



Grossmont  
Healthcare District

# Reserve Policy

Fiscal Year 2023



## RESERVE POLICY

### Table of Contents

	<u>Page #</u>
General Provisions	1
Unrestricted Reserves – General Fund	1
Administrative Reserve	2
Operating Reserve	3
Supplemental Revenue Reserve	4
Contingency Reserve	5
Special Projects Reserve	6
Restricted Reserves - Debt Service Fund	7

### General Provisions

The Reserve Policy contained herein represents the Board's commitment to financial prudence and careful stewardship of the community assets. This policy shall cover the District's General Fund, or unrestricted, reserves, and the District's Debt Service Fund, or restricted, reserves. The General Fund reserves include an Administrative Reserve, Operating Reserve, Contingency Reserve, and a Special Projects Reserve. The Debt Service Fund reserve provides for funds to be available to pay for debt service on bonds issued pursuant to Proposition G and any future issuance other than those obligated by General Fund property tax revenue. These Funds are designated by the District's Board to carry out specific purposes, ensuring prudent management of the District's financial resources, and are used by District staff as parameters within which the Board expects staff to operate.

This Policy has three primary goals:

- To provide adequate funding to meet the District's short and long-term plans and commitments;
- To minimize adverse budgetary impacts from anticipated and unanticipated expenditures, thus mitigating future uncertainty; and,
- To preserve the financial stability of the District against present and future uncertainties in an ever-changing environment.

The District shall exhaust restricted debt service reserves before considering the use of unrestricted General Fund. The reserve policy and balances will be reviewed annually.

### Unrestricted Reserves – General Fund

Unrestricted reserves are designated by the Board of Directors for the implementation of specific purposes to ensure prudent management of the District's financial resources, and to be used by staff as operating parameters for implementation. Unrestricted reserves are identified as: Administrative Reserve, Operating Reserve, Supplemental Revenue Reserve, Contingency Reserve, and Special Projects Reserve.

**Administrative Reserve**

- Purpose:** To ensure cash resources are available to fund administrative activities and to provide funding in case of short or long-term emergencies or unforeseen circumstances.
- Target Balance:** Twelve (12) months of the current fiscal year's budgeted Administrative and Facilities Department expenditures shall be maintained in this reserve.
- Methodology:** Six-month period is based on providing the District with the ability to access sufficient cash resources to meet its day-to-day administrative functions, such as executive management, human resources, finance, accounting, regulatory and safety compliance, and facilities maintenance, and to provide funding for emergency administrative expenditures during an emergency or disaster situation.
- Use of Funds:** These funds will be used to pay for expenditures according to the current fiscal year's Administrative and Facilities Department budget, and for any unexpected expenditures or emergencies as required.
- Contributions:** General Fund revenues in excess of expenditures in amounts sufficient to maintain the six-month target balance will provide for this reserve.

**Operating Reserve**

- Purpose:** To ensure cash resources are available to fund operational activities and to provide funding to continue carrying out the District’s mission of maintain and improving the physical and behavioral health of the community in case of short or long-term emergencies or unforeseen circumstances.
- Target Balance:** Twelve (12) months of the current fiscal year's budgeted Community Health and Library Department expenditures shall be maintained in this reserve.
- Methodology:** Twelve-month period is based on providing the District with the ability to access sufficient cash resources to meet its day-to-day cash disbursements and obligations (carrying out the District’s mission), and to provide funding for emergency operating expenditures during an emergency or disaster situation.
- Use of Funds:** These funds will be used to pay for expenditures according to the current fiscal year's Community Health and Library Department budgets, and for any unexpected expenditures or emergencies as required.
- Contributions:** General Fund revenues in excess of expenditures in amounts sufficient to maintain the twelve-month target balance will provide for this reserve.

