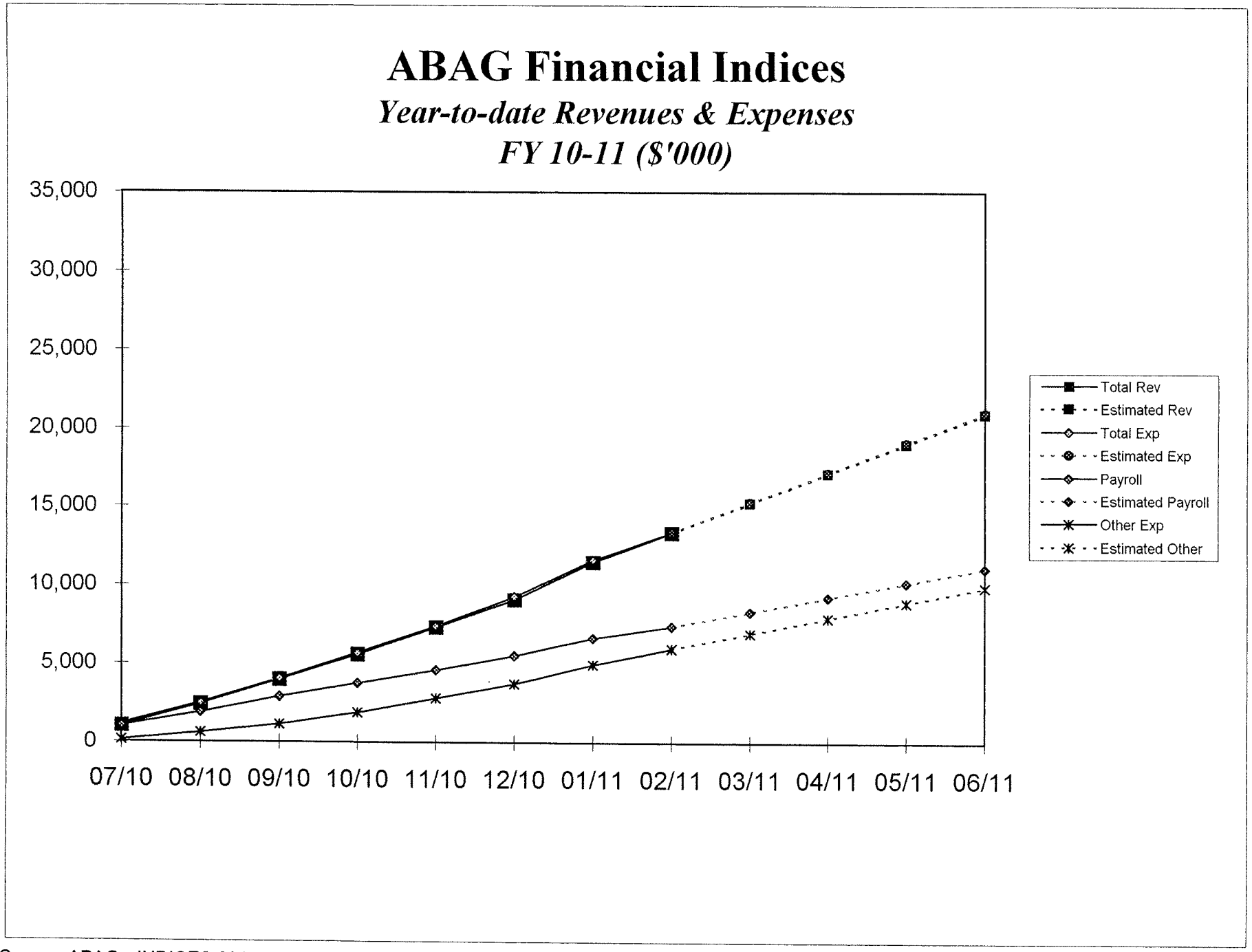
Current Month Revenues & Expenses

FY 10-11 ($'000)



