



RESERVE AND DESIGNATION POLICY

EFFECTIVE JULY 2024

I. Policy Statement

The Town of Truckee provides essential services to over 16,000 residents including public safety, planning, building, public works, road maintenance, snow removal, solid waste, housing, and engineering. In addition, the Town has a vibrant tourism industry, attracting thousands of visitors annually, all of whom utilize Town services in some fashion. As such, the Town has a duty to establish and maintain reserve funds to be prepared in the event of a natural disaster or other disturbance to services to ensure that core, essential services can be maintained regardless of circumstances.

The Town first established a reserve policy as part of the overall fiscal policies, developed in 2009. They have been updated periodically and unofficially as part of the annual operating budget process.

Over that time, the Town Council has been proactive in setting aside funds for specific projects or programs, such as economic development and sustainability, as well as operational contingencies. The designations for these special purposes have never been detailed as part of a specific policy and instead have been set aside as part of the annual operating budget process.

This Town of Truckee Reserve and Designation Policy (Policy) is designed to establish guidelines to ensure fiscal stability of the Town and provide guidance to staff in the financial management of the Town's operations.

II. Purpose

A properly designed reserve policy is not only best practice for government finance, but also sends a positive signal to ratepayers, investors, regulators, and credit rating agencies that the Town is committed to maintaining the long-term fiscal sustainability of the Town. Strong and transparent fiscal policies, including maintaining prudent reserves for emergencies, working capital, and capital improvement, are consistent with Governmental Accounting Standards and are important for the Town as they help

- Maintain the short-term and long-term financial health of the Town.
- Fund unanticipated expenditures and contingencies, including emergencies.
- Ensure funds exist for system and infrastructure improvements.

- Ensure adequate cash flows to maintain timely bill payments.
- Act as a significant positive credit factor in bond ratings.

III. Definitions

Annual Comprehensive Financial Report (ACFR) – The ACFR is the Town’s annual audited comprehensive set of financial reporting documents that are prepared and presented to the Town Council each year. The report complies with Governmental Accounting Standards Boards (GASB) and with the Government Finance Officer’s Association (GFOA) best practices in reporting. The ACFR includes fund balances for governmental funds (categorized as non-spendable, restricted, committed, assigned, or unassigned per GASB 54 requirements), and includes net position reporting for proprietary (enterprise or business-like) funds.

Designation – Amounts that are intended for use for a specific purpose as expressed by the Town Council or by an official or body to whom the Town Council delegates authority. Referred to as Assigned Fund Balances in GASB 54.

Non-spendable Fund Balance – Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to remain intact. For the Town, these amounts include inventory and prepaid assets, which are not in a spendable form.

Operating Surplus – The amount by which operating revenues exceed operating expenditures.

Restricted Fund Balance – Resources with constraints placed on their use either by (i) external groups such as creditors, grantors, contributors, laws, or regulations of other governmental agencies; or (ii) law through constitutional provision or enabling legislation.

Self-Insured Retention (SIR) – A dollar amount specified in a liability insurance policy that must be paid by the insured before the insurance policy will respond to the loss. Referred to a deductible by some insurance policies.

IV. General Fund

A. General Fund Contingency Designation

The Contingency Designation is funded via the General Fund ending balance. This designation is intended to maintain or improve the Town’s credit ratings, ensure operating and maintenance costs will be paid in a timely manner, that there will be sufficient cash flows to meet debt and other financial obligations, minimize the impacts of economic downturns, and provide necessary cash in the event the Town experiences a natural or other disaster or disturbance.

The target level is equal to 40% of general fund operating revenues. This is intended to provide cash flows for four (4) months of Town operations, should cash flows become restricted or stop due to natural or other disaster or disturbance.

During the creation of the Annual Comprehensive Financial Report (ACFR), staff will make an adjustment to the General Fund Contingency Designation equal to the amount approved as part of the estimated actual adjustment to the Contingency Designation. The estimated actual amount presented in the budget is equal to 40% of the estimated actual general fund operating revenues.

If the Town is not able to maintain the contingency at this 40% level, the Town could be exposed to operational risk. The Town may only draw down on the contingency level with Council Approval. The Town Manager, in conjunction with the Administrative Services Department, will develop and implement plans to return cash accumulation in this Contingency Designation to the target level as quickly as reasonably practicable given the financial circumstances facing, with a goal of three years. The plan to replenish is subject to the Council's approval, typically through the adoption of the operating budget.

