WASHOE COUNTY

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STAFF REPORT
BOARD MEETING DATE: June 10, 2025

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DATE: May 6, 2025

TO: Board of County Commissioners

FROM: Abbe Yacoben, Chief Financial Officer, Finance
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THROUGH: Eric Brown, County Manager

SUBJECT: Recommendation to approve the amendment to Washoe County's fund balance policy to include specific net position targets for the Health Benefits Internal Services Fund and to establish minimum levels for working capital within the Health Benefits Fund, aligning with the Government Finance Officers Association (GFOA) best practices. The policy will set a target range of 15% to 25% of annual operating expenses and other uses, excluding capital outlay, to ensure financial sustainability and mitigate risks associated with unforeseen revenue fluctuations or unanticipated expenditures. Additionally, the policy will include provisions for replenishing net position balances to the target levels within a timeframe not exceeding two years and holding insurance rates steady when the net position exceeds the maximum of 25%, taking into account the current insurance market environment. Finance. (All Commission Districts.) FOR POSSIBLE ACTION

SUMMARY

Staff requests the Board of County Commissioners approve the recommendation to amend the County's fund balance policy that sets minimum fund balance levels for working capital by adding net position targets for the Health Benefits Internal Service Fund. This proposal aims to enhance the County's financial stability by establishing clear guidelines for maintaining adequate reserves within the Health Benefits Fund, ensuring the sustainability of employee health benefits and mitigating risks associated with unforeseen expenses or revenue fluctuations. The amendment aligns with the Government Finance Officers Association (GFOA) best practices, which recommend maintaining sufficient fund balances and net positions to support operational needs, rate stability and long-term financial planning.

Washoe County Strategic Objective supported by this item: Fiscal Sustainability. This initiative directly contributes to the County's ability to manage its financial resources effectively, ensuring critical services such as health benefits for employees, retirees, and their dependents remain uninterrupted. By incorporating net position targets specific to the Health Benefits Fund, the County can better address anticipated increases in health-related expenses and maintain rate stability in addition to compliance with established financial policies.

The addition of the Health Benefits Fund net position target provides a framework for financial accountability and transparency, ensuring the Health Benefits Fund is adequately prepared to absorb fluctuations in claims costs, premium adjustments, and other health-related expenses. Additionally, the policy supports the County's ability to maintain a structurally balanced budget while safeguarding against economic uncertainties.

This recommendation reflects the County's ongoing commitment to prudent financial management and its strategic focus on sustainability. By adopting this amendment, the Board will reinforce its dedication to maintaining a framework that supports both current and future obligations, while also protecting the interests of employees and taxpayers.

PREVIOUS ACTION

On May 10, 2011, the Board of County Commissioners (BCC) approved the establishment of a fund balance policy for the General Fund. This policy set minimum fund balance levels for stabilization at 1.5% and for sustainability of working capital between 8% and 10 percent. The policy also established the order of use for fund balances in all governmental funds, aligning with Government Finance Officers Association (GFOA) best practices.

On June 26, 2012, the BCC amended the fund balance policy to refine the stabilization fund requirements. The updated policy maintained the minimum fund balance level at 1.5% of expenditures and other uses, excluding material one-time expenditure items. This amendment aimed to enhance the County’s financial stability and ensure compliance with best practices.

On April 28, 2015, the BCC further amended the fund balance policy, increasing the minimum stabilization fund balance to $3 million. This adjustment reflected the County’s commitment to maintaining adequate reserves to mitigate risks associated with unforeseen revenue fluctuations and emergencies.

On January 19, 2016, during the BCC’s Strategic Plan retreat, staff presented a preliminary recommendation to amend the fund balance policy. The proposal suggested increasing the working capital fund balance range from 8%-10% to 10%-17% to align with GFOA recommendations and address anticipated fiscal challenges.

On April 26, 2016, the County Manager presented the recommended FY2017 budget to the BCC, which incorporated a tentative working capital fund balance of 13 percent. This budget reflected the County’s ongoing efforts to strengthen financial reserves and ensure compliance with updated fund balance policies.

On May 17, 2016, the BCC formally adopted the revised fund balance policy, setting the minimum working capital fund balance levels in the General Fund at 10%-17 percent. This policy aimed to provide greater financial flexibility and stability while adhering to GFOA best practices. The motion to approve the policy was introduced and passed unanimously.

BACKGROUND

The County's fund balance policy has evolved over time to address financial sustainability and operational needs. Initially established in 2011, the policy set minimum fund balance levels in the General Fund for stabilization at 1.5% and working capital between 8% and 10% of expenditures. This framework was designed to ensure adequate liquidity for general operations and mitigate risks associated with revenue fluctuations or unforeseen expenditures.