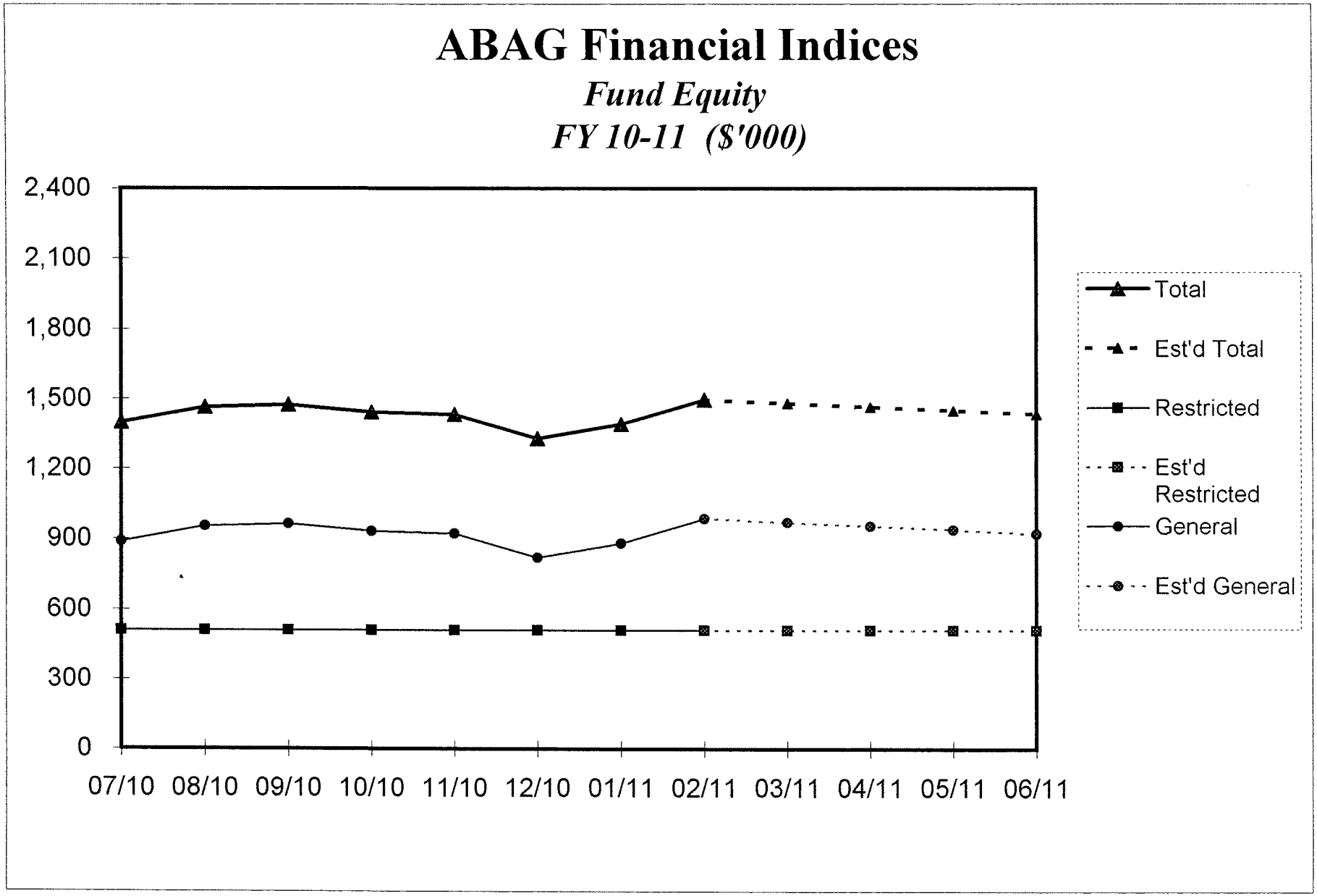
Source: ABAG- INDICES 2011-02.xls

FIGURE 3



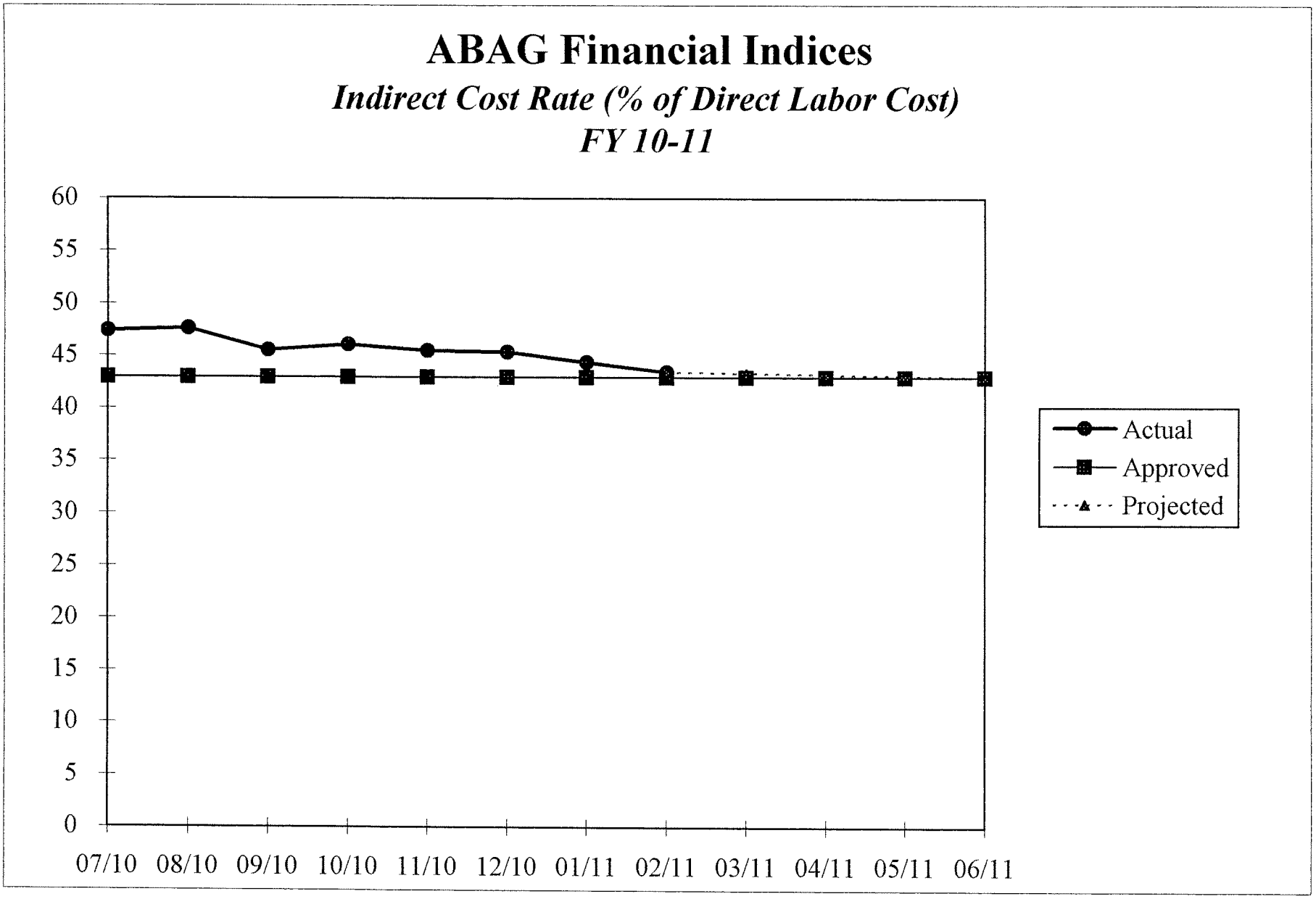
Source: ABAG - INDICES 2011-02.xls

FIGURE 4



Source: ABAG - INDICES 2011-02.xls

FIGURE 5



Source: ABAG- INDICES 2011-02.xls

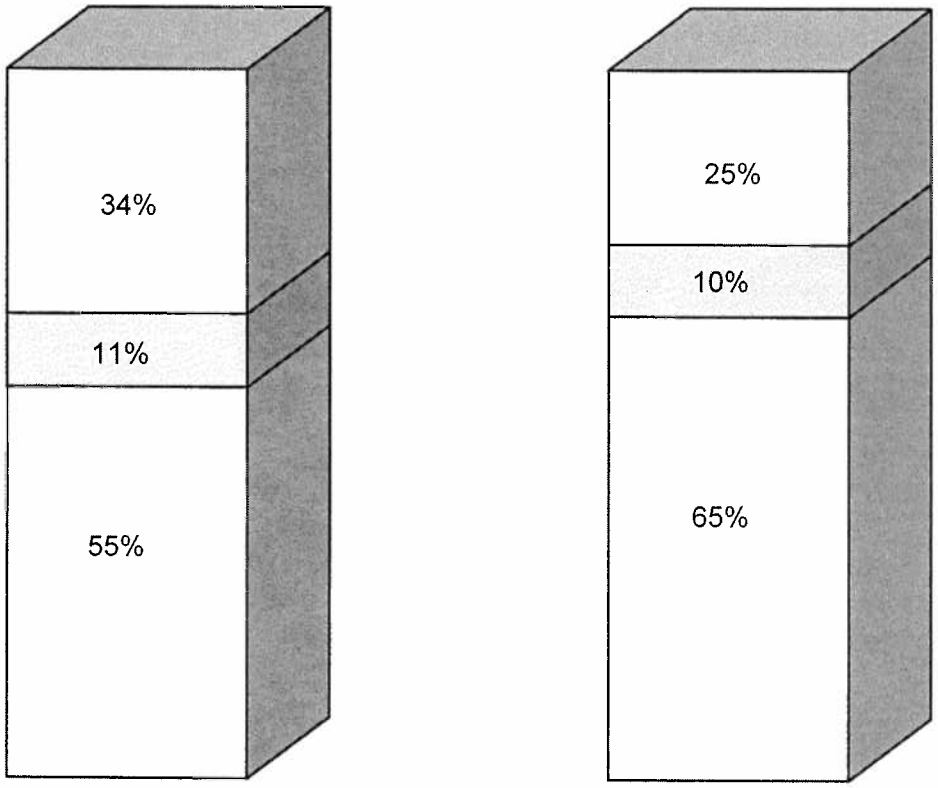
FIGURE 6

ABAG Financial Indices

Composition of Expenses FY 10--FY 11

Year to Date

($'000)



	FY10-11 Expenses (Total $13,396)	FY09-10 Expenses (Total $11,236)
☐ Consultants	$4,610	$2,758
☐ Others	$1,384	$1,137
☐ Payroll	$7,402	$7,341

Source: ABAG -INDICES 2011-02.xls

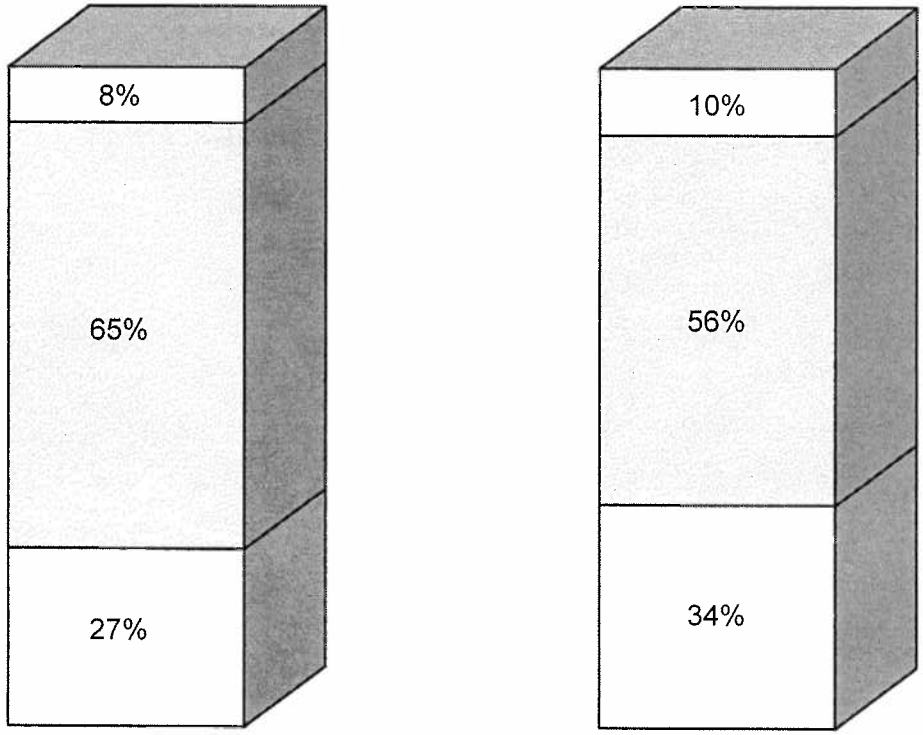
Figure 7

ABAG Financial Indices

Composition of Revenues FY 10--FY 11

Year to Date

($'000)



	FY 10-11 Revenue (Total $13,360)	FY 09-10 Revenue (Total $10,858)
☐ Membership	$1,127	$1,109
☐ Grants	$8,625	$6,070
☐ Services & Others	$3,608	$3,679

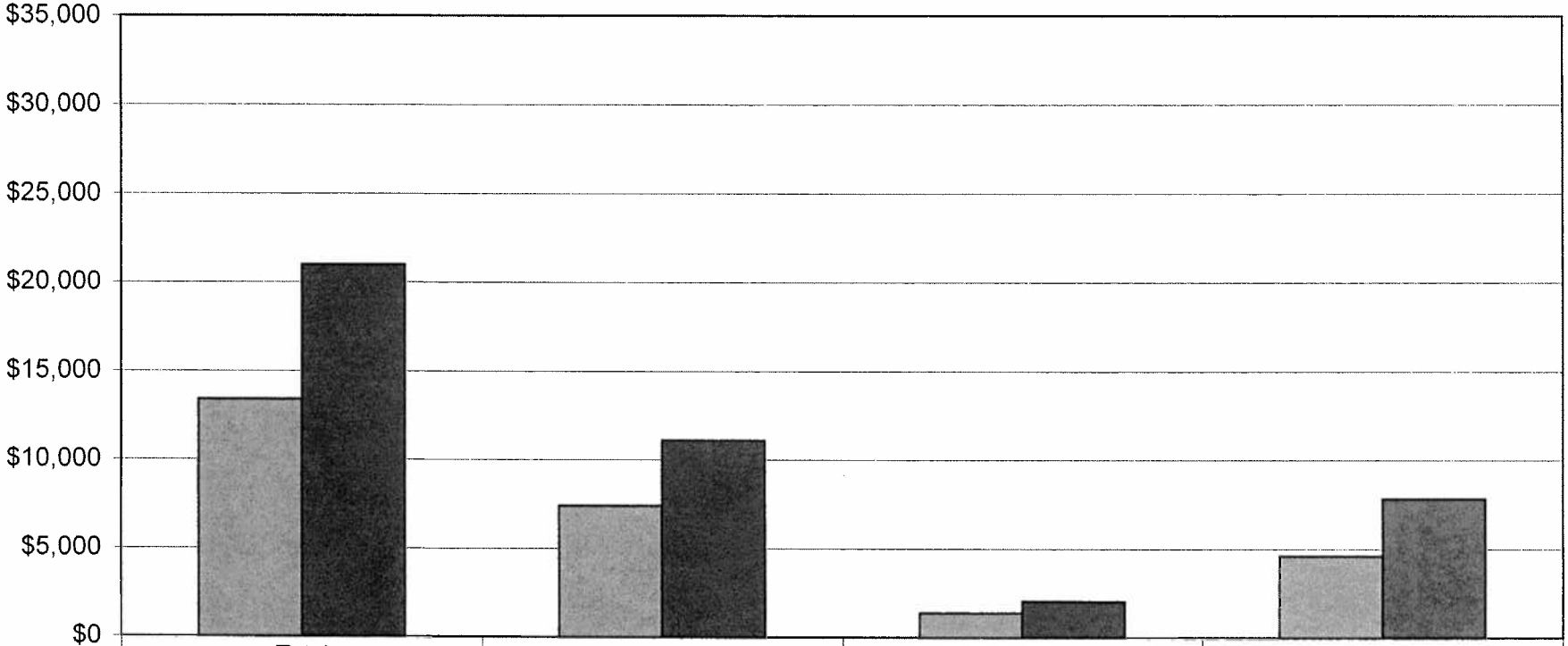
Source: ABAG --- INDICES 2011-02.xls

Figure 8

ABAG Financial Indices

Actual vs Projected Expenses--FY 10-11

Year to Date ($'000)



	Total	Payroll	Other	Consultants
Actual	$13,396	$7,402	$1,384	$4,610
Projected	$21,000	$11,100	$2,052	$7,848

