

Tahoe City Public Utility District Financial Policy

General Fund Reserve Policy Policy Number: 2010

I. PURPOSE

This Policy is established to set forth the parameters and guidelines for the management of reserves in the General Fund. This Policy is intended to manage the cyclical nature of revenue and expenditures; reduce the risk of financial impact 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. The Government Finance Officers Association (GFOA) considers establishment of a reserve policy as a best practice and a key component of a sound financial management plan.

II. POLICY OVERVIEW

The establishment of this Policy will help provide financial stability and improve the District's ability to mitigate current and future risk. Following sound financial practices and adhering to GFOA recommendations, the District's designated reserves include those for anticipated and unanticipated expenditures and take into consideration diversity of revenue base; cyclical nature of revenue; change in community priorities; and frequency of budget surplus and deficits and cash flow management practices.

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 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 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. Adopted by the Board on December 16, 2011, Resolution 11-39 For The Classification of The Fund Balances as Required by GASB 54 and Adoption of The General Fund Reserve Policy established these fund balance components as follows:

- 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)

III. DEFINITIONS

As used in this Policy, the following terms shall have the meanings specified below:

- a. 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.
- b. Board – The lawfully elected or appointed governing body of the TCPUD.
- c. Committed Fund Balance – Limitations imposed by the TCPUD upon itself at its highest level of decision making
- d. Constituents – Residents, property owners, ratepayers, customers, beneficiaries of services, business owners, and voters within the District’s boundaries.
- e. District – The Tahoe City Public Utility District (District or TCPUD).
- f. Fund Balance – The difference between assets and liabilities and is reported in three components of nonspendable, restricted and unrestricted.
- g. Government Finance Officers Association (GFOA) – An industry recognized national organization. GFOA's mission is to advance excellence in state and local government financial management.
- h. Long-Term Financial Plan (LTFP) – A document separate from the budget process which supports the long-term financial planning process. The LTFP contains trends, projections, analysis, decisions and an execution strategy.
- i. Policy – This “General Fund Reserve Policy.”
- j. 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.

IV. PROCESS

Annually, a reserve analysis will be prepared for the General Fund which will evaluate current reserve levels and consider any resetting of amounts. Any change to reserve levels shall be approved by the Board. If resetting the reserves creates a negative Unrestricted Unassigned Fund Balance, the District will develop a one to five year replenishment plan to meet the reserve targets of this Policy.

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

- a. Budget and Fiscal Viability - The District will prepare its annual budget and long-term financial plan forecast which includes the planned change in fund balance and target reserves. The analysis will take into consideration the annual operating and capital budgets and a five-year forecast.
- b. Setting amounts within the Unrestricted Fund Balance - Annually, the Unrestricted Fund Balance shall be reevaluated and reset as outlined in this Policy. The Board shall approve of the amounts to be designated within the Unrestricted Fund Balance within the categories set forth below:
 - **Operating Reserves** – This reserve shall be used only in extraordinary circumstances, to mitigate unforeseen significant fluctuations in current operational expenses; for annual revenue shortfalls; changes in the

economic environment; and/or a significant, one-time unanticipated expenditure.

- **Fleet & Equipment Reserve** – The reserve shall be used for the planned replacement of current and future fleet and heavy equipment.
- **General Fund Infrastructure Capital Replacement Reserve** – This reserve is to be used for funding fluctuations in current capital infrastructure expenditures and to fund for future capital infrastructure.
- **Priority Project Capital Reserve** – This reserve is to be used for specific planned future capital infrastructure projects. The Board may establish sub-categories to designate funds for specific projects within this reserve account.

At any time, the Board may amend these reserves categories and/or targets or amounts, to allow for funding of the District’s operating, capital and debt service obligations or to provide funding for unanticipated events. Reserves will be established, replenished and used only in a manner which allows the District to fund costs consistent with the Capital Improvement Plan, Five-Year Financial Plan, Five-Year Strategic Plan, Long-Term Financial Plan and other Board adopted actions. The District’s General Fund Reserve Policy shall be periodically reviewed and adjusted to respond to the needs of the District.

The following table sets forth the General Fund reserve categories and outlines the targets as established and adopted by the Board:

GENERAL FUND RESERVES	
Description	Target
<p style="text-align: center;"><u>Operating Reserve</u></p> <p>This reserve shall be used only in extraordinary circumstances, to mitigate unforeseen significant fluctuations in current operational expenses; for annual revenue shortfalls; changes in the economic environment; and/or a significant, one-time unanticipated expenditure.</p>	<p>Reserve target shall be defined as ninety (90) days of the annual operating budget excluding capital outlay. Reserve levels will be determined annually as part of the budget process and approved by the Board.</p> <ul style="list-style-type: none"> • Use requires Board approval
<p style="text-align: center;"><u>Fleet & Equipment Replacement Reserve</u></p> <p>This reserve shall be used for the planned replacement of current and future fleet and heavy equipment.</p>	<p>Reserve target shall be defined as the annualized value of the 15-year fleet and equipment replacement plan. The reserve will be increased annually by the 15-year annualized value and reduced annually by the current year fleet and equipment purchases as approved by the Board.</p> <ul style="list-style-type: none"> • Use requires Board approval

<p style="text-align: center;"><u>General Fund Infrastructure Capital Replacement Reserve</u></p> <p>This reserve is to be used for funding fluctuations in current capital infrastructure expenditures and to fund for future capital infrastructure.</p> <p>Note: Current capital expenditures comes from property tax.</p>	<p>Minimum reserve shall be set at \$1.0 million. Maximum reserve shall be set at \$15.0 million.</p> <ul style="list-style-type: none"> • Min. Balance – \$1,000,000 • Max. Balance – \$15,000,000 • Annual increase – As determined by Board • Use requires Board approval
<p style="text-align: center;"><u>Priority Project Capital Reserve</u></p> <p>This reserve is to be used for specific planned future capital infrastructure projects. The Board may establish sub-categories to designate funds for specific projects within this reserve account.</p>	<p>Funding targets are determined on a per project basis annually during the budget process and approved by the Board.</p>