



Reserve and Designation Policy

Effective June 2025

TOWN OF TRUCKEE
ADMINISTRATIVE SERVICES
DEPARTMENT

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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.

These policies will help guide current and future allocation levels to various reserve and designation categories in the General Fund and other Town funds, setting out specific target amounts based on widely used and accepted best practices. As referencing governmental funds, this policy satisfies the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54.

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 Officers 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.

Enhanced Service District Fund – An enhanced service district fund is either a community facilities district or a other group of properties that has voted to self-assess a property tax for enhanced services. This could include streetscaping, lighting, landscaping, and/or snow removal. The Town has the following active enhanced service district funds:

- Brickelltown Maintenance District Fund
- Railyard Maintenance District Fund
- Donner Pass Road Maintenance District Fund
- West River St District Fund

Enterprise Fund – Town of Truckee activities that operate in a manner similar to private enterprises. Revenues are derived from fees charged to users, and the programs are largely cost covering. Also referred to as Proprietary Funds.

General Fund – The primary operating fund of the Town of Truckee, used to account for all revenues and expenditures of the Town not legally restricted as to use, nor otherwise designated by action of the Town Council. This fund is used to accumulate the cost of the Town’s general obligations.

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.

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. Objectives and Overview

The Town of Truckee's Reserve and Designation policy has two primary objectives:

1. To determine the available liquid resources; and
2. To provide the information necessary to make informed financial decisions.

The fund balance classifications of the Town of Truckee funds are designed to clarify the extent to which the Town is bound to honor constraints on the specific purposes for which the amounts in the fund can be spent, rather than to simply represent the financial resources available for appropriation.

There are three (3) categories of funds per generally accepted accounting principles:

1. Governmental Funds: The General Fund, special revenue funds (i.e. ESDs, TSSA, Measure V), and the Capital Projects Funds;
2. Enterprise Funds: Can also be known as Proprietary Funds (i.e. the Building and Safety Fund); and
3. Fiduciary Funds; Successor Agency

The fund balance is only an approximate measure of liquidity or working capital. Therefore, it is necessary for the Town to recognize how the fund balance is constituted and isolate funds that are needed for longer-term obligations, discern what funds are restricted for special purposes, and classify those funds that are not available at all. To accomplish this goal, the Town's financial statements for government funds are comprised of five fund balance categories, as spelled out in GASB Statement No. 54:

1. Non-spendable - Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. For the Town, these amounts include inventory and prepaid assets. These assets are outside the control of the local governing body for financial decision making and planning purposes.
2. Restricted - Amounts that can be spent only for specific purposes because of constitutional provisions, enabling legislation, or constraints that are externally imposed by creditors, grantors, contributors, or the laws/regulations of another government. These amounts include inventory and prepaid assets. These assets are outside the control of the local governing body.
3. Committed - Amounts that can be used only for specific purposes determined by a formal action of Town Council. The Town Council is the highest level of decision-making authority for the Town. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Council.
4. Assigned - Amounts that do not meet the criteria to be classified as restricted or committed but are intended for use for specific purposes. This intent can be expressed by the Town Council or by an official or body to whom the Town Council delegates authority. These are referred to as designations in the Town's annual budget.
5. Unassigned - Amounts not included in other spendable classifications. Positive amounts are reported only in the General Fund.

V. 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 35% 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.

If the Town is not able to maintain the contingency at this 35% 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 the Town, with a goal of three (3) years. The plan to replenish is subject to the Council's approval, typically through the adoption of the operating budget.

Generally, these funds should only be used with formal Town Council action (i.e. resolution appropriating use of these funds). The use of these funds is limited for emergency situations. Example of such emergencies include, but are not limited to:

- Reduction in revenue equal to or greater than 20.0% of the adopted General Fund revenues in a given fiscal year.
- An unplanned, major, catastrophic event, such as a natural disaster requiring expenditures over 10.0% of General Fund adopted appropriations in a given fiscal year,
- Unfunded and/or unpredictable State or Federal legislation or judicial mandates,
- Any other unforeseen event that causes the Town to expend funds in excess of 10.0% of the General Fund adopted appropriations in a given fiscal year.

B. Road Maintenance Reserve Designation

The Road Maintenance Reserve is an assigned fund balance, 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 assigned, 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 assigned, 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 assigned, 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 assigned, 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 is an assigned fund balance and was initially set aside for meaningful and substantial sustainability projects that help reduce the Town's greenhouse gas emissions.