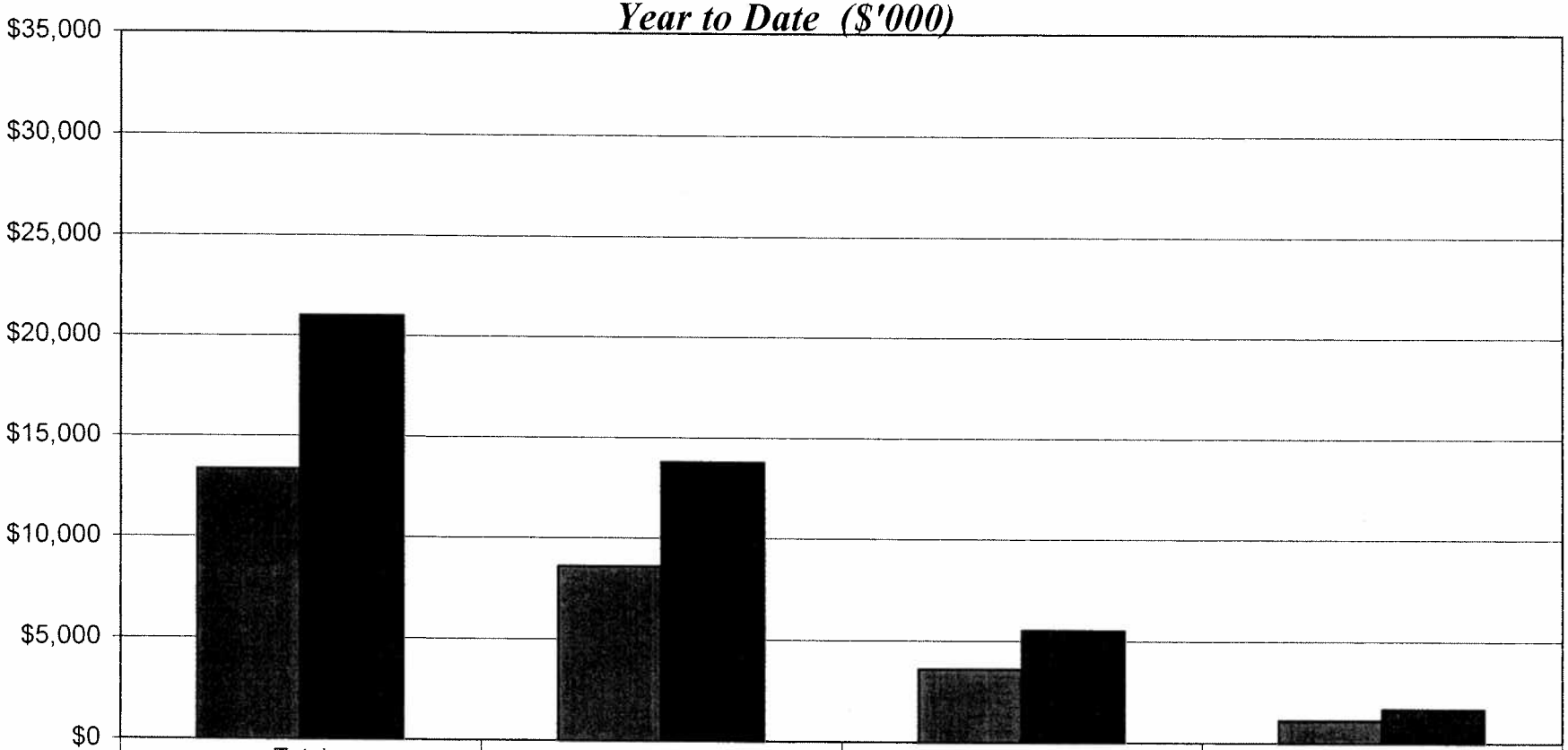
Source: ABAG -- INDICES 2011-02.xls

Figure 9

ABAG Financial Indices

Actual vs Projected Revenues--FY 10-11

Year to Date ($'000)



	Total	Grants	Services & Other	Membership
■ Actual	$13,360	$8,625	$3,608	$1,127
■ Projected	$21,000	$13,780	$5,530	$1,690

Source: ABAG --INDICES 2011-02

Figure 10

Description of Charts

Figure 1 -- Cash on Hand

Cash on hand represents the sum total of cash deposited at our bank and the Local Agency Investment Fund (LAIF). This chart shows fluctuation patterns of cash on hand for the current and last fiscal years.

Figure 2 -- Accounts Receivable

Accounts receivable tracked by this chart include receivables generated by grants and service programs over two fiscal years. This chart reflects the reasonableness of our receivable levels. We usually have about six weeks' worth of our annual revenues in receivables.

Figure 3 -- Current Month Revenues and Expenses

Presents month by month total revenues, total expenses, payroll and other expenses for the current fiscal year. The difference between total revenues and total expenses lines represents the overall current month net surplus (or deficit) for the agency.

Figure 4 -- Year-to-date Revenues and Expenses

Presents year-to-date total revenues, total expenses, payroll and other expenses for the current fiscal year. The difference between total revenues and total expenses lines represents the overall year-to-date net surplus (or Deficit) for the agency.

Figure 5 --Fund Equity

Presents general, restricted and total fund equities for the current fiscal year. General fund equity represents unrestricted equity. Restricted equities include building bond interest, building maintenance, self-insurance and capital. These restricted equities represent the agency's equities set aside for specific purposes as approved by the Finance and Personnel Committee. Total equity is the sum total of general and restricted equities.

Figure 6 -- Indirect Cost Rate (% of Direct Labor Cost)

This chart shows a comparison between the actual indirect cost rate and the approved rate. The approved indirect cost rate is computed by dividing total estimated overhead expenses by total projected direct labor cost for a fiscal year. This rate is used as a standard overhead cost rate to allocate indirect costs to all projects. This process is performed in accordance with an indirect cost plan, which is prepared annually in accordance with OMB A-87.

Figure 7 – Composition of Expenses

This chart compares expenses for current and last fiscal years. It groups expenses into two broad categories -- payroll costs and other expenses.

Figure 8 -- Composition of Revenues

Presents a break down of total revenues into four main sources -- membership, grants, services and others. This chart compares revenue sources between current and last fiscal years.

Figure 9 -- Actual vs. Budgeted Expenses

Presents a comparison of actual and budgeted total expenses as well as component categories: payroll costs, consultants and other expenses.

Figure 10 -- Actual vs. Budgeted Revenues)

Presents a comparison of actual and budgeted total revenues as well as component categories: membership dues, grants, services and other.

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TO: Finance and Personnel Committee

DT: April 28, 2011

FM: Herbert Pike, Finance Director

Re: Financial Reports --March 2011

The following are highlights of the financial reports for March 2011.

Overall Summary (Figures 3, 4, 7 & 8)

At March 31st, the Agency's net financial position is only marginally off from the forecast with a surplus of roughly $135 thousand, or about 0.88 percent of year-to-date revenues, an improvement over the previous month of about $171 thousand. The surplus derives from unexpected transfers from FAN for various services. Funding allocations for the continuation of Planning and Research services were nearly depleted, bringing into question the funding for the balance of the fiscal year ending on June 30. Assurances of funding for this mission-critical group was assured by MTC management; subsequently, the projected deficit was bridged in April through the re-allocation of a grant, an advance payment from next fiscal year MTC funding, and some additional funding from existing project balances. Cash balances have been extremely low, but should improve as the dues for FY 2011-2012 are approved, billed and receipts re-commence.

Cash on Hand (Figure 1)

Cash on hand decreased to $0.93 million on March 31st from $1.27 million on February 28th. The decrease of $338 thousand is attributed primarily to a $1 million pay down in ABAG's accounts payable from $2.09 million as of February 28th to $1.04 million on March 31 partially offset by a reduction in accounts receivable (heightened receipts from grantors). The March balance includes approximately $0.65 million invested in the Local Agency Investment Fund (LAIF). Currently, ABAG does not hold any other investments. The March 31st cash balance is approximately $415 thousand less than the prior year. This inversely relates to the increase in receivables of $865 thousand over the same period moderated by an offsetting increase in accounts payable.

Receivables (Figure 2)

Receivables from grant and service programs amounted to about $3.52 million on March 31st, a decrease of $118 thousand from the month prior. The month to month decrease is attributed to the impact of quarterly billing cycles. March receivables are $865 thousand higher than the year prior. The increase over the prior year is attributed primarily to delayed recovery for energy grant receivables and increased accounts payable for outside contractors (primarily energy grants).

Actual vs. Budgeted Expenses (Figure 9)

Total expenses through March 31st amounted to about $15.19 million, or 72.3 percent, of the projected annual expense of $21.0 million for FY 10-11.

F&PC AGENDA ITEM #3-B

Actual vs. Budgeted Revenues (Figure 10)
As of March 31st, total revenues amounted to about $15.33 million, or 72.9 percent, of the projected annual revenue of $21.0 million for FY 10-11.

As of March 31st, both revenues and expenses are below pro rated (75.0 percent) "projected" annual totals. While revenues and expenditures might be expected to be 75.0 percent after the first nine months of the new fiscal year, they are less largely due to the lag between when contractors perform the work and when the contractor bills ABAG.

Fund Equity (Figure 5)
As of March 31st, general fund equity was approximately $1.16 million, an increase of $171 thousand from February 28th. Although the cash balance went down, the fund equity improved because of the significant and greater reduction in accounts payable (primarily to subcontractors and pass-through entities). The Agency's restricted fund equity, consisting of capital, self-insurance and building maintenance, remained unchanged at $510 thousand.

Indirect Cost (Figure 6)
The Agency's actual indirect cost (overhead) rate was 43.27 percent of direct labor cost as of March 31st, or about 0.32% above the budgeted rate of 42.95 percent for FY 10-11. The decrease from the prior month is encouraging and reinforces the expectation that it will continue to decline to the budgeted amount by the end of the fiscal year. For the same month in the prior year, the rate was 44.55 percent but ended at 42.95 percent for the year. Some administrative staff is expected to be diverted to some new energy projects that should result in further reduced overhead spending.

