



**To: First 5 Alameda County Commission**

**From: Rebecca Gebhart, Finance and Administration Director**

**Date: February 18, 2009**

**Subject: Operating Reserve Recommendation**

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#### **REQUESTED ACTION**

To review and approve the following recommendation related to the establishment of an operating reserve to ensure adequate funds in the event of a reduction in workforce.

#### **BACKGROUND**

In December 2008, the Commission adopted an amendment to the Personnel Policies to include a Reduction in Workforce policy. The Reduction in Workforce policy provides guidance in the event of a reduction in workforce due to changes in the Strategic Plan, external reductions in the monthly tobacco tax allocation, and other organizational contractions deemed essential by the Commission. Among other items in the policy was a provision for severance pay (two weeks of pay for every year worked) for employees in the event of layoffs.

At the January 22<sup>nd</sup> Commission meeting, Commissioner Baldavinos requested staff to research and prepare a recommendation to create an operating reserve of funds sufficient to lay off all staff. While the likelihood of such a mass layoff is extremely low, it is prudent to consider reserving these funds to ensure the organization's ability to meet the obligation outlined in the Personnel Policies (revision date December 11, 2008).

#### **IMPLEMENTATION**

First 5 Alameda County Financial Policies, Section 2.B on Financial Reserves and Goals, allow the Commission to specify use of reserves.

- "F5AC will maintain specific reserves required by law and/or debt covenants and any general reserve requirements as may be set from time to time by the Commission."

Governmental Accounting Standards Board Codification, paragraphs 1800.132 to 1800.146, tell the basic rules for reporting reservations and designations of fund balances and net assets.

- A reduction in workforce reserve is not a liability on either the statement of net assets or the governmental funds balance sheet. Employees have not yet earned it and First 5 has not yet legally obligated itself to pay it. (Paragraph 1800.134)
- A reduction in workforce reserve is not externally imposed on First 5 and it is not imposed by enabling legislation. Therefore the reserve is not a “restriction” that would appear as a component of net assets (equity) on the statement of net assets.
- A reduction in workforce reserve is not legally segregated for a specific future use. Therefore it is not a reservation of fund balance that will be shown as a component of fund balance on the governmental funds’ balance sheet. (Paragraph 1800.142)
- A reduction in workforce reserve would be established to indicate tentative plans for resource use. The plans are the Commission’s current intent, can be changed by the Commission, and may never result in expenditures. Therefore your “reserve” should be shown as a designated fund balance on the governmental funds’ balance sheet. (Paragraph 1800.144)
- The designation may be explained in the footnotes to the financial statements and/or the management’s discussion and analysis.
- The designation may be noted on the Long Range Financial Plan to segregate the funds from the rest of the reserve, and to give a more accurate picture of the balance of the reserve.

The calculation of the designation has been made by taking salaries and length of service for regular full and part time employees as of pay period 09-03 and applying the approved formula of two weeks of pay per year, and \$500 per year up to a cap of \$3000 for COBRA payments.

Creation of an operating reserve of funds for the purpose of funding the Reduction in Workforce policy does not change the at-will status of employees or any other existing personnel policies of First 5 Alameda County. Further, consistent with First 5 Alameda County personnel policy, the Reduction in Workforce policy may be modified, rescinded, supplemented or revised with approval of the Commission, and is not intended in any way to be a contract.

**FISCAL IMPACT**

The fiscal impact of a recommendation to designate a Reduction in Workforce reserve is to decrease the Sustainability Fund by \$960,000, which is the estimated cost to lay off the entire staff, at their current levels of salary and years of service.

**RECOMMENDATION**

To review and approve the above recommendation related to the establishment of an operating reserve to ensure adequate funds in the event of a reduction in workforce.

Submitted by:

Reviewed by:

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Rebecca Gebhart, Director  
Finance & Administration

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Mark Friedman,  
Chief Executive Officer