

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.¹ 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 between a minimum of 30% and maximum of 50% 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.²

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,

¹ 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.

² 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.

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 three general categories of potential uses of the reserve that this policy authorizes;

- Flexible – for minor unanticipated costs or revenue shortfalls that are fairly typical through a budget year. Also, for one-time projects or programs.
- Contingency – for extraordinary events that have an impact on the Town's budget.
- Emergency – to cover significant, unexpected events that have an outsized impact on the Town's budget.

Town of Yountville General Fund Reserve DRAFT <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
30-50% : TOTAL				
<i>* 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</i>				

Authority to Use General Fund Reserve

The Town Manager may propose use of the General Fund Reserve to the Town Council and the Town Council will vote to provide or withhold authorization to use the General Fund Reserve. 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.

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 within its desired range of available General Fund Reserve fund balance.

If the minimum General Fund Reserve fund balance is not likely to be maintained during the analysis period, the Town staff will 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 maximum General Fund Reserve fund balance is exceeded 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 include paying down debts or refurbishing a capital asset.

The Town's finance staff will report General Fund Reserve fund balance in the Town's annual financial statement in accordance with current accounting rules and in such a way that the General Fund Reserve fund balance can be distinguished from other parts of the Town's fund balance.

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 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.

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.

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). The assigned amount for Fiscal Year 2023/2024 is \$160,000.

Other Post-Employment Benefits (OPEB) Fund

The Town Council has made a commitment to funding OPEB and has established an IRC Section 115 Irrevocable Trust Fund to deposit these funds. There may, however, be a time when the Town is holding funds pending transfer to the OPEB Trust and those funds would be reported as the Town's OPEB Fund.

PERS Unfunded Actuarially Accrued Liability (UAAL) Fund

The Town Council has made a commitment to funding PERS UAAL and has established a Pension Rate Stabilization Plan IRC Section 115 Irrevocable Trust Fund to deposit these funds. There may, however, be a time when the Town is holding funds pending transfer to the PERS UAAL Trust and those funds would be reported as the Town's PERS UAAL Fund.

Excess or Insufficient Fund Balance

After accounting for the uses above, the Town may find that it has more unrestricted fund balance than is necessary to meet its obligations under this policy. In that case:

- A. The Town Council may assign some portion of the excess to transfer to the Town's Capital Projects Fund to fund future capital projects.
- B. The Town Council may authorize use of some portion of the excess for some other purposes consistent with the guidelines for using a one-time revenue described in this policy, under the Emergency Fund Balance section.

Similarly, after accounting for the uses above, the Town may find that it has less unrestricted fund balance than is necessary to meet its obligations under this policy. In that case the Town Council will direct Town staff to propose a plan to replace the reserve amount. The Town Council will review and approve the plan. The Town of Yountville will try to replace the reserves within the minimum amount of time that is practical.

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.