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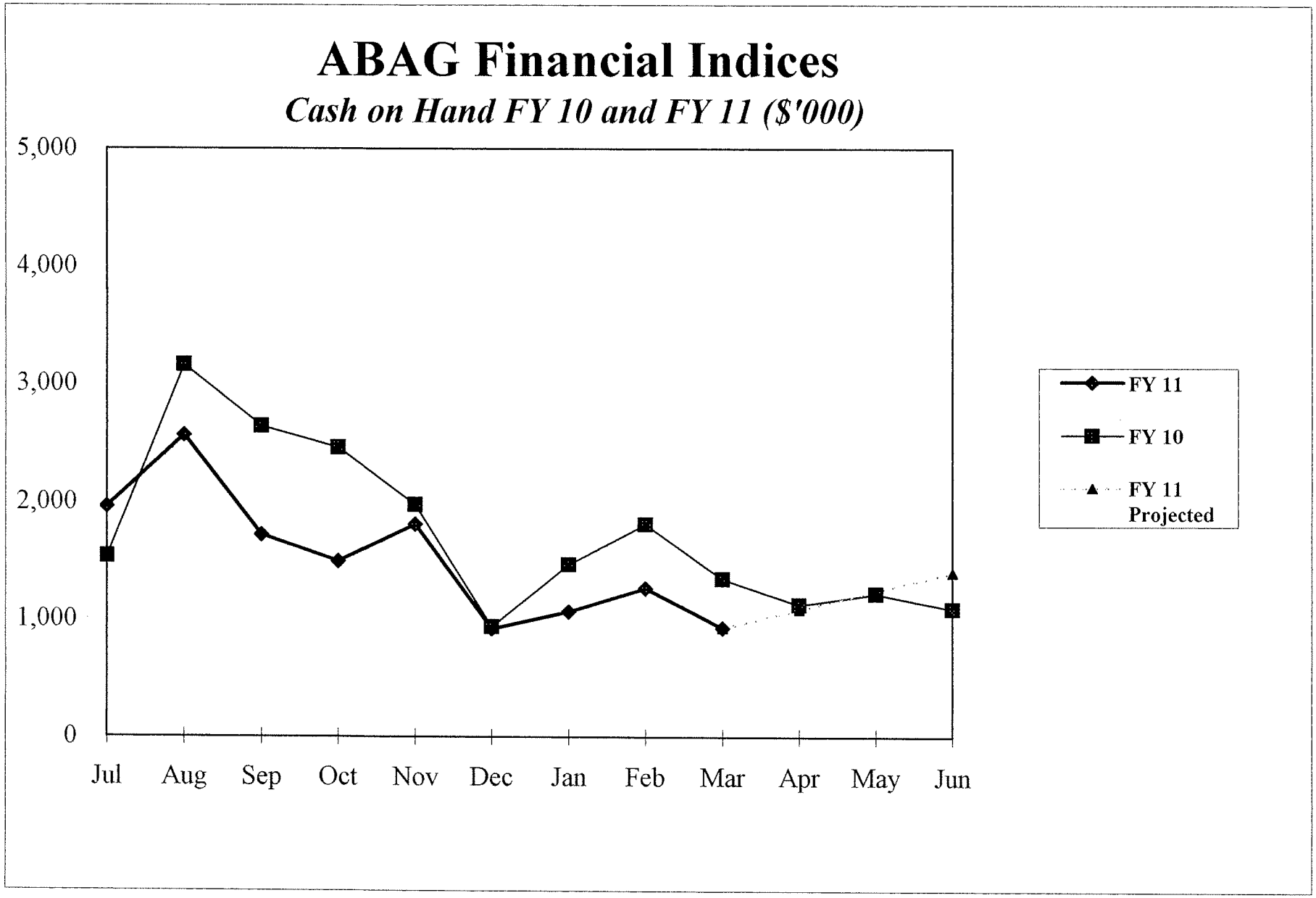