**Supplemental Revenue Reserve**

- Purpose:** To provide for cash reserves from which to draw that are not from property tax assessments.
- Target Balance:** Balance of prior years’ General Fund revenues not directly offsetting obligations, less priors’ draws for this reserve.
- Methodology:** Provides for greater discretion for budgeted expenditures and unanticipated expenditures. Does not include revenue from property tax assessment or those revenues that directly offset obligations, like Cogeneration Lease Revenue that offset principle debt obligations, or pass through revenue, such as grants. Includes investment income and Briercrest parking lot lease revenue.
- Use of Funds:** These funds will be used as a source other than property tax revenue to pay for budgeted and unanticipated expenditures that advance our strategy and mission.
- Contributions:** General Fund revenues other than from property tax assessments, revenues directly offsetting obligations, and revenues passed through to healthcare partners such as from grants.

<b>Current Balance:</b>		<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
	Beginning Balance	\$ -	\$ 169,000	\$ 473,000
	Briercrest lease	52,500	91,000	93,000
	Investment earnings	150,900	98,000	500,000
	Other income	10,600	115,000	115,000
	Draws	-	-	-
	Ending Balance	<u>\$ 169,000</u>	<u>\$ 473,000</u>	<u>\$1,181,000</u>

**Contingency Reserve**

- Purpose:** To ensure cash resources are available to address potential risks, such a premature termination of the hospital lease, project cost overruns, and unforeseen losses.
- Target Balance:** Minimum balance of twenty percent of budgeted General Fund property tax revenue. Maximum balance of projected professional fees and expenses needed to transition to a new lessee in the event of a hospital lease cancellation (currently estimated at \$5,000,000).
- Methodology:** Study(ies) identifying potential risks and quantifying the financial loss if such risks occur.
- Use of Funds:** Funds will be expended to maintain operations and execute the mission of the District in the event of a financial loss due to the realization of an identified risk or unforeseen loss.
- Contributions:** General Fund revenues in excess of expenditures in amounts sufficient to maintain reserves between minimum and maximum target balances.

**Special Projects Reserve**

- Purpose:** To ensure cash resources are available to fund planned major projects that extend the District’s capacity to execute its mission, such as health and wellness centers, rural health support, and facility expansions.
- Target Balance:** Engineer’s or reasonable estimate of development, construction or acquisition costs.
- Methodology:** Board objectives, strategic planning, in-depth studies, and cost/benefits analysis to identify and cost feasible projects consistent with the District’s mission.
- Use of Funds:** These funds would be used to finance special projects that extend the District’s capacity to execute its mission.
- Contributions:** General Fund revenues in excess of expenditures in amounts sufficient to maintain the maximum reserve level.



## **Restricted Reserves - Debt Service Fund**

### **Debt Service Reserve**

Purpose:	To ensure resources are available to pay debt service obligated under Proposition G or any other debt payable from any source other than General Fund revenue.
Target Balance:	The minimum balance of this reserve is the next two semi-annual debt service payments. The maximum balance shall equal the next three semi-annual debt service payments.
Methodology:	The sum of debt service payments for all outstanding Proposition G issuance series as well as all other debt obligated by sources other than the General Fund.
Use of Funds:	Pay debt service.
Contributions:	Special property tax assessment revenue recorded in the Debt Service Fund pursuant to Proposition G and any other revenue sources for which debt issuances are secured.

Other debt-related reserves will be established as prudent, required by debt covenants, and within in the provisions and guidelines of each issuance and federal arbitrage laws for all future issuances as follows:

*Project Fund* to maintain debt proceeds to be expended for project construction costs, capitalized interest, and issuance costs.

*Bona Fide Debt Service Fund* initially funded with debt proceeds and subsequently with revenues equal to annual debt service and depleted to a zero balance at least once per year.

*Replacement Fund* secures payment for debt service in the event the District is unable to pay debt service and is required not to exceed:

- 10% of the principal amount of the issue,
- Maximum annual debt service, or
- 125% of the average annual debt service.