B. Road Maintenance Reserve Designation

The Road Maintenance Reserve is funded via the General Fund ending balance. The Road Maintenance Reserve is intended to set aside the necessary funds for use on pavement preservation and rehabilitation. The Town initially started saving for this purpose in fiscal year 2006/07, with the overlay designation (renamed the Road Maintenance Reserve in later years).

The desired annual savings amount is calculated as part of the Pavement Maintenance Program (PMP). The PMP is periodically updated with the last update occurring in fiscal year 2017/18. The Town is currently working on an update to the PMP.

The PMP determines the five-year estimated cost to maintain the Town's roads at the desired condition. Once the total estimated cost is developed, the Town then estimates the revenue available from special revenues focused on road maintenance, such as the Traffic Impact Fees Fund, the Gas Tax Fund, and the Measure V Road Maintenance Use Tax Fund. Any projected costs not covered by special revenues is slated to come from the General Fund, saved annually as part of the Road Maintenance Reserve.

As part of the last PMP update, the Town Council approved an increase to the Road Maintenance Reserve to \$1,250,000 annually. This amount is set aside before any amounts are designated for the General Fund Contingency.

C. Economic Development Designation

This one-time set aside General Fund designation provides funding for infrastructure and/or economic development projects consistent with Town Council direction. \$750,000 was initially set aside in fiscal year 2012/13, with an additional set aside of \$500,000 in fiscal year 2013/14 and \$2 million in fiscal year 2014/15, all funded from General Fund balance.

D. Streetscape Project Designation

This one-time General Fund designation provides funding for potential future streetscaping projects in the downtown area based on Council direction. The initial \$2 million set aside was made in fiscal year 2015/16. An additional \$535,000 was set aside in fiscal year 2018/19.

E. General Fund Housing Designation

This one-time General Fund balance set aside is prioritized for “local workforce” future housing projects within the community. The initial \$2.5 million was set aside in fiscal year 2016/17.

F. Railyard Commitments Designation

This one-time General Fund balance set aside was reallocated from the Economic Development Designation for greater clarity in showing the Town’s commitments to the Railyard Development. Specifically, the Town committed \$250,000 for the theater in fiscal year 2019/20 and \$50,000 a year for five years for work associated with the theater. If the theater is not built, this commitment must remain available unless the development agreement associated with the Artist Lofts is either amended or expires, at which time Council can determine how to allocate these funds.

G. Sustainability Designation

This General Fund balance was initially set aside for meaningful and substantial sustainability projects that help reduce the Town’s greenhouse gas emissions. The original \$1,005,000 was set aside in fiscal year 2020/21.

On an ongoing basis, to ensure there is adequate funding to support the Town’s efforts to achieve the 2017 Climate Action and Energy Goals as detailed in Resolution 2017-58, as well as the implementation of the Climate Action Plan element of the Town’s General Plan, the Town creates the following ongoing savings mechanism to replenish the Sustainability Designation. When the annual General Fund operating surplus is greater than \$5 million, the Town will save 5% of said annual operating surplus into the Sustainability Designation.

H. Employee Group Healthcare Designations

These General Fund designations will provide for stabilization of future rate increases in employee health care insurance rates. A specific designation for each of the Town’s three employee groups. These designations will be funded with savings, if any, between the budgeted costs for the Town’s portion for employee access to health, dental, and vision insurance and the actual costs. The first calculation of savings will be completed at the completion of fiscal year 2025. These designations will be subject to the following provisions:

- a) *Funding Strategy*: In years where the healthcare premiums for health, dental, or vision do not increase the full 10.0% provided for under the individual employee group memorandum of understandings (MOU), the difference between the amount budgeted and the actual amount paid during the year will be set aside in a health designation. The savings will be calculated by member group and savings will be set aside in the specific employee designation.
- b) *Use Policy*: If there is a balance in the designation and the healthcare premiums increase more than 10.0% for the year, the Town will meet-and-confer with the specific group to determine if an additional fixed rate increase shall be made from the balance of the designation. Fixed rate increases beyond the 10.0% negotiated rate increase will only be made if there is available funding in the respective employee group’s designation.

- c) *Funding Limits*: Each group's designation will be limited to a balance of \$75,000 at any one moment in time.
- d) *Savings*: Annual savings will be determined at the conclusion of each fiscal year.

