



## Staff Report

Agenda Item #: {{section.number}}A

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### Yountville Town Council Staff Report

**DATE:** March 19, 2024

**TO:** Mayor and Town Council

**FROM:** Celia King, Administrative Services Director

**PREPARED BY:** Brad Raulston, Town Manager; Celia King, Administrative Services Director

#### **RECOMMENDATION**

Accept report and provide direction to staff regarding proposed updates to Town Fund Balance Policy and reserve targets.

#### **DISCUSSION/BACKGROUND**

In October 2023, the Town contracted with the Government Finance Officers Association (GFOA) to conduct a Risk-Based Reserve Analysis. At the December 5, 2023 Town Council meeting, Shayne Kavanagh from the GFOA presented the results of the Risk-Based Reserve Analysis to the Town Council and discussed some potential updates to the Town's existing Fund Balance Policy and reserve targets.

Since then, staff have been working with Shayne to craft a draft revised Fund Balance policy. The draft revised policy is included with this staff report for the Town Council to review.

A summary of the proposed revisions to the existing Fund Balance Policy based on the feedback received from the Town Council in December are as follows:

#### **1. Removal of Governmental Accounting Standards Board (GASB) defined categories.**

- a. Staff heard from the Town Council a desire to reduce the number of "buckets" as this can cause confusion and redundancy. As the GASB categories can be viewed as another form of buckets, the revised policy moves to a more strategic approach, simply explaining what the reserve is and what it is to be used for.
- b. A footnote is included at the bottom of the page for those who seek more information about GASB fund balance categories.

#### **2. A plainer description of what fund balance is and why it is important.**

- a. Using simple language, rather than technical governmental accounting concepts, makes it much easier for the reader to understand and reduces the potential for confusion.

#### **3. The combination of the Emergency Reserve and the Unanticipated Tourism Revenue Deficits Reserve into one, the General Fund Reserve.**

- a. Consistent with reducing the number of reserve buckets, the Town Council discussed having

a clearer understanding of the amount of General Fund reserves that are available. Combining these two funds into one accomplishes that goal and offers more transparency to available funds for one-time needs.

- b. Naming this fund the General Fund Reserve aligns with the combination of the two funds and supports the revision of acceptable uses of this reserve.

**4. Revised acceptable use of the reserve.**

- a. In the proposed General Fund Reserve that combines the two existing funds, the acceptable uses allow for the Town to respond quickly and decisively to unplanned, unavoidable financial losses. The purpose of this broader definition is to keep the reserve fund flexible, yet still protected from routine use for normal operations.
- b. The General Fund Reserve is proposed to have three allocations as listed below:
  - i. Flexible – for minor unanticipated costs or revenue shortfalls that are fairly typical through a budget year. Also, for one-time projects or programs.
  - ii. Contingency – for extraordinary events that have an impact on the Town’s budget.
  - iii. Emergency – to cover significant, unexpected events that have an outsized impact on the Town’s budget.

<b>Town of Yountville General Fund Reserve DRAFT</b>				
<i>Consistent with GFOA 2023 Analysis - 30-50% of General Fund Expenditures*</i>				
Name	Function	Use Examples	Percent	Approval
Flexible	Reserved for minor unanticipated costs or revenue shortfalls that are fairly typical through a budget year. Also, for unbudgeted one-time opportunities. Think: "Checking Account"	Sales tax comes in a bit lower than projections, infrastructure failure that needs immediate repair, strategic property acquisition, grant matching opportunity	5%	Town Council approval if exceeds Town Manager's expenditure authority
Contingency	Maintained over time to cover extraordinary events that have an impact on the Town's annual budget. Think: "Savings Account"	Significant revenue shortfalls, infrastructure repair, small to moderate natural catastrophes, moderate recessions	10-15%	Town Council approval
Emergency	Maintained over time to cover significant, unexpected events that would have an outsized impact on the Town's annual budget. Think: "Emergency Savings."	Significant natural catastrophes with extended duration, human-caused disasters, moderate to severe recessions	15-30%	Town Council approval with emergency declaration
			<b>30-50% : TOTAL</b>	
* In addition to the above, the Town funds (in reserves but could be Internal Service Funds): OPEB costs, PERS unfunded liability, leave buy out, and legal contingency				

**5. Revised reserve target.**

- a. The proposed policy transitions the reserve target from a set minimum as a percentage of General Fund expenditures or Transient Occupancy Tax revenue, to a target range instead.
- b. The proposed range of minimum 30% to maximum 50% of General Fund Expenditures will fulfill the Town Council’s desire to be able to cover a substantial amount of expenditures during a time of poor economic conditions.

**6. Removal of fund balance allocations that are no longer applicable to the General Fund.**

- a. The following fund balance allocations are no longer relevant to the General Fund and have

been removed from the policy:

- i. PEG Fees – As of Fiscal Year 2009/2010 Public Educational and Government Access (PEG) fees are collected into and accounted for in Special Revenue Fund 21 rather than the General Fund.
- ii. Arts Program Reserve – this reserve was moved into the Town of Yountville Community Foundation in Fiscal Year 2018/2019.
- iii. Capital Projects Reserve – rather than having a separate fund balance allocation, the revised policy now states that should the General Fund Reserve be more than the maximum target range, an option would be to transfer some of the excess directly into Capital Projects Fund 50.
- iv. Legal Contingency Reserve – this fund balance allocation has been consolidated into the Budget & Legal Contingency Allocation.

#### **7. Fund Balance set aside for known future spending.**

- a. This section of the policy addresses fund balance allocations that are meant to be used for costs that are known and planned but may not be due in the current fiscal year or will be costing more than originally anticipated.

#### **8. Addressing fund balance levels.**

- a. The revised policy clearly states what the course of action should be if reserve balances are exceeding the maximum targets, or if they are not meeting the minimum targets.
- b. This provides an easy-to-understand mechanism for monitoring reserve target levels going forward.

Staff is recommending these proposed edits and welcomes further feedback and direction. This will enable staff to finalize this draft revised policy to be presented in final form at a budget workshop then adopted with the Biennial Budget.

#### **ENVIRONMENTAL REVIEW**

Exempt per California Environmental Act (CEQA) Guideline, Section 15061(b)(3)

#### **FISCAL IMPACT**

Is there a Fiscal Impact? Yes

Is it Currently Budgeted? N/A

Where is it Budgeted? N/A

Is it Mandatory or Discretionary? Discretionary

Is there a Staff Resource Impact? Nominal

#### **STRATEGIC PLAN GOAL**

Is item Identified in Strategic Plan? Yes

If yes, Identify Strategic Goal and Objective. **Responsible Fiscal Policy:** The Town maintains its fiscal health through policies designed to maximize economic opportunities, manage expenses, and ensure prudent reserves. **Visionary Leadership:** The Town's leadership maintains an open-minded, forward-thinking decision-making process. We value engagement and participation from all members of the community as we work together to create policies and plan for the future.