Source: ABAG -INDICES 2011-03.xls

FIGURE 1

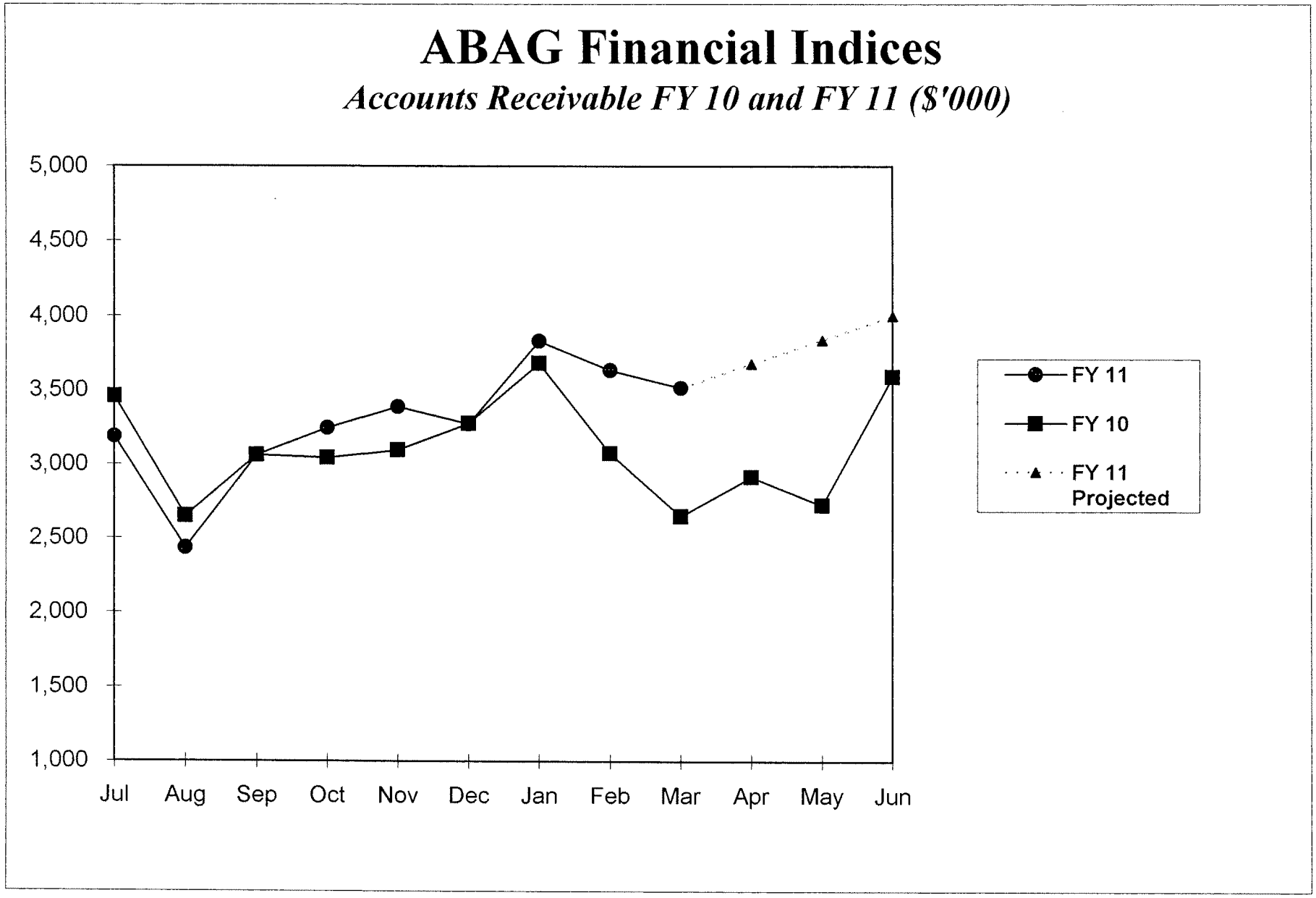

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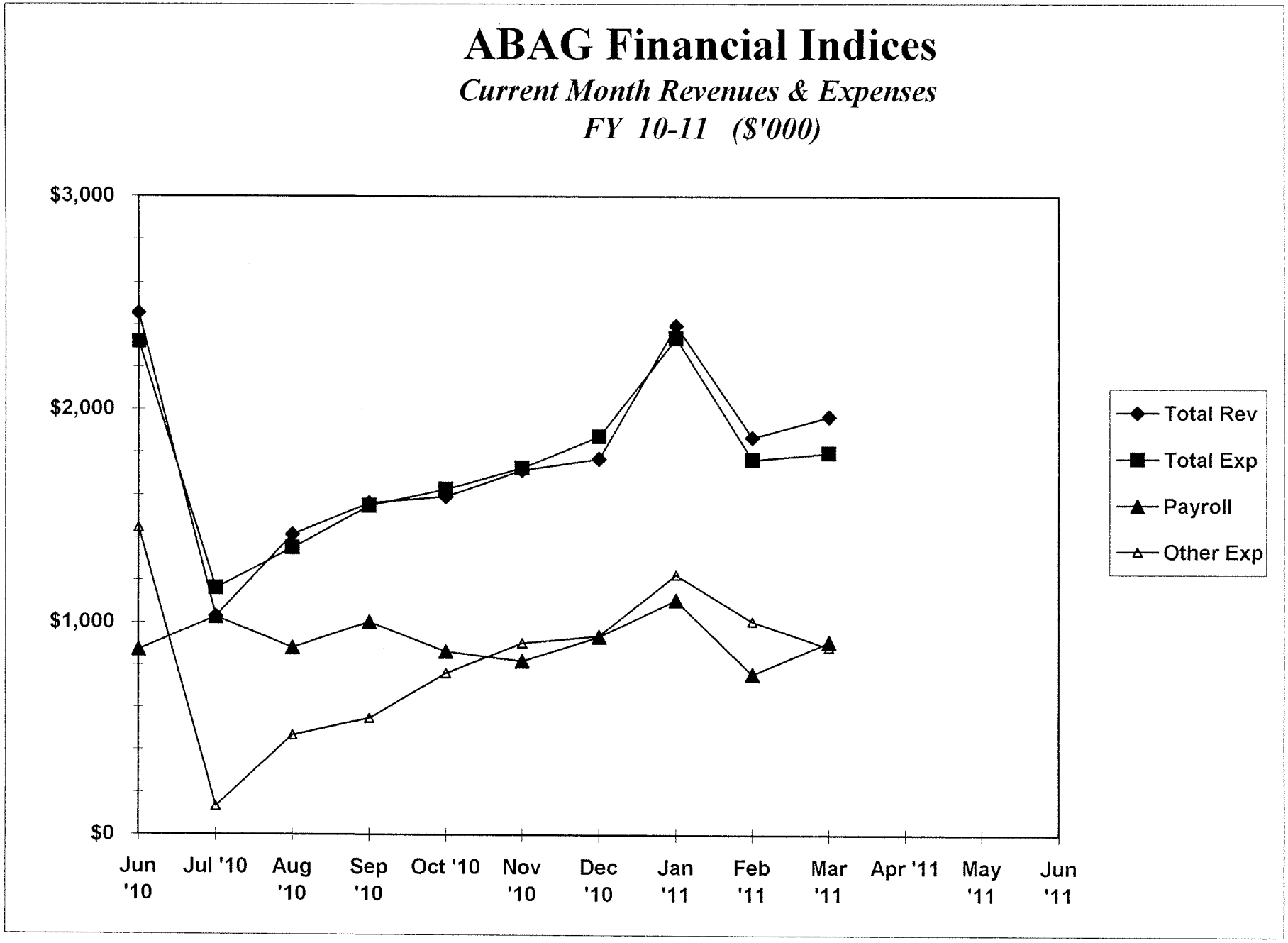
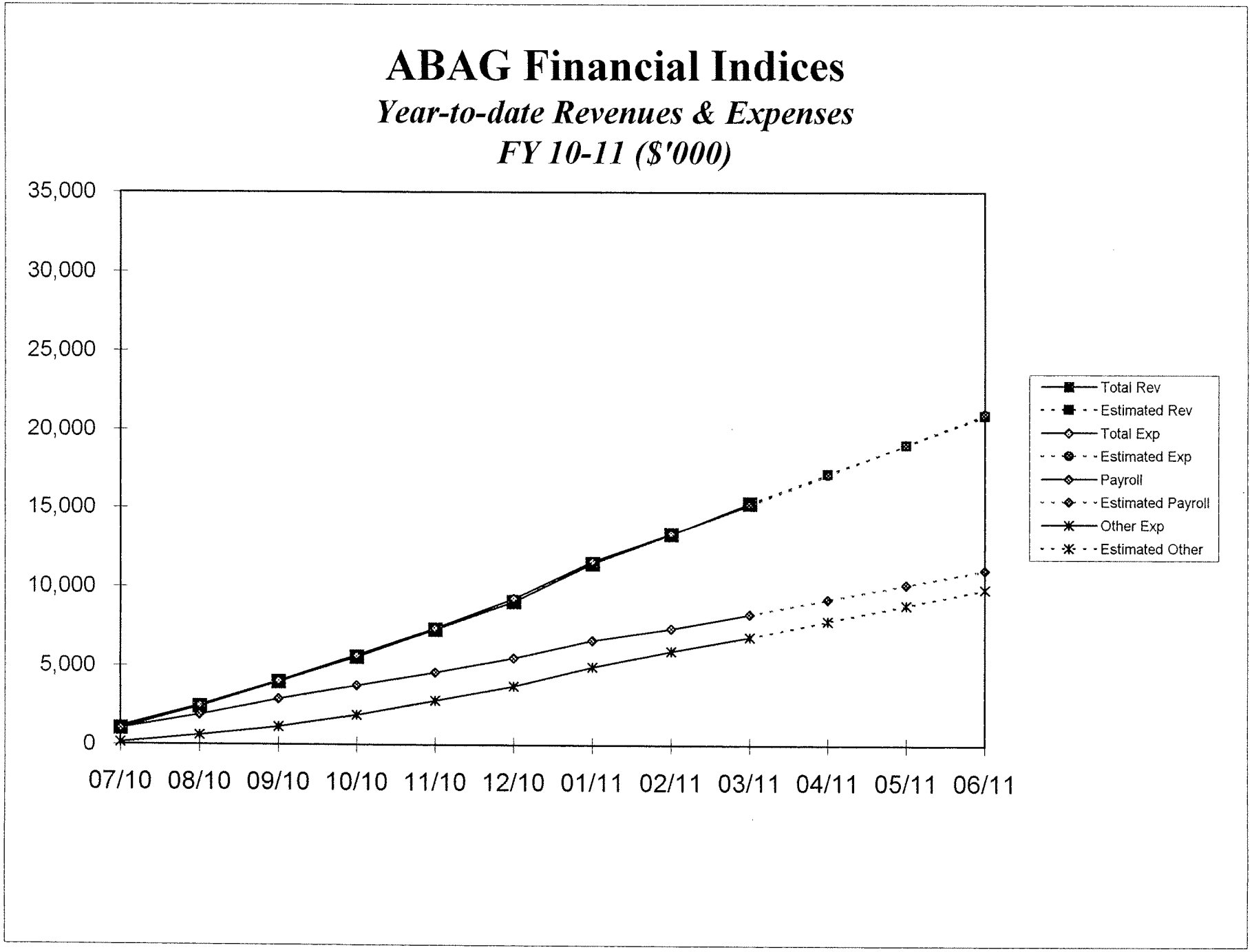
FIGURE 2



