

Purpose

This policy establishes clear guidelines for maintaining financial reserves that safeguard the Belvedere Tiburon Library's long-term sustainability. Reserves may be accessed in the event of emergencies, unexpected costs, strategic projects, or revenue shortfalls, while also supporting long-term liabilities. The objective is to ensure the Library's financial resilience, reduce financial risk, and support investments in critical infrastructure, including sustainability and resiliency initiatives.

Definition of Revenue

Total revenue encompasses all sources of income generated by the Library, including but not limited to:

- Tax revenues
- Donations and grants
- Fines and fees
- Fundraising proceeds
- Investment income
- Other income sources specific to the library

Categories of Reserve Funds**A. Operating Reserve**

Maintained to provide liquidity in case of temporary revenue shortfalls or unanticipated expenditures. Funding the Operating Reserve is the top priority for reserve accounts.

Target: 20% of annual operating expenditures, equivalent to approximately 2.5-3 months of operating costs.

Typical Use: Emergency operations, major facility repairs, urgent legal or compliance-related costs, and staffing and service continuity.

B. Insurance Reserve

Dedicated to covering insurance deductibles, legal settlements, or costs not covered by insurance. Funding the Insurance Reserve is the second priority for reserve accounts.

Target: Minimum Balance of \$550,000

Typical Use: Disaster recovery, claims deductibles, and liability-related expenditures.

C. Pension Liability Reserve

Designated to help stabilize future employer pension costs and reduce exposure to unfunded liabilities.

Target: Initial 7% of annual full-time payroll, with an initial benchmark of \$105,000. Target to increase to 10% in subsequent years.

Typical Use: Offset unanticipated increases in CalPERS employer contribution rates, to make additional discretionary payments (ADPs) toward unfunded liabilities, and reduce volatility in long-term financial planning and budgeting.

D. Capital and Maintenance Reserve

Supports ongoing facilities maintenance and future capital repairs for the Library's physical assets.

Target: Initial contribution of \$70,000 or 0.5% of the building's estimated replacement value (currently \$14M). Contributions will be reviewed annually based on facility condition assessments and maintenance needs. The Capital and Maintenance Reserve will be capped at a maximum target balance of \$500,000, which is intended to address routine and moderate-scale maintenance needs while allowing for responsible stewardship of available financial resources.

Typical Use: Preventative and routine maintenance of building systems, IT and security infrastructure, accessibility-related upgrades, and general repairs.

E. Strategic Initiative Reserve

This reserve supports non-recurring, strategic projects that advance the Library's mission and long-term goals. These initiatives often fall outside the scope of regular operating or capital budgets and may arise opportunistically or in response to emerging community needs. Special projects include sustainability or resiliency initiatives, pilot programs and feasibility studies, professional services for special initiatives, and matching funds for major grant opportunities. The Library will fund this reserve when feasible through year-end surpluses, designated gifts, and Board-authorized fund transfers.

Target: Initial \$500,000 balance, scalable based on project scope

Typical Use: Projects that align with the Library's Strategic Plan including infrastructure investments, grant matching funds, technical assessments, or pilot projects.

F. Restricted Funds

Restricted funds are resources received by the Library with legal or contractual limitations on their use. These funds must be tracked separately from general operating or board-designated reserves and may not be used for any purpose other than that specified by the donor, grantor, or governing agreement.

Target: No specific dollar target is set for this reserve, as balances will vary depending on active restricted funding sources.

Typical Use: Restricted to purpose(s) specified by the donor, grantor, or legal agreement.

Allocation, Investment, and Management of Reserves

Funds allocated to each reserve category shall be held in designated accounts or investment vehicles consistent with their intended purpose and liquidity needs. All reserve funds shall be managed in accordance with the Library's adopted Investment Policy, which governs how surplus funds are invested. The primary objectives are preservation of capital, liquidity, and a reasonable rate of return.

The Board of Trustees, through the Library Director and Finance Committee, shall oversee the management and reporting of all reserves. On a monthly basis, any approved use of reserves will be recorded in Non-Operating Fund Expenses with planned transfers to and from reserve

accounts to typically occur twice annually mid-fiscal year (on or around December 31) and fiscal year closeout (on or around June 30). These scheduled transfer points ensure transparency and alignment with financial review and planning cycles.

Funding and Replenishment Strategy

The Library recognizes that not all reserves may initially meet their designated targets. When a reserve fund falls below its target level, the Library will:

- Develop a targeted replenishment plan within six months
- Prioritize restoration of Operating and Insurance Reserves
- Identify funding sources such as surpluses, gifts, or Board-approved transfers
- Aim to restore reserves within a 2–5 year period, depending on financial conditions

Reserve statuses and replenishment plans shall be included in the annual budget process and reported quarterly to the Board.

Use of Reserve Funds

Reserve funds may be accessed with Board approval for these purposes and are not limited to:

- A. Emergency repairs or disaster response
- B. Revenue shortfalls and economic downturns
- C. Capital improvements and resiliency infrastructure and community safety investments
- D. Pension liability stabilization or reduction
- E. Professional services and special projects

In an emergency, the Library Director may authorize the use of Reserve Funds up to \$30,000 without prior Board approval. All other uses of Reserve Funds shall require formal approval by the Board of Trustees.

Reporting and Accountability

The Library shall provide quarterly financial reports to include:

- Reserve fund balances and activities
- Any transfers, draws, or additions
- Progress toward reserve targets
- Pension liability update

Reports shall be provided to the Board and made available to the public as part of the Library's commitment to transparency.

Review and Amendment

This policy shall be reviewed every two years to ensure its continued relevance and effectiveness. Library management or the Board of Trustees may propose amendments, which shall be subject to approval by the same governing body.