



## Executive Officer's Report

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**To:** Imperial LAFCo Commissioners

**From:** Tyler Salcido, Executive Officer *TRS*

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**Item #:** 8c

**Subject:** Establishment of a Reserve Policy

**Date:** May 22, 2025

**Time:** 08:30 a.m.

**Location:** El Centro City Council Chambers  
1275 W. Main Street, El Centro, CA 92243

## Report

### Purpose

To request Commission direction on the development of a written Reserve Policy that formally establishes (1) Assigned Emergency Reserves and (2) a target level for Unassigned Reserves. This report provides background, rationale, and potential policy scenarios for consideration.

### Background

Imperial LAFCo currently maintains two dedicated reserve funds, collectively termed "Assigned Emergency Reserves," which are allocated as follows:

- **Litigation Reserve:** \$40,000
- **Catastrophic Building Damage Reserve:** \$460,000

These reserves have been established for specific, limited-use purposes but are not yet codified in a written Reserve Policy.

Separately, **Unassigned Reserves**, which are not legally or contractually committed to specific uses, are projected at **\$72,194** for Fiscal Year 2025–2026. Total proposed expenditures for the same period are **\$906,442**.

Unlike the assigned reserves, there is no currently adopted policy that defines an appropriate minimum balance for unassigned reserves. Establishing a policy will improve financial transparency, strengthen fiscal management, and better prepare the agency for economic volatility or unanticipated needs.

## Proposed Policy Framework

1. **Formalize the existing Assigned Emergency Reserves as part of the Reserve Policy.**
2. **Establish a minimum threshold for Unassigned Reserves.** Options include a percentage of annual operating expenses or a flat dollar amount.

## Policy Options for Unassigned Reserves

### Option A: Percentage of Annual Expenses

This method scales with the size of LAFCo's operating budget and allows for automatic adjustment as the budget changes year to year.

Scenario	% of Annual Expenses	Target Amount (based on \$886,419)
A-1	5%	\$44,321
A-2	8%	\$70,914
A-3	10%	\$88,642

**Pros:** Flexible and adjusts to growth; aligns with public finance best practices.

**Cons:** May be difficult to fund in years with lean budgets.

### Option B: Flat Dollar Target

This method establishes a fixed reserve floor regardless of year-to-year budget changes.

Scenario	Flat Reserve Amount
B-1	\$50,000
B-2	\$75,000
B-3	\$100,000

**Pros:** Easy to understand and communicate; can be tied to a baseline operating risk tolerance.

**Cons:** May become outdated or insufficient as the budget grows over time.

## Recommendation by the Executive Officer

The Executive Officer recommends that the Commission provide direction on the preferred method for setting the minimum unassigned reserve level. The Executive Officer also recommends:

- Codifying the existing Assigned Emergency Reserves (\$500,000 total) into a written policy, with limited-use restrictions.
- Incorporating review of reserve levels into the annual budget adoption process.

### Next Steps

Based on the Commission's preferred approach, staff will return with a draft written Reserve Policy for formal adoption at a future meeting.