Source: ABAG- INDICES 2011-03.xls

FIGURE 3



Source: ABAG - INDICES 2011-03.xls

FIGURE 4

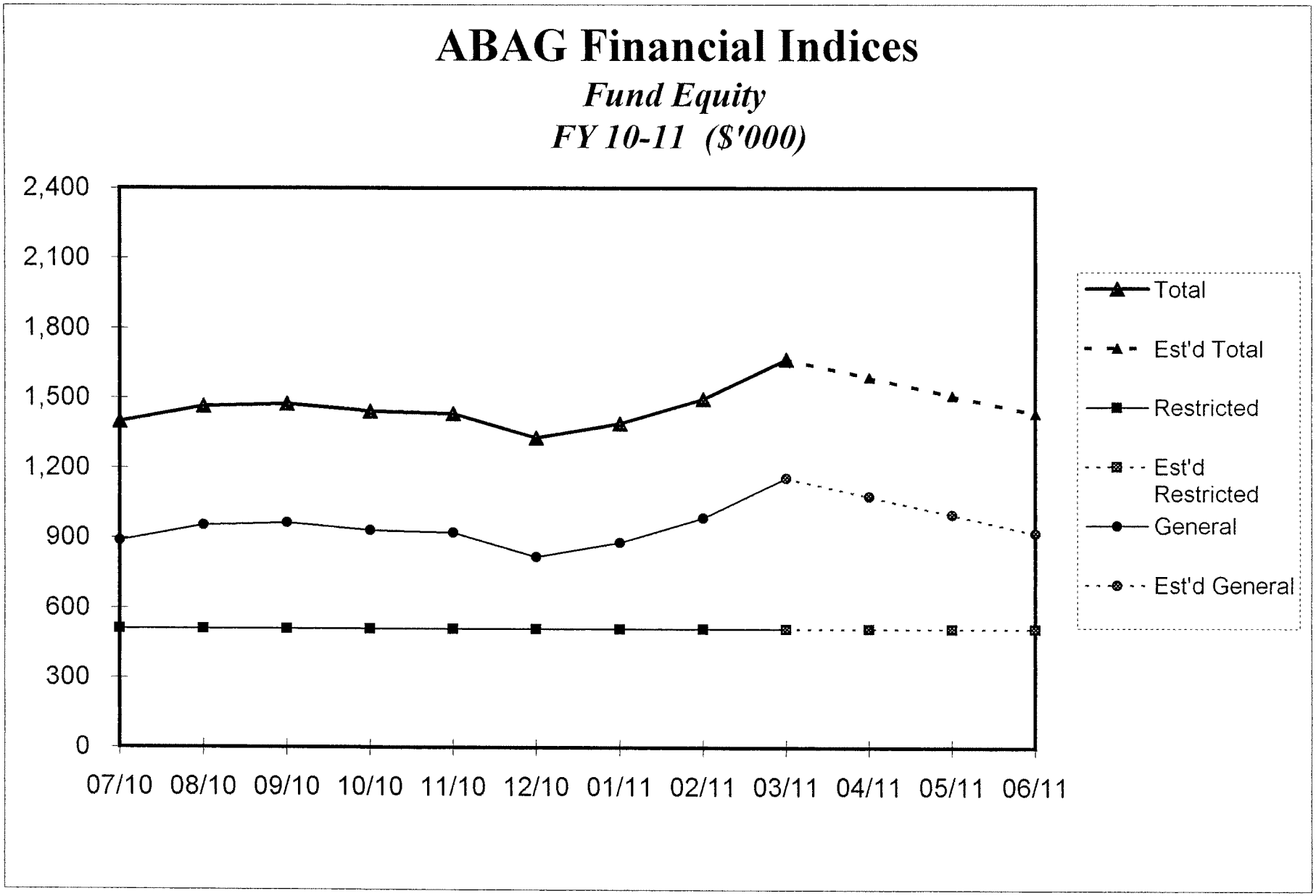


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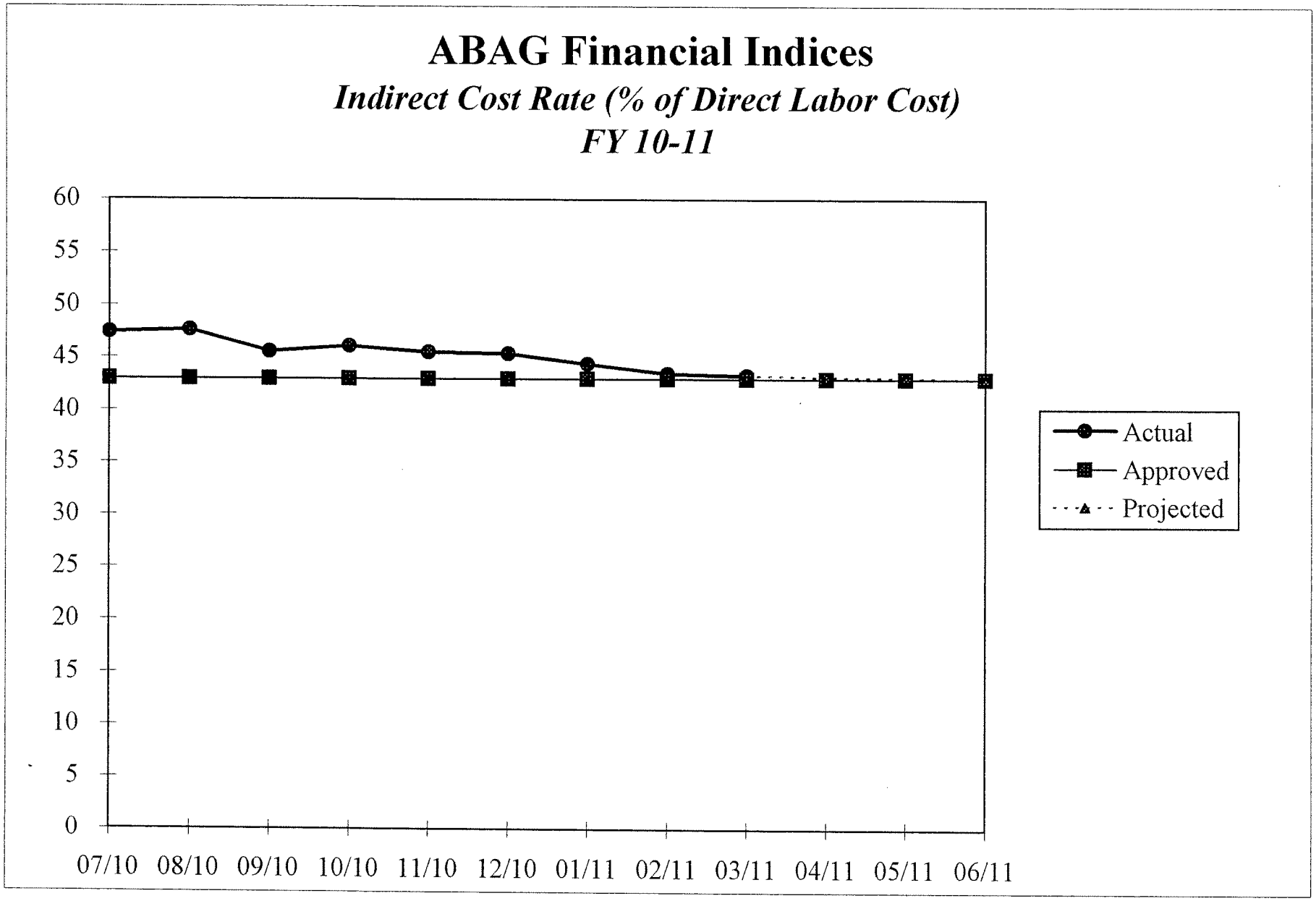
FIGURE 5



Source: ABAG- INDICES 2011-03.xls

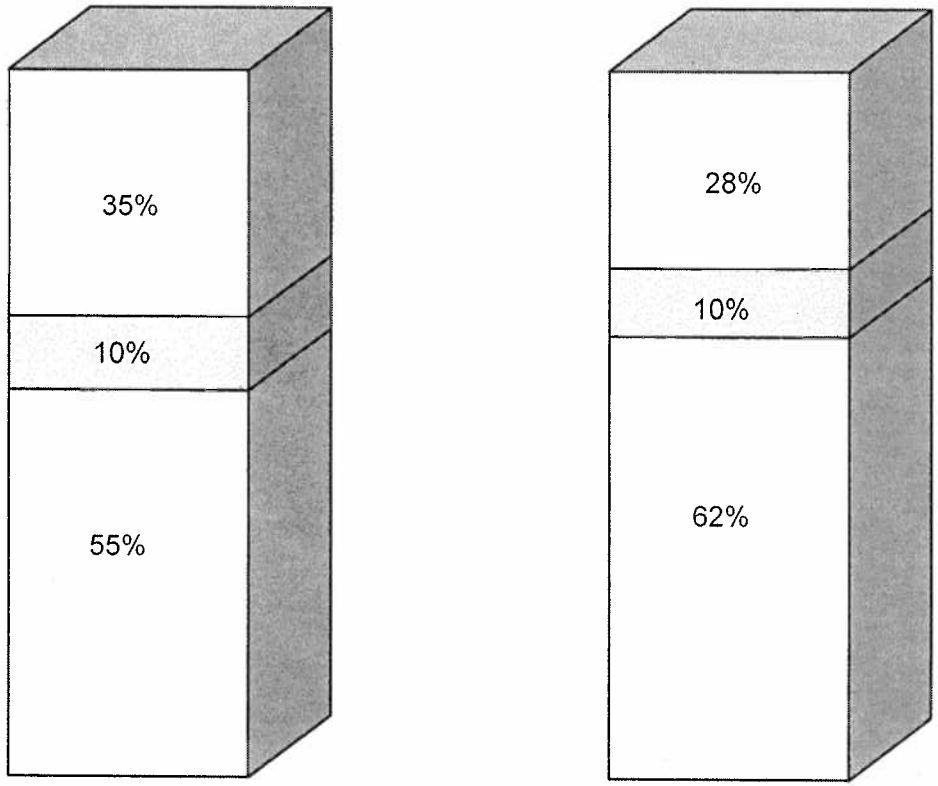
FIGURE 6

ABAG Financial Indices

Composition of Expenses FY 10--FY 11

Year to Date

($'000)



	FY10-11 Expenses (Total $15,194)	FY09-10 Expenses (Total $13,187)
☐ Consultants	$5,307	$3,675
☐ Others	$1,574	$1,272
☐ Payroll	$8,313	$8,240

Source: ABAG -INDICES 2011-03.xls

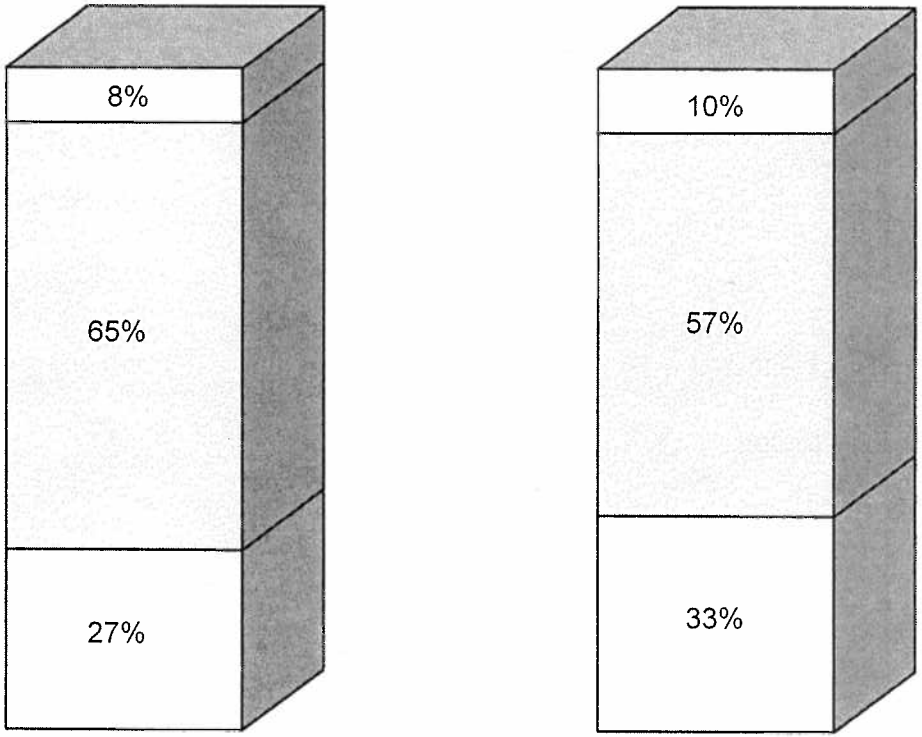
Figure 7

ABAG Financial Indices

Composition of Revenues FY 10--FY 11

Year to Date

($'000)



	FY 10-11 Revenue (Total $15,329)	FY 09-10 Revenue (Total $12,932)
☐ Membership	$1,267	$1,247
☐ Grants	$9,885	$7,476
☐ Services & Others	$4,177	$4,209

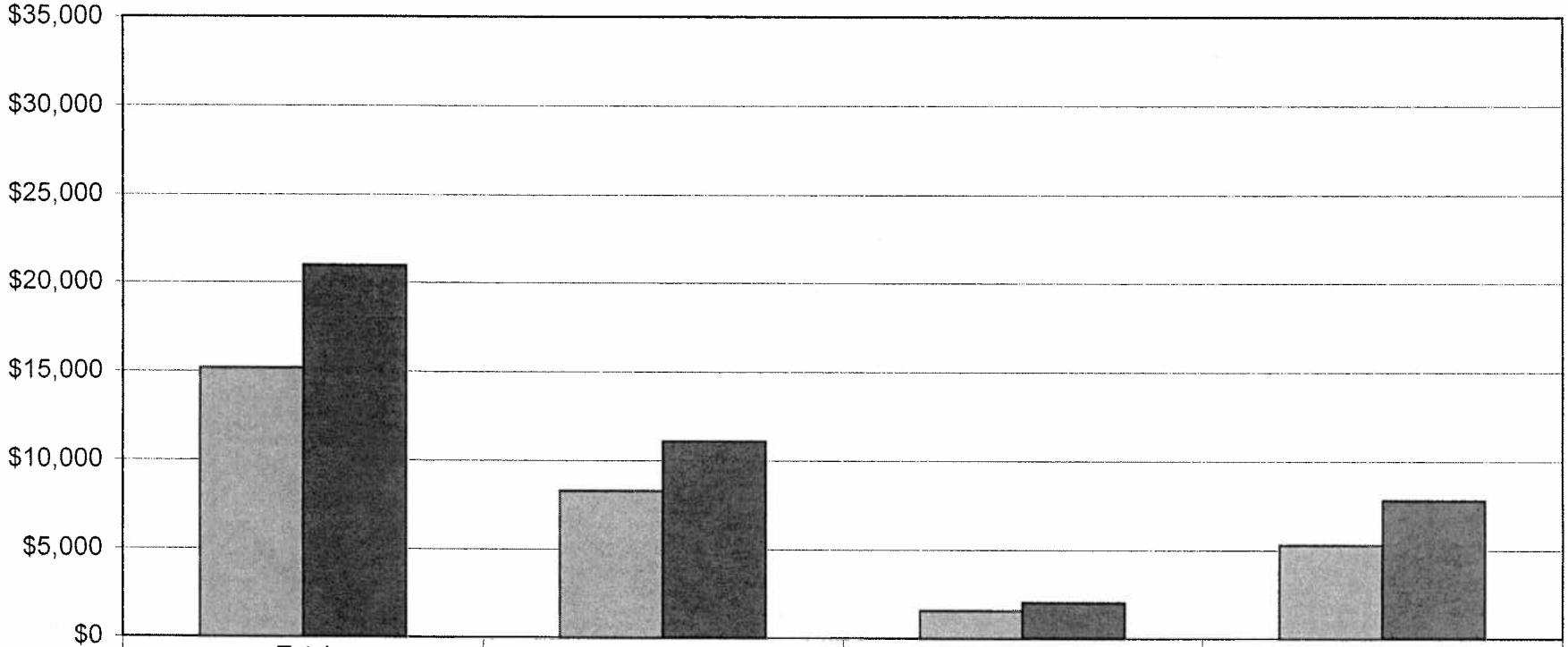
Source: ABAG --- INDICES 2011-03.xls

Figure 8

ABAG Financial Indices

Actual vs Projected Expenses--FY 10-11

Year to Date ($'000)