In subsequent years, the policy underwent amendments to align with best practices recommended by the Government Finance Officers Association (GFOA). In 2016, the Board of County Commissioners approved an increase in the minimum working capital fund balance range to 10%–17%, reflecting the GFOA's recommendation of maintaining at least two months of operating expenditures in unrestricted fund balance. This adjustment aimed to enhance financial stability and improve the County's ability to manage economic downturns or revenue declines.

The Health Benefits Internal Services Fund plays a critical role in providing health insurance and benefits for County employees, retirees, and their dependents. This fund operates as an internal service fund, offering self-funded and contractual health insurance plans, including medical, dental, vision, and prescription drug coverage. Over time, the fund has faced challenges related to rising healthcare costs, regulatory changes, and fluctuating enrollment, necessitating periodic budget augmentations to ensure its financial viability.

Legal and regulatory frameworks have also influenced the County's fund balance policies. NRS 354.6115 authorizes the creation of stabilization funds to mitigate the effects of natural disasters or economic emergencies. These statutes ensure compliance with state requirements while providing flexibility to address unforeseen financial pressures.

Strategic planning and alignment with broader County objectives have been integral to the development of fund balance policies. The County's financial policies emphasize sustainability, transparency, and prudent fiscal management. For example, the Health Benefits Fund has absorbed premium increases and adjusted expenditures to maintain service levels without compromising financial stability. These efforts reflect the County's commitment to balancing operational needs with long-term financial health.

Staff proposes the following language be added to the County’s fund balance policy: **It is the County’s policy for the Health Benefits Internal Service Fund to maintain a net position, as measured at the end of each fiscal year, that is between 15% and 25% of the three-year average of the Fund’s operating expenses. When the net position in the Fund is below the 15% minimum, rates will be increased to ensure compliance within two fiscal years. If the net position exceeds 25% of the three-year average of**

the Fund's operating expenses, rates will remain the same until the net position returns to the designated range of 15%-25% of expenses.

In summary, the County's fund balance policy has been shaped by historical financial challenges, nationwide best practices, legal mandates, and strategic priorities. The proposed amendment to include specific targets for the Health Benefits Internal Services Fund represents a continuation of these efforts to ensure fiscal sustainability and operational efficiency.

FISCAL IMPACT

The proposed amendment to the County's fund balance policy to include specific net position targets for the Health Benefits Internal Services Fund will have long-term fiscal implications. The Health Benefits Fund, which operates as an internal service fund, is primarily financed through contributions from County departments, employees, retirees, and other participating agencies. These contributions are allocated to cover health insurance premiums, claims, administrative costs, and other related expenditures. Establishing minimum fund balance targets for this fund will enhance financial stability and ensure the County's ability to meet its obligations under varying economic conditions.

The Health Benefits Fund has historically absorbed premium increases and other cost adjustments, as evidenced by prior fiscal years where expense augmentations were required to address unanticipated claims and regulatory fees. For example, in FY2020, the fund required an augmentation of $3.1 million to cover increased medical and pharmacy claims. Similarly, in FY2016, the fund experienced a $4.7 million increase in expenses due to rising health insurance premiums and prescription drug costs. These instances underscore the importance of establishing a formal policy to ensure adequate reserves are available to mitigate such financial pressures without compromising service delivery.

In conclusion, the fiscal impact of amending the fund balance policy to include net position targets for the Health Benefits Internal Services Fund is expected to strengthen the County's financial resilience and operational sustainability. By adhering to established best practices and ensuring adequate reserves, the County will be better positioned to manage fluctuations in health benefit costs and maintain uninterrupted service to employees, retirees, and their dependents.

RECOMMENDATION

It is recommended that the Board of County Commissioners approve the amendment to Washoe County's fund balance policy to include specific net position targets for the Health Benefits Internal Service Fund and to establish minimum fund balance levels for working capital within the Health Benefits Fund, aligning with the Government Finance Officers Association (GFOA) best practices. The policy will set a target range of 15% to 25% of annual operating expenses and other uses, excluding capital outlay, to ensure financial sustainability and mitigate risks associated with unforeseen revenue fluctuations or unanticipated expenses. Additionally, the policy will include provisions for replenishing net position to the target levels within a timeframe not exceeding two years and holding insurance rates steady when the net position exceeds the maximum of 25%, considering the current insurance market environment.

POSSIBLE MOTION

Should the Board agree with the staff's recommendation, a possible motion would be: "Move to approve the amendment to Washoe County's fund balance policy to include specific net position targets for the Health Benefits Internal Services Fund. This amendment establishes minimum net position levels for working capital within the Health Benefits Fund, aligning with the Government Finance Officers Association (GFOA) best practices. The policy will set a target range of 15% to 25% of annual operating expenses and other uses, excluding capital outlay, to ensure financial sustainability and mitigate risks associated with unforeseen revenue fluctuations or unanticipated expenses. Additionally, the policy will include provisions for replenishing net position to the target levels within a timeframe not exceeding two years and holding insurance rates steady when the net position exceeds the maximum of 25%, taking into account the current insurance market environment."