

**Tahoe City Public Utility District
Policy & Procedure**

GENERAL FUND RESERVE POLICY

I. BACKGROUND

The focus of the General Fund Reserve policy is to ensure that there will be adequate liquid resources to serve as a financial cushion. The General Fund “fund balance” is categorized into three areas: Nonspendable, Restricted and Unrestricted. Nonspendable and Restricted reserves are those amounts that are considered not available for the General Fund Reserve Policy due to financial, accounting, or legal restrictions. The Unrestricted component of fund balance is classified into three categories: Committed, Assigned, and Unassigned. Designations of these amounts are established by Board of Directors (Board) policy for an intended purpose and are available for use per the Board’s or the Board designee’s directions.

The following table highlights the components of the fund balance relevant to the General Fund Reserve policy.

Component of fund balance	Relevant to fund balance policy
Nonspendable	No
Restricted	No
Committed	Yes
Assigned	Yes
Unassigned	Yes

Unrestricted
fund balance

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In addition, the Governmental Accounting Standards Board (GASB) Statement 54 Report and Governmental Fund Type Definitions require that the District categorize fund balance according to the following components:

- Nonspendable fund balance (inherently nonspendable)
- Restricted fund balance (externally enforceable limitation on use)
- Committed fund balance (self-imposed limitation on use)
- Assigned fund balance (limitation resulting from intended use)
- Unassigned fund balance (residual net resources)

Guiding Principles:

Following sound financial practice and adhering to Government Finance Officers’ Association (GFOA) recommendations, the District’s designated reserves include reserves for known and unknown contingencies, which take into consideration:

- Diversity of revenue base
- Cyclical nature of revenue
- Change in community priorities
- Frequency of budget surplus / deficits
- Cash flow management practices

Policy Purpose

The purpose of this policy is to establish minimum target reserves in the General Fund to:

- Reduce the risk of financial impacts resulting from natural disasters or other catastrophic events;
- Respond to the challenges of a changing economic environment, including prolonged downturns in the local, state, or national economy; and
- Demonstrate continued prudent fiscal management and creditworthiness.

II. POLICY

The General Fund Reserve Policy is therefore established to provide the basis for the annual review of fiscal viability; to comply with the Board’s policies on maintaining appropriate resources for current operations, reserves and planned future operation; and debt service coverage (if needed). The minimum target level of reserves will consist of the following as established by the Board.

Reserve Levels:

Unrestricted Fund Balance	
Assigned fund balance	
Parks and Recreation Minimum Capital	An amount that equals to one year annual depreciation as determined during the previous year's annual audit for the Statement of Activities and Changes in Net Position
Parks and Recreation Minimum Rolling Stock Reserve	The amount to fund is set at 20% of a 10 year replacement value of rolling stock set during the annual budget process
Unassigned fund balance	
Budget Stabilization	At a minimum of 90 days of General Fund operating budget expenditures as originally adopted less capital outlay and project recovery

The District will “set aside” Fund Balance for:

- Parks and Recreation Minimum Capital Reserve: A component for long-term capital replacement for funding the replacement of the historical, undepreciated capital cost for which General Fund is responsible for. This will be accomplished annually as part of the budget and year end process.
- Parks and Recreation Minimum Rolling Stock Reserve: amounts set through the annual budget process as originally adopted. Rolling stock consists of wheeled vehicles and mobile equipment used by the District to support services. Rolling stock includes items such as trucks, trailers, vactors, generators, forklifts, snowmobiles, etc. The minimum target amount will be based on twenty percent (20%) of a ten year replacement value.
- Budget Stabilization: Funds “set aside” under this category shall be used to mitigate, should they occur, annual budget revenue shortfalls (actual revenue less than projected revenue) due to changes in the economic environment and / or one-time unanticipated expenditure. The dollar amount to be determined annually will be a minimum 90 days of General Fund operating budget expenditures as originally adopted less capital outlay and project recovery.

III. TERMS AND DEFINITIONS

- A. **Fund Balance** is the difference between assets and liabilities and is reported in three components of nonspendable, restricted and unrestricted.
- B. **Assigned Fund Balance** represents that portion of unrestricted fund balance that includes amounts that are constrained by Board intent to be used for specific purposes but are not committed or unassigned.
- C. **Unassigned Fund Balance** represents what is remaining in fund balance after non-spendable, restricted, committed, and assigned. The unassigned fund balance is generally available for emergency or unforeseen situations and is available for use by the Board.
- D. **Minimum Reserve Targets** are amounts determined by the Board and are made up of:
 - 1. **Parks and Recreation Capital Reserves** – An amount that equals to one year annual depreciation as determined during the previous year’s annual audit for the Statement of Activities and Changes in Net Position.
 - 2. **Parks and Recreation Rolling Stock Reserve** – An amount set at twenty percent (20%) of a 10 year replacement schedule. Rolling stock consists of wheeled vehicles and mobile equipment used for District services.
 - 3. **Budget Stabilization** – Funds “set aside” under this category shall be used to mitigate, should they occur, annual budget revenue shortfalls (actual revenue less than projected revenue) due to changes in the economic environment and / or one-time unanticipated expenditure. The dollar amount to be determined annually will be a minimum 90 days of General Fund operating budget expenditures as originally adopted less capital outlay and project recovery.

IV. PROCESS

As part of the annual budget process the District will evaluate and reset the minimum target reserves. The Board will determine how the reserves will be funded and at what levels. A minimum target reserve analysis will be prepared for the General Fund and approved by the Board as part of the annual budget process. If resetting the minimum target reserves creates a negative Unrestricted Unassigned Fund Balance, the District will develop a 1-5 year replenishment plan to meet the minimum reserve targets of this policy.

The following steps will take place to evaluate and reset the minimum target reserves:

- A. **Budget and Fiscal Viability.** The District will prepare its annual budget and long-range cash plan which includes the planned change in fund balance and minimum target reserves. The reports will include annual operating and capital outlay and a five-year cash flow plan and projected minimum reserves.
- B. **Setting amounts within the Unrestricted Fund Balance.** At the close of the annual audit, the Unrestricted Fund Balance shall be reevaluated to ensure that the minimum reserves are in place and adequately funded for:
 - 1. Minimum Capital Reserves.
 - 2. Minimum Rolling Stock Reserve

3. Budget Stabilization for current operations equal to a minimum of 90 days annual budgeted expenses as originally adopted less capital outlay and project recovery.

A minimum target reserve analysis will be prepared which supports the evaluation and resetting of the amounts. The Board, at any time, can expand or retract the minimum target reserves categories and/or amounts that allow for funding of the District's operating, capital and debt service obligations; as well as funding for unforeseen events. Reserves will be established, replenished and used only: in a manner which allows the District to fund costs consistent with the General Fund Capital Improvement Plan, Five-Year Financial Plan, and other Board adopted actions; and in a manner that requires minimal annual adjustment to General Fund activities. The District's reserve fund policy shall be periodically reviewed and adjusted to respond to the needs of the District.