	Total	Payroll	Other	Consultants
Actual	$15,194	$8,313	$1,574	$5,307
Projected	$21,000	$11,100	$2,052	$7,848

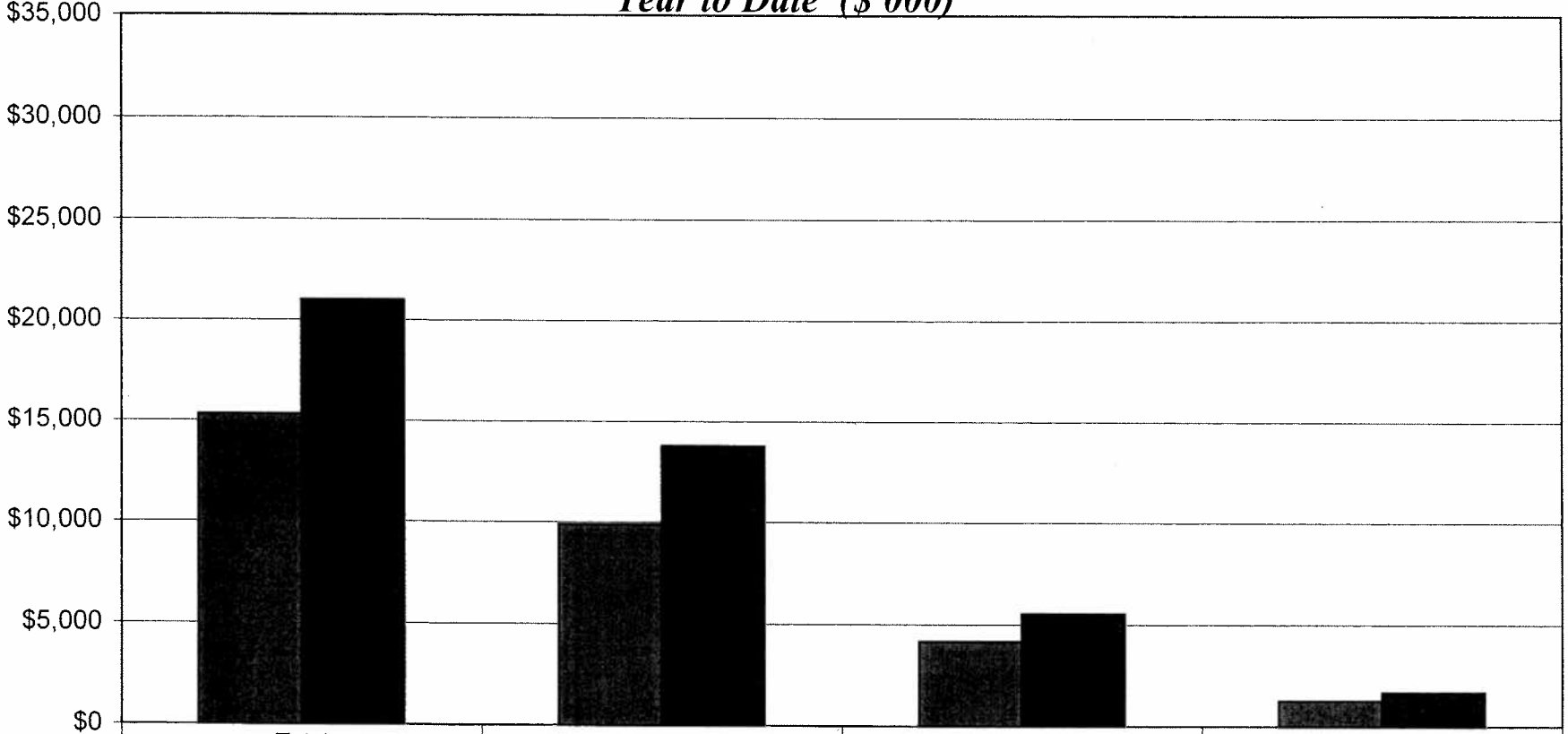
Source: ABAG -- INDICES 2011-03.xls

Figure 9

ABAG Financial Indices

Actual vs Projected Revenues--FY 10-11

Year to Date ($'000)



	Total	Grants	Services & Other	Membership
Actual	$15,329	$9,885	$4,177	$1,267
Projected	$21,000	$13,780	$5,530	$1,690

Source: ABAG --INDICES 2011-03

Figure 10

Description of Charts

Figure 1 -- Cash on Hand

Cash on hand represents the sum total of cash deposited at our bank and the Local Agency Investment Fund (LAIF). This chart shows fluctuation patterns of cash on hand for the current and last fiscal years.

Figure 2 -- Accounts Receivable

Accounts receivable tracked by this chart include receivables generated by grants and service programs over two fiscal years. This chart reflects the reasonableness of our receivable levels. We usually have about six weeks' worth of our annual revenues in receivables.

Figure 3 -- Current Month Revenues and Expenses

Presents month by month total revenues, total expenses, payroll and other expenses for the current fiscal year. The difference between total revenues and total expenses lines represents the overall current month net surplus (or deficit) for the agency.

Figure 4 -- Year-to-date Revenues and Expenses

Presents year-to-date total revenues, total expenses, payroll and other expenses for the current fiscal year. The difference between total revenues and total expenses lines represents the overall year-to-date net surplus (or Deficit) for the agency.

Figure 5 --Fund Equity

Presents general, restricted and total fund equities for the current fiscal year. General fund equity represents unrestricted equity. Restricted equities include building bond interest, building maintenance, self-insurance and capital. These restricted equities represent the agency's equities set aside for specific purposes as approved by the Finance and Personnel Committee. Total equity is the sum total of general and restricted equities.

Figure 6 -- Indirect Cost Rate (% of Direct Labor Cost)

This chart shows a comparison between the actual indirect cost rate and the approved rate. The approved indirect cost rate is computed by dividing total estimated overhead expenses by total projected direct labor cost for a fiscal year. This rate is used as a standard overhead cost rate to allocate indirect costs to all projects. This process is performed in accordance with an indirect cost plan, which is prepared annually in accordance with OMB A-87.

Figure 7 – Composition of Expenses

This chart compares expenses for current and last fiscal years. It groups expenses into two broad categories -- payroll costs and other expenses.

Figure 8 -- Composition of Revenues

Presents a break down of total revenues into four main sources -- membership, grants, services and others. This chart compares revenue sources between current and last fiscal years.

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Presents a comparison of actual and budgeted total expenses as well as component categories: payroll costs, consultants and other expenses.

Figure 10 -- Actual vs. Budgeted Revenues)

Presents a comparison of actual and budgeted total revenues as well as component categories: membership dues, grants, services and other.

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ASSOCIATION OF BAY AREA GOVERNMENTS
FINANCE & PERSONNEL COMMITTEE

TABLE OF FINANCIAL REPORT DATA ELEMENTS
(thousands of dollars)

Index Description	Mar-11	Feb-11	Jan-11	Mar-10	Feb-10
Cash	930	1,268	1,067	1,345	1,808
Receivables	3,515	3,633	3,830	2,650	3,072
Payroll Cost-YTD	8,313	7,402	6,643	8,240	7,341
-Month	911	759	1,109	899	938
Total Other Expense-YTD	6,881	5,994	4,987	4,947	3,895
-Month	887	1,007	1,228	1,052	381
Total Expenses-YTD	15,194	13,396	11,630	13,187	11,236
-Month	1,798	1,766	2,337	1,951	1,319
Total Revenues-YTD	15,329	13,360	11,489	12,932	10,858
-Month	1,969	1,871	2,398	798	1,288
Fund Equity-General	1,156	985	880	798	675
Total Restricted	510	510	510	510	510
Total Fund Equity	1,666	1,495	1,390	1,308	1,185
Approved Overhead	42.95%	42.95%	42.95%	42.95%	42.95%
Overhead Rate %	43.27%	43.45%	44.39%	44.55%	44.88%

F&PC AGENDA ITEM #3-C

To: Finance & Personnel Committee
Fr: Kenneth Moy, Legal Counsel
Dt: May 4, 2011
Re: *Per Diem*

Summary: The committee should discuss whether to expand the circumstances under which a per diem is paid so long as (a) the activity is verifiable and (b) the staff is not given discretion on whether a per diem is paid. The committee's recommended action can be implemented by an Executive Board resolution or a Bylaw amendment.

Background and Analysis: At the March meeting, staff advised the committee that ABAG's representatives to the JPC had been invited to attend a joint meeting of ABAG's Administrative Committee and MTC's Planning Committee to hear presentations on the re the SCS – a matter within the purview of the JPC. The committee discussed the possibility of paying a *per diem* to ABAG representatives to the JPC for attending the joint ABAG/MTC meeting. The committee requested a report on possible options.

The payment of *per diems* is governed by\the Bylaws and the "Policies on ABAG Committee Formation, Structure, and Membership" (Policy) adopted by the Executive Board. Except for the provisions that permit payment of a *per diem* to the President or his/her designee under specified circumstances, *per diems* may be paid only for attendance at a official meeting of an ABAG policy body. The payment of a *per diem* under any other circumstances requires either a resolution adopted by the Executive Board or a Bylaw amendment.

To inform the committee's discussion please note the following[1]:

- Currently a *per diem* is paid only for participation in the formal and official activities of ABAG's policy bodies which are under ABAG's control and documented in adopted minutes.
- Staff is not given discretion on when to pay a *per diem.*

In my opinion, any modifications to the *per diem* system should have comparable safeguards. The activity must be verifiable. Staff should not be given discretion on when a *per diem* is paid.

I am also of the opinion that ABAG should have control of the circumstances under which a *per diem* is paid. However, I offer no advice to the committee on this point.