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 will save 5% of the General Fund operating surplus annually into the Sustainability Designation.

This calculation will be completed as part of the creation of the ACFR.

H. Public Art Designation

This assigned General Fund designation provides funding for implementation of the Public Art Master Plan and to assist in fulfilling item CC-5.B of the 2040 General Plan. As part of a staff report dated September 10, 2024, Council has directed staff to designate \$100,000 of General Fund annually into this designation.

This designation is capped at \$500,000, with \$50,000 reserved for maintenance and repair of previously installed pieces.

I. Wildfire Prevention Designation

Beginning in fiscal year 2025/26, staff will set aside General Fund dollars into this assigned fund balance designation for future work on Town-wide wildfire prevention, preparedness, and, in the unforeseen event of a wildfire, recovery efforts.

The target level will be 5.0% of the annual General Fund revenues.

During the creation of the ACFR, staff will make an adjustment to the Wildfire Prevention Designation equal to the amount approved as part of the estimated actual adjustment to the Wildfire Prevention Designation. The estimated actual amount presented in the budget is equal to 5.0% of the estimated actual general fund operating revenues, should sufficient General Fund balance exist.

When staff develop a project that is eligible to utilize these funds, which typically occurs during the annual budget process, staff will also develop a plan to replenish this designation as part of the same annual operating budget process, or the next available budget development period.

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 \$25,000 per event. The balance is equal to three (3) times the SIR. 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.

3. Employee Group Healthcare Balances

These General Fund designations represent restricted fund balances because it would require an amendment of the Town's Memorandum of Understanding with their employee groups. These balances will provide for stabilization of future rate increases in employee health care insurance rates. A specific balance is calculated for each of the Town's three (3) 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:

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

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.

VI. 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.

VII. Enterprise Funds & Enhanced Service District Funds

The Town's enterprise funds are designed to self-fund the associated activities from designated sources or user fees. To ensure sufficient funding for ongoing operations of these activities, these funds shall create designations for contingencies, capital improvements, and fleet replacements.

A. Contingency

A Contingency Designation is intended to provide funding for an enterprise fund in the event that a disaster prevents the normal collection of user fees or other funding sources, and will allow the underlying division to continue to provide necessary public services until funding resumes or the Town is able to develop alternative operating procedures.

Parking Fund – The Town will work to save an amount equal to six (6) months of operating expenses into this designation.

Building Fund – The Town will work to save an amount equal to one (1) year of operating expenses into this designation. This reserve is intended to ensure that the Building and Safety Division can continue operations in the event of a catastrophic natural disaster, even in the absence of revenues. Maintaining this reserve allows the Division to carry out critical, life-safety responsibilities such as red-tagging unsafe structures and providing expedited permitting services to support recovery and rebuilding efforts. While staff recognize that recovery from a truly catastrophic event would extend beyond one year, this reserve level provides the Town with the capacity to initiate recovery operations and develop a long-term recovery plan

B. Capital Project/Improvement's Designation

A Capital Projects or Improvement Designation is intended to be used for capital improvements or replacement of necessary infrastructure for the underlying service area.

Parking Fund – The Town will set aside \$50,000 each fiscal year into this designation for the periodic replacement or upgrade of Parking District infrastructure which could include meters or parking lots.

Enhanced Services District Funds – Any amount remaining in the fund balance of the enhanced service district funds that is not designated for another purpose will be available for the replacement of the infrastructure in the enhanced service district. The infrastructure replacements must be in line with the purpose of the enhanced service district (i.e. lighting infrastructure replacements in a lighting district).

C. Risk Management Designation

The Town is self-insured through a joint power's authority (JPA). When claims arise, the Town must pay a self-insured deductible in the amount of \$50,000 before coverage under the JPA kicks in.

The Town's active enhanced service district funds will work to create a designation in the amount of \$50,000 in the event that an event occurs within the district boundaries that requires defense or the payment of a claim.

D. Fleet/Vehicle Replacement Designation

A vehicle replacement designation is an amount set aside to replace the fleet of the underlying funds operations.

Building Fund – The Town will set aside 10% of any projected revenue over expenditures (i.e. the operating surplus) in the Building Fund annually for this purpose.

Enhanced Services District Funds – The enhanced service districts will save \$5,500 annually for the eventual replacement of specialized snow removal equipment used within the district.

E. Administrative Cost Designation

This is for the administration of Enhanced Service Districts in the event of an emergency. Each active enhanced service district fund will save \$5,000 each fiscal year for this purpose.

VIII. Reporting & 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.