I. Budget Stabilization Designation

This General Fund Designation is intended to provide one-time funding to appropriate for actions or items that are unknown at the time of budget preparation but anticipated during the upcoming budget year. In FY 2024/35, the funding allocated in the Budget Stabilization is to seed implementation of recommendations resulting from the Organizational and Service Delivery Assessment. Examples of such items could include the initial implementation cost for a new software or a study to create a five-year strategic plan for a specific division.

The initial set aside for this designation is \$1,700,000

J. Truckee Fire Fee Designation

This General Fund designation provides stabilization for future rate increases in the wild-land fire protection insurance contract between the Town and CalFire. A balance of \$19,167 was initially set aside in fiscal year 2013/14. The balance fluctuates annually. If the annual cost is more than consumer price index (CPI) adjusted amount, this designation is drawn down to stabilize the impact on the General Fund operating budget. If the rate increase is less than the CPI adjusted amount, an amount equal to the difference between what the rate would be with the CPI adjustment and the actual rate, is added to the designation balance for future year rate stabilization.

K. Self-Insured Retention – Restricted Fund Balances

1. Liability

This is a restricted fund balance that is required by the terms of the Town's general insurance provider California Intergovernmental Risk Authority, JPA. It is to provide for the Town's required self-insured retention (SIR) for liability insurance. The Town currently has an SIR of \$50,000 per event. The balance is equal to three (3) times the SIR at \$150,000. The balance was initially set aside in fiscal year 1994/95 in the amount of \$30,000 and has increased concurrently to increases in the Town's SIR.

2. Workers' Compensation

This restricted fund balance provides for the Town's SIR for worker's compensation claims. It represents three (3) times the per incident deductible of \$25,000, or \$75,000. \$15,000 was initially set aside for this purpose in fiscal year 2011/12 and has increased concurrently to increases in the Town's SIR.

L. Non-spendable Fund Balances

1. Inventory

This balance represents the amount of the Town's fund balance that is representative of the value of inventory held at Public Works Service

Center and in the Police Department armory. It represents the non-monetary value of the General Fund. Council does not have discretion over this amount, except in setting policy for inventory levels. Changes to the value of inventory are booked into an expense account in the Respective division. Inventory was first booked by the Town in fiscal year 2012/13.

2. Prepaid Costs & Deposits

This non-spendable fund balance accounts for expenses paid in the year prior to the receipt of the related goods or services at year-end. The Town does not typically pre-pay expenses except in certain cases for contracts where there are cost savings associated with prepayment or for rent. Council does not have discretion over this amount. This balance was initially distinguished in the year-end General Fund balance as part of the fiscal year 2015/16 financial statements.

V. Fleet Replacement Fund

The Fleet Replacement Fund is for all General Fund-owned equipment such as the Town's policy, public works, and pool vehicles. Each individual enterprise fund (Parking, Transit, Solid Waste, and Building & Safety) supports their own equipment replacement in their respective fund.

Whenever the Town increases the size of the fleet, an amount is added to the operational division expense budget responsible for the additional vehicle. The amount is equal to the annual straight line depreciation amount. The amount is set aside in the Fleet Replacement Fund so that the Town has adequate funds to replace the vehicle once it becomes end of life.

The annual straight line depreciation amount is calculated by dividing the cost of the vehicle by its useful life. The useful life is determined by the Fleet Manager.

The amount that each division is expected to contribute annually is trued up with periodic updates to the Town's Fleet Replacement Plan. The last update of the Town's Fleet Replacement Plan was approved by Council in November 2020. During this process, the estimated useful life used for each type of vehicle is adjusted for future calculations.

Each year, the Fleet Manager determines which vehicles need to be replaced based on the Fleet Replacement Plan and an inspection of the vehicles due for replacement. Vehicles are only replaced if they are operationally at the end of their life, or the maintenance costs are at such a level that replacement makes more sense operationally. The Fleet Manager creates the Fleet Equipment Replacement budget detailing the expected purchases for the year.

VI. Reporting and Oversight

Reserve and designation levels will be monitored and reported on as part of the annual operating budget development process. Updated fund balances and net positions will also be reported annually in the audited ACFR.

This policy will be reviewed as part of the Town's annual budget process and will be updated, if needed, because of material changes in risk exposure, changes in industry standards, or other conditions that may arise.