[1] For the balance of this memorandum, the special *per diem* rules for the President and his/her designee are not considered or addressed in this memorandum since they are based on the unique responsibilities of the office.

DATE: May 5, 2011

TO: **FINANCE & PERSONNEL COMMITTEE**

FROM: HERBERT L. PIKE, FINANCE DIRECTOR

SUBJECT: **ABAG Fund Balance and Proposed Reserve Policies**

Background: At the Finance & Personnel Committee (F&PC) meeting March 17, 2011, there was discussion and questions were raised as to what the fund balance was for ABAG and what policies ABAG might consider to raise the reserves. The Committee moved that staff return at their next meeting on May 19, 2011, to clarify the fund balance and provide a review of reserve policies that the Committee could consider. Although incorporated into ABAG's audited Basic Financial Statements, ABAG Finance Corporation and BALANCE Foundation have their own restrictions are not included in the attached Fund and Cash table, nor in the discussion below. The discussion below is restricted to the the formal entity Association of Bay Area Governments.

Fund Balance: As was noted at the March F&PC meeting, there are all kinds of balances, no two of which appear to be the same. This is being exacerbated in next year's reports with the issuance in February 2009 by the Governmental Accounting Standards Board (GASB) of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The attached glossary goes over the numerous "fund balance" terms. The new standard, to be implemented in the next financial statements to be issued, leaves unchanged the total amount reported as fund balance, but has substantially altered the categories and terminology used to describe its components. The intent is to better reflect and detail the constraints on the specific purposes for which amounts in the fund can be spent. Under the old guidelines, "restricted" assets represented a portion of the fund that was restricted by statute or contract, e.g., a reserve required for a loan; ABAG has had no such formal requirements the last several years.

In reviewing the attached spreadsheet, you will note that the only noted restriction on the Net Assets (aka Fund Balance) was the "investment in capital assets, net of related debt." In other words, you can't "spend" the building improvements. Under the new guidelines to be implemented, there will be a hierarchy of restricted fund balances. The "investment in capital assets, net of related debt" becomes part of the highest ranking fund restriction under the new guidelines and is now to be listed under "nonspendable fund balance" because it is inherently nonspendable. The category will also be broadened to include other assets that will never be converted to cash, e.g., prepaid items and inventories of supplies.

The next level of restriction formally listed as "restricted" and now labeled more specifically as "restricted fund balance" are those funds for which there are externally enforceable limitations on use. The most common external restrictions are limitations

imposed by creditors, grantors, contributors, or laws and regulations of other governments. ABAG has few of these in the form of net dollars; as an example, ABAG may have substantial grant receivables boosting the assets, but may be offset by accounts payables to subcontractors and other incurred expense.

The next new category/type of description to be identified as "committed fund balance" will reflect self-imposed limitations set in place prior to the end of the fiscal year by the Executive Board or the entire membership of ABAG. Although there are no such fund restrictions that would place dollars in this category, this is where an approved reserve could be listed.

The next level of restriction is "assigned fund balance." It is under this category that ABAG would likely list the recurring $510 thousand in restricted equity listed in each month's Financial Report. The $510 thousand (actually $509,811) is comprised of $250,000 as a loan reserve to cover a potential, sudden call for repayment of the loan from FAN for office refurbishing, $150,811 as General Liability Insurance Reserve to cover the payment of the annual premium to be assured our coverage remains intact, $52,000 for Capital Reserve to ensure we can provide unexpected repair or replacement of critical capital equipment, and $57,000 labeled Office Building Maintenance Reserve to cover ABAG's share of building maintenance.

The residual fund balance, after deducting the above restrictions, is to be labeled "unassigned fund balance." It would be similar to the "unrestricted" fund balance listed in the old format, but with additional restrictions deleted. If the current Board took no action, it is expected the $510 thousand would be listed as an "assigned fund balance" and that the "unassigned fund balance" would be $510 thousand less than the old "unrestricted" fund balance.

Reserve Policy

A review was conducted as to the reserve policies of several cities throughout the Bay Area. While most municipal reserves have been depleted in recent years to mitigate significant reductions in revenue and to avoid commensurate reductions in services delivered, the purposes are still intact. Funds are set aside to respond to emergencies, funds are set aside to sustain operations should something adverse occur, funds are set aside to stabilize operations in spite of an unforeseen decline in a revenue stream, and some are set up to meet the potential of a future need such as new program seed money. As noted above, ABAG has what could be construed as a reserve in the form of the $510 thousand restricted equity noted above. Reserve targets run as low as a three percent operating reserve to some cities having in excess of 50 percent of their annual revenue available as unrestricted fund balance with which to address emergencies. The interesting point is that virtually all of the cities reviewed gauged their achievement of reserve targets on the year-end (June 30) audited financials, and most measure it against the "unrestricted" general fund reserve. Although the "unrestricted" general fund reserve is a readily accessible value, it does **not** indicate how much is available in liquid assets to address the unforeseeable urgent needs for which the reserve is intended. For instance,

although a fund balance may be boosted by accounts receivable (an asset), it may not be available for months. The "unrestricted" general fund balance is a readily available indicator, but it simply indicates there is a rough positive correlation between cash balance and "unrestricted" fund balance, e.g., the higher the "unrestricted" fund balance, the greater likelihood of a larger cash balance.

The key is how much ABAG should reasonably have in liquid assets that it can use in the case of an emergency. The most recent "urgent" need for cash that ABAG experienced was when the State suspended payments to address their cash shortfall, leaving ABAG with large receivables, but very little cash. Even now, with an annual "unrestricted" fund balance in excess of $1.3 million as of June 30 each of the last two years, cash balance has almost been depleted a number of times. With accounts receivables having climbed to as high as $4.2 million, ABAG has been forced, at times, to defer payments until the next grant reimbursement arrives. While ABAG needs to protect its physical assets (for insurance has been purchased) and needs to have funds available to respond to unforeseen events, ABAG's most important asset is its employees. If all reimbursements were to cease, how long could ABAG sustain its operations by making payroll. ABAG's annual payroll (including benefits) is expected to reach just over $11 million. That is equivalent to about $465 thousand per pay period. Thus, if the June 30 "unrestricted" fund balance was all in cash equivalents, payroll could be met for almost 1.5 months. But in reviewing the June 30, 2010 financial statement, the cash available was just $965 thousand out of the $1.3 million in "unrestricted" fund balance, equating to just one month of payroll that could be met. In the periods where the cash balance is very low, there is not enough cash on hand to fund even one additional pay period.

If ABAG were to seek the ability of sustaining itself for 1.5 month without any additional revenue sources, staff would recommend setting a $2 million target for reserves (including restricted equity) with the goal of adding at least $50 thousand each year to the prior year's balance year until the goal is achieved. While it does not address the cash position during the course of the year, it would improve it with the target of covering 1.5 months of personnel costs and some $575 thousand (including restricted equity) for required non-personnel expense. This balance could be called a contingency reserve with a required return to the Board to withdraw from the reserve in time of need. Ultimately, being some $700 thousand greater than current reserves, it would be expected that the cash balance would never fall below $750 thousand during the course of the year.

Cities have taken different approaches to achieve their reserve targets. Some cities budget an operating surplus of as much as 3 percent per year, some have designated a set line item expense for "contribution" to the reserve, and others have been known to designate a share (e.g. 50 percent) of any operating surplus to the reserve. It is suggested that staff endeavor to recast the budget to generate a $50,000 surplus. This will be difficult because in recent years, staff has had to work diligently to mitigate losses and to minimize losses. New sources of revenue or specific reductions will need to be sought in order to realize a surplus.

Conclusion

Staff is available to address any questions and to also discuss what actions have been taken and/or are planned to bring the current and next fiscal year budgets into balance. Unless the Committee believes otherwise, the designation of the reserve on the financial statement for June 30, 2011 is not as important as setting up the process whereby a more substantive balance (cash or fund) is established to sustain ABAG in time of crisis, be it natural disaster or withholding of funds by grantors. With this in mind, it is recommended that staff be directed to return at the next meeting with a resolution and/or policy document putting in writing the consensus of the discussion by the Committee.

GLOSSARY

Assigned fund balance. Amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed (excluding stabilization arrangements). (GASB 54)

Committed fund balance. Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. (GASB 54)

Fund balance. Difference between assets and liabilities reported in a governmental fund.

Fund balance policy. A policy that establishes a minimum level at which unrestricted fund balance is to be maintained.

Net assets. Difference between assets and liabilities reported in government-wide financial statements.

Nonspendable fund balance. Portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance. Portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Stabilization arrangements. Amounts formally set aside for use in emergency situations or when revenue shortages or budgetary imbalances arise. Those amounts are subject to controls that dictate the circumstances under which they can be spent. (GASB 54)

Unassigned fund balance. Residual classification for the general fund. This classification represents fund balance that has not been assigned, to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports in a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance. (GASB 54)

Unrestricted fund balance. The total of committed fund balance, assigned fund balance, and unassigned fund balance.

SUMMARY OF FUND BALANCE REPORTED IN FINANCIAL IN RECENT YEARS
(ABAG only, excludes ABAG Finance Corportation & BALANCE Foundation)

	Audited 6/30/2008	Audited 6/30/2009	Audited 6/30/2010	Unaudited 3/31/2011
NET ASSETS				
Investment in capital assets, net of related debt		$242,900	$220,238	$215,559
Restricted				
Unrestricted	$1,627,080	$1,320,024	$1,310,767	$1,450,581
Total Net Assets	$1,627,080	$1,562,924	$1,531,005	$1,666,139
ASSETS/Cash and Investments				
Cash and Cash Equivlents	$1,681,480	$895,902	$965,000	$929,616
Cash with Fiscal Agent		$303,264		
Total Cash Balance	$1,681,480	$1,199,166	$965,000	$929,616

HIERARCHY OF FUND BALANCE DESIGNATIONS/CLASSIFICATIONS UNDER THE NEW GASB 54

Nonspendable fund balance	(inherently nonspendable)
Restricted fund balance	(esternally enforceable limitations on use)
Committed fund balance	(self-imposed limitations set in place prior to the end of the fiscal year)
Assigned fund balance	(limitation resulting from intended use)
Unassigned fund balance	(total fund balance less the above categories)

Sum of above equals the difference between Assets and Liabilities

F&PC AGENDA ITEM #5