Reserve Policy – Town of Mammoth Lakes

Updated June 2021

General Provision:

A comprehensive reserve strategy is a crucial part of sound financial management for any municipality. This is true for Town of Mammoth Lakes is particularly highlighted because of the heavy reliance on the single revenue stream of Transient Occupancy Tax (TOT). Revenue form TOT accounts for over 60% of the Town's General Fund budgeted revenue. To prepare for and respond to unknown adverse financial conditions, it is recommended that the Town's Reserve for Economic Uncertainty and the operating reserve combine be funded at an amount equal to or grated than 25% of Total General Fund Revenue.

The Reserve Policy is comprised of four components, three for operational needs and one for debt service payments, all combine for a comprehensive reserve strategy. The components include Reserve for Economic Uncertainty (REU), Operating Reserve (OR), Contingency, and Debt Reserve. This policy is reviewed on an annual basis during final budget adoption to review the established baseline revenue used in calculating REU and OR.

- **Baseline Revenue is established on an annual basis during the budget process. Baseline Revenue must meet or exceed the General Fund Revenue in the Adopted Budget of the Fiscal Year**
- **FY21-22 Baseline Revenue $24,500,000 to be used in the calculation of both REU and OR**
- **Baseline General Fund Revenue: $24,500,000**

Reserve for Economic Uncertainty (REU) Target:	20% of $24,500,000 =	$4,900,000
Operating Reserve (OR) Target:	5% of $24,500,000 =	$1,225,000
	Targeted Minimum Reserve Balance =	$6,125,000

Component #1 – Reserve for Economic Uncertainty (REU)

Purpose: To minimalize the impact to town services in the event of a long-term revenue shortfall from an economic downturn or other localized event that negatively affects the town's revenue sources. These localized events could be in the form of a natural disaster that affects the town itself or access to the town. These events are unique and significant in order to engage use of the REU.

Engagement Timing: This reserve can only be engaged at Town Council direction, who would determine that a qualifying event has occurred and the level of impact from the emergency warrants the use of the REU.

Funding Target: $4,900,000 for FY21-22 based on 20% of Baseline Revenue established for FY21-22. Baseline must meet or exceed the General Fund Revenue in the adopted budget for the Fiscal Year.

Funding Priority: The REU is the most important component of the reserve strategy as it maintains the most critical security for continued Town operations. For that reason, this fund must take priority to maintain 100% funded status if possible. The engagement of this policy means the town has experienced a significant emergency and therefore may have a long recovery period. Following the economic recovery from such an emergency, Town Council would determine priorities of funding depending on current town needs.

Fund Location: These funds reside in the Mono County investment pool and any interest earned on these funds are rolled into the REU balance.

Component #2 – Operating Reserve (OR)

Purpose: This component can be used to weather short term economic impacts or to take advantage of unanticipated funding needs such as grant opportunities, response to damaged facilities, unanticipated short term declines in revenue or new state and federal cost mandates. This component is more flexible than the REU and therefore could be engaged more frequently.

Engagement Timing: This tool may be engaged when revenues fall short of needs in any year, which are not offset by a reduction in expenses. The funds are authorized for use by town council, usually in response to a request from staff. This fund will be fully depleted in advance of engaging the REU.

Funding Target: $1,225,000 for FY21-22 based on 5% of Baseline Revenue established for FY21-22. Baseline must meet or exceed the General Fund Revenue in the adopted budget for the Fiscal Year.

Funding Priority: We do have a number of revenue sources that are not budgeted on an annual basis due to their uncertainty. It is possible to designate any revenue received from these sources to fund the Operating Reserve. This entry could be made on a quarterly basis and minimize the request of Fund Balance or other one time dollars to fund this account. If the qualifying events were severe enough to engage the REU funds, this re-funding process would begin once REU is fully restored.

Fund Location: These funds reside in the Town's LAIF investment pool. This would allow for interest earning as well as immediate access when needed.

Component #3 – Contingency

Purpose: This fund allows for flexibility for rapid response to small projects or unanticipated needs that arise such as damages to town facilities, repair or replacement of equipment, offsetting small amounts of variance on revenue estimates or expenses like postage and office supplies.

Engagement Timing: This tool is generally allocated at Town Manager's designation as needed or as authorized by Town Council direction.

Funding Target: This component is a part of the normal budget process and is budgeted at $100,000 per year.

Funding Priority: This component is allocated during the annual budget process for the Town's operating budget. Funds can be used at the direction of Council or Town Manager and once used will not be funded again during the year. To this point, these funds should be reserved for the most important projects or one time unanticipated costs. Any funds remaining in the account at the end of the year may be shifted to REU or OR to remain within the reserve structure.

Fund Location: These funds reside in the Town's LAIF investment pool. This would allow for interest earning as well as immediate access when needed.

Component #4 – Debt Reserve

Purpose: This reserve secures money to cover the Town's debts in the event of a long-term revenue shortfall from an economic downturn or other localized event that negatively affects the town's revenue sources.

Engagement Timing: This reserve can only be engaged at Town Council direction, who would determine that a qualifying event has occurred and the level of impact from the emergency warrants the use of the REU for operational needs and employ this reserve to cover debt payments made from the General Fund.

Funding Target: $1,100,000 which is 50% of the annual payments for debt service paid by the General Fund. The chart below was used to establish the funding target. Any additional debt secured by the Town and serviced with payments from the General Fund would be added to this calculation.

- **Debt Reserve 50% Annual Payment - Lease Revenue Bond (2015) Police Facility - Refinance COP (Average Annual Payment $314,832 = $157,416)**
- **Debt Reserve 50% Annual Payment - Taxable Judgment Obligation Bonds (2017) (Average Annual Payment $1,868,878 = $934,439**

Required Reserves (rounded) = $1,100,000

Funding Priority: This component is fully funded, and any new General Fund debt would require immediate increase to remain within policy.

Fund Location: These funds reside in the Town's LAIF investment pool. This would allow for interest earning as well as immediate access when needed.

Conclusion:

This policy outlines a secure plan for funding for unknown circumstances, loss of revenue or substantial unfunded expenditures. When fully funded this reserve policy will provide 25% or more of the Town's General Fund operating budget with an additional 50% of annual debt payments made from the General Fund. Town administration and Finance leadership believe this policy provides a financially sound reserve capacity to support the town should the need arise. This policy outlines the recommended amounts for each category. There is nothing in the policy that prohibits Council from allocated funds beyond the currently stated targets.