



## Executive Officer's Report

**To:** Imperial LAFCo Commissioners

**From:** Tyler Salcido, Executive Officer

A handwritten signature in blue ink, appearing to read "T. Salcido", is placed next to the name in the "From:" field.

**Item #:** 8e

**Subject:** Establishment of a Reserve Policy

**Date:** June 26, 2025

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

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

### Report

#### Purpose

The purpose of this item is to present a proposed Reserve Policy for Commission approval. This policy formally establishes both Assigned Emergency Reserves and a target level for Unassigned Reserves. The policy is intended to strengthen Imperial LAFCo's long-term fiscal stability and support sound financial planning.

#### Background

Imperial LAFCo currently maintains designated reserve funds, including:

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

These reserves (Assigned Reserves) total \$500,000 and have historically been maintained as informal set-asides for specific contingencies but have not been codified in a written policy.

As part of the FY 2025–2026 budget process, the Commission directed staff to prepare a Reserve Policy that also includes a formal target for Unassigned Reserves. The

Commission selected a target of **10% of annual operating expenses** to serve as the minimum unassigned reserve threshold.

## Policy Summary

The proposed Reserve Policy includes the following components:

- **Codification of Assigned Emergency Reserves** totaling \$500,000, with restrictions on use and a requirement for Commission approval prior to expenditure.
- **Unassigned Reserve Target** set at a minimum of **10% of operating expenses**, reviewed and calculated annually based on the adopted final budget.
- **Use of Unassigned Reserves** is allowed for short-term cash flow, unexpected revenue losses, emergency costs, or unanticipated project needs.
- **Replenishment Plan** required if reserves fall below the minimum threshold.
- **Annual Review** of all reserve levels as part of the budget adoption process.
- **Amendment Clause** requiring Commission action to revise the policy in the future.

## Options

**Option #1:** Approve and adopt the Reserve Policy as presented.

**Option #2:** The Commission may direct staff to make modifications and return with a revised policy at a subsequent meeting.

**Option #3:** The Commission may decline to adopt the policy.

## Recommendation by the Executive Officer

**Option #1:** Approve and adopt the Reserve Policy as presented.

**EXHIBIT A:** Reserve Policy

**EXHIBIT B:** Draft LAFCo Resolution #2025-XX

# EXHIBIT A

Reserve Policy



## RESERVE POLICY

### I. PURPOSE

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The purpose of this Reserve Policy is to establish a framework for maintaining prudent financial reserves that ensure fiscal stability, support long-term planning, and provide resources for emergency or unforeseen circumstances. This policy applies to all funds managed by the Imperial County Local Agency Formation Commission (LAFCo) and outlines the structure and allowable uses of both Assigned Emergency Reserves and Unassigned Reserves.

### II. DEFINITIONS

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- **Assigned Emergency Reserves:** Funds set aside for specific, limited-use purposes, including litigation and catastrophic events impacting LAFCo facilities.
- **Unassigned Reserves:** Discretionary funds not designated for specific purposes. These reserves are maintained as a general safeguard against revenue shortfalls or unexpected costs.

### III. ASSIGNED EMERGENCY RESERVES

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The following reserves are established and maintained as Assigned Emergency Reserves:

- **Litigation Reserve:** \$40,000  
For use in the event of significant, unbudgeted legal costs or lawsuits involving LAFCo
- **Catastrophic Building Damage Reserve:** \$460,000  
For use in the event of major damage or loss to the LAFCo office premises or critical infrastructure.

Total Assigned Emergency Reserves: **\$500,000**

Use of these reserves requires Commission approval and should be limited to the designated purpose. These reserves shall be reviewed and reaffirmed during the annual budget process.

#### IV. UNASSIGNED RESERVE TARGET

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LAFCo shall maintain a minimum **Unassigned Reserve equal to 10% of annual operating expenses**, calculated based on the adopted Final Budget each fiscal year.

- **Example (FY 2025–2026):**  
Operating Expenses: \$886,419  
Minimum Unassigned Reserve: **\$88,642**

Unassigned Reserves may be used at the discretion of the Commission for:

- Temporary cash flow needs
- Unexpected revenue shortfalls
- Unanticipated project costs
- Emergency expenditures not covered by Assigned Reserves

If the Unassigned Reserve falls below the 10% threshold, the Commission shall develop a plan to replenish reserves within two subsequent budget cycles, or as soon as reasonably practicable.

#### V. ANNUAL REVIEW

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All reserve levels shall be reviewed and reported annually as part of the budget development and adoption process. The Executive Officer shall present the current reserve balances and provide any recommendations for adjustments or replenishments.

#### VI. POLICY REVIEW AND AMENDMENTS

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This policy shall remain in effect until modified or rescinded by the Commission. Amendments require majority Commission approval.

**End Of Policy**

# EXHIBIT B

Draft LAFCo Resolution #2025-XX



## IMPERIAL LOCAL AGENCY FORMATION COMMISSION

June 26, 2025

### RESOLUTION #2025-XX OF THE LOCAL AGENCY FORMATION COMMISSION OF THE COUNTY OF IMPERIAL APPROVING AND ADOPTING A RESERVE POLICY

**RESOLVED**, by the Local Agency Formation Commission of the County of Imperial, State of California, that:

**WHEREAS**, the Imperial Local Agency Formation Commission ("LAFCo") is committed to maintaining sound financial management practices and fiscal transparency in accordance with Government Code Section 56300 et seq.; and

**WHEREAS**, LAFCo currently maintains designated funds for litigation and catastrophic building damage but has not previously adopted a formal reserve policy; and

**WHEREAS**, the Commission recognizes the importance of maintaining both Assigned and Unassigned Reserves to ensure long-term financial stability, support operational continuity, and prepare for unexpected fiscal needs; and

**WHEREAS**, the Commission directed the Executive Officer to prepare a formal Reserve Policy as part of the Fiscal Year 2025–2026 budget process; and

**WHEREAS**, the Executive Officer has presented a Reserve Policy that:

- Codifies Assigned Emergency Reserves totaling \$500,000, including a \$40,000 Litigation Reserve and a \$460,000 Catastrophic Building Damage Reserve;
- Establishes a minimum Unassigned Reserve target equal to 10% of annual operating expenses;
- Requires annual review of all reserve levels as part of the budget process;
- Provides a process for replenishment if Unassigned Reserves fall below the established threshold; and
- Allows use of Unassigned Reserves for temporary cash flow needs, revenue shortfalls, project costs, or emergencies.

**WHEREAS**, on June 26, 2025, the Commission met, discussed, and voted to approve and adopt the Reserve Policy.

**NOW, THEREFORE, BE IT DETERMINED, ORDERED AND RESOLVED** as follows:

1. The Reserve Policy attached hereto as **Exhibit A** is hereby adopted.
2. The Executive Officer shall incorporate the annual review of reserve levels into the Commission's budget process.
3. The Executive Officer is authorized to implement and administer the Reserve Policy consistent with its terms.
4. This resolution shall become effective immediately upon its adoption.

**PASSED, ADOPTED, AND APPROVED** this **26<sup>th</sup>** day of **June 2025**, by the following roll call votes:

**AYES:**

**NAYES:**

**ABSTAINED:**

**ABSENT:**

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Jesus Escobar, Chair