

# **Town of Yountville**

## **Resolution Number 24-4260**

### **APPROVING RECOMMENDED UPDATES TO TOWN FUND BALANCE POLICY AND RESERVE TARGETS.**

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#### **Recitals**

- A. The Town Council has the authority to routinely review, and periodically revise if desired, Town fiscal policies.
- B. Town staff has been working with the Town Council to update the Town's Fund Balance Policy since December 2023.
- C. Staff presented a draft revision of the updated Fund Balance Policy to the Town Council at the March 19, 2024 meeting to receive feedback and further direction.
- D. The updated Fund Balance Policy included as part of this Resolution incorporates the Town Council feedback and direction received.

**Now therefore, the Town Council of the Town of Yountville does resolve as follows:**

- 1. Approves updated Fund Balance Policy and reserve targets.
- 2. The Resolution is hereby adopted and becomes effective and in full force immediately upon adoption.

**PASSED AND ADOPTED** at a regular meeting of the Town Council of the Town of Yountville, State of California, held on this 7th day of May, 2024 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Margie Mohler, Mayor

ATTEST:

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Hillary Gaede , Acting Town Clerk

# Town of Yountville Fund Balance Policy

## **Background**

Fund balance is a government accounting term that describes the difference between a government's assets and its liabilities. That difference (i.e., assets in excess of liabilities) is a measure of a government's additional financial capacity beyond the revenues that it raises each year. A local government should define how much fund balance (additional capacity) it will strive to maintain to: A) be prepared for unplanned, unavoidable financial losses, like natural disasters or recessions; B) have capacity for large, planned expenditures that are too large to be easily accommodated within a local government's annual budget.

Not all of a local government's assets are easily converted into cash that can be used should the need arise. Therefore, this policy only concerns the portion of fund balance that can practically and legally be converted into cash, should the need arise.<sup>1</sup> This portion of fund balance is known as the "unrestricted" portion of fund balance.

## **Purpose**

The purpose of this policy is to establish the Town's formal commitment that a specific amount of the Town's fund balance be set aside specifically for emergency contingencies and to offset other unplanned, unavoidable losses. It also provides guidelines for the acceptable uses of fund balance and authorization to use fund balances. The amount set aside by this policy is also known as the Town's General Fund Reserve.

## **General Fund Reserve Fund and Acceptable Uses**

The Town will maintain a fund balance sufficient to allow the Town to respond quickly and decisively to unplanned, unavoidable financial losses. Examples include, but are not limited to natural catastrophes, human-caused disasters, and recessions. The Town commits to holding reserves equal to a minimum of 35% of annual General Fund expenditures. This is intended to provide sufficient coverage to the Town for risks the Town is exposed to and also to cover the Town's obligations to maintain the minimum amount necessary for retention associated with commercial insurance the Town purchases.<sup>2</sup>

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<sup>1</sup> The Governmental Accounting Standards Board (GASB) defines how local governments should report fund balance. Here we are drawing a distinction between the "non-spendable" and "restricted" categories defined by GASB and the "committed," "assigned" and "unassigned" categories. The first two categories are practically or legally impractical or impossible to convert to cash to support near-term spending. So, when consider how much fund balance a government should maintain these two categories should be excluded from consideration. The last three categories are collectively known as "unrestricted" fund balance.

<sup>2</sup> The Town is a member of CIRA (California Intergovernmental Risk Authority) for purposes of liability and claims coverage. The Town's policy coverage requires a minimum reserve balance of \$30,000.

The General Fund Reserve is meant to address unexpected, nonrecurring costs. The General Fund Reserve should not be used for recurring annual operating costs. An exception is poor economic conditions or events that disrupt the Town's revenues for an extended period of time. In such cases, General Fund Reserve fund balances may be used to provide short-term relief so that the Town can restructure its operations in an orderly manner.

The General Fund Reserve is intended to help the Town address unplanned, unavoidable costs or revenue losses. Below are two categories of potential uses of the reserve that this policy authorizes;

- Contingency – for unanticipated costs or revenue shortfalls that are experienced through a budget year. Also for one-time projects, programs, or extraordinary events that require a use of reserves.
- Emergency – to cover a declared state, federal or local emergency as defined by the Yountville Municipal Code section 2.52.020.

### **Authority to Use General Fund Reserve**

The Town Manager may propose the use of the Contingency category of the General Fund Reserve to the Town Council and the Town Council will vote to provide or withhold authorization. This provision should not be interpreted to prevent the Town Manager from taking emergency actions as may be necessary to protect the Town and that are in the Manager's existing authority.

Use of the Emergency category of the General Fund Reserve requires a declaration of state, federal or local emergency as defined by the Yountville Municipal Code section 2.52.020 and must be approved via Resolution of the Town Council.

### **Administration of General Fund Reserve Fund Balance**

The Town's Finance Department will conduct an annual analysis to determine if the Town is likely to stay at or above the minimum target level of General Fund Reserve fund balance.

If the minimum General Fund Reserve fund balance is not likely to be maintained during the analysis period, Town finance staff will prioritize replenishing the reserve fund in the next budget cycle and develop a plan to bring the General Fund Reserve fund balance to the desired amount. This plan will be offered to the Town Council for consideration.

If the General Fund Reserve fund balance exceeds the minimum during the analysis period, the Town may spend the excess reserves. Reserves should be treated as one-time revenue. A one-time revenue should be used for a nonrecurring expenditure. A nonrecurring expenditure should not create an unaffordable obligation in future years. Examples of nonrecurring expenditures that the Town Council may assign excess reserves toward include paying down debts, refurbishing a capital asset, or transferring into the Town's Capital Projects Fund for future capital projects.

### **Fund Balance Set Aside for Known Future Spending**

The General Fund Reserve is for emergency contingencies, one-times costs, and unplanned financial losses. In addition to this, there are future costs that are known and planned but are not due in the current fiscal year and that are large enough that it would place a large strain on the budget to fund within a single year. Fund balance allocations within the General Fund are a mechanism to accumulate funds over multiple years so that the Town can more easily cover these costs when the time comes. The Town has established the following to pay for known future spending.

### **General Fund Budget & Legal Contingency Allocation**

The Town Council may assign a specific amount to be reserved for future appropriations to fund unexpected costs, revenue shortfalls, as well as legal and litigation costs that were not anticipated at the adoption of the Town's operating budget. As of December 4, 2018, this amount has been established at 5% of planned expenditures.

### **General Fund Leave Buy Out Allocation**

The Town Council may assign a specific amount to be reserved for future appropriations to fund unanticipated costs related to covering costs of employees retiring and or separating from the Town to cover funding the cost of accrued leave (management and vacation leaves).

### **Reporting and Recording of Fund Balance**

The Town's finance staff will report and record all fund balances in accordance with current accounting rules. Staff will observe any and all legal and contractual obligations of the Town in the way staff administers accounting policies. Further, the different fund balance uses described in this report should be easily distinguishable in reports produced by staff.