

BOARD OF DIRECTORS AGENDA ITEM STAFF REPORT



Meeting Date: 10/5/2026

Agenda Item Type: Action Item

Agenda Item: Fund Balance and Reserve Policy Amendment (Self-Insurance Reserve)

Submitted By: Camie Chapman, Human Resources Director

Approved: John Curtis, Fire Chief

SUMMARY:

The District's current Fund Balance and Reserve Policy establishes a reserve range for the employee self-insurance medical fund of 10% to 30% of budgeted expenditures. At the direction of the Board of Directors, staff evaluated the current reserve requirement to determine whether the established range remains appropriate for the District's employee medical plan and to ensure the reserve is maintained at a level that is both financially prudent and consistent with industry best practices.

Following this evaluation, and in consultation with the District's benefits consultant, Gallagher Benefits Services, staff recommends establishing a defined reserve target of two (2) months of budgeted expenditures, or approximately 16.7% of annual budgeted expenditures. This approach provides a sufficient reserve to support the payment of claims and manage fluctuations in medical expenses while avoiding the accumulation of excess funds that could otherwise be used to offset future medical insurance premiums.

BACKGROUND:

The current Fund Balance and Reserve Policy was adopted by the Board of Directors on May 2, 2022. The policy is intended to promote responsible and sustainable financial management by maintaining appropriate fund balances and reserves. For the employee self-insurance medical fund, the policy currently requires the District to maintain a reserve between 10% and 30% of budgeted expenditures. The employee self-insurance medical fund is funded through medical premiums established annually for the District's employee medical insurance plan. Premiums are established based on anticipated medical claims and other plan expenses; however, actual claims experience can vary from year to year. Maintaining an appropriate reserve provides the District with the financial capacity to address fluctuations in claims, meet cash-flow requirements to pay claims, and promote greater stability in premiums for both the District and its employees.

In recent years, the Board has requested that staff evaluate the medical self-insurance reserve to determine whether the established funding level remains appropriate. Staff worked with Gallagher Benefits Services to evaluate the current reserve requirement and consider an appropriate funding level based on the District's plan structure, anticipated claims obligations, financial considerations, and generally accepted reserve practices.

Based on this review, staff recommends replacing the current 10% to 30% reserve range with a defined reserve target of two (2) months of budgeted expenditures, equivalent to approximately 16.7% of annual budgeted expenditures. Establishing a specific target provides greater clarity and consistency in

managing the fund while maintaining a prudent level of financial protection for the self-insured medical plan.

The proposed change would also allow the District to more effectively use fund resources when the reserve exceeds the established target. Rather than maintaining an unnecessarily large reserve, excess funds may be used to offset future medical insurance premiums, benefiting both the District and its employees.

FINANCIAL IMPACT:

The employee self-insurance medical reserve is designated as restricted fund balance and is available for the payment of employee medical claims and related plan obligations. The current reserve balance is approximately \$4.6 million. Based on current budgeted expenditures, a reserve equal to two (2) months of budgeted expenditures would be approximately \$3.3 million. The proposed change would therefore result in approximately \$1.3 million being available above the recommended reserve target.

Staff recommends that the excess funds be responsibly utilized to offset future medical insurance premiums for the District and its employees rather than retaining funds in excess of the Board-established reserve target.

Establishing the reserve at two months of budgeted expenditures also provides a clear and measurable standard that can be reviewed annually as part of the District's budget and medical plan renewal process. The reserve target should continue to be evaluated periodically based on claims experience, plan design, premium requirements, and other factors that may affect the financial needs of the self-insurance fund.

STRATEGIC INITIATIVE:

Maintaining an appropriately funded employee self-insurance medical fund supports the District's strategic initiative of Organizational Health by promoting a sustainable and competitive employee benefits program. Establishing a prudent reserve level provides the District with the financial capacity to meet medical claim obligations while helping maintain greater stability and predictability in medical premiums for both the District and its employees.

The proposed reserve threshold supports the strategic goal of Hiring, Retaining, Developing and Growing the Right People for the Long Term by helping ensure that SMFR can continue to provide competitive and financially sustainable medical benefits as part of its overall employee compensation and benefits package.

RECOMMENDED ACTION/MOTION:

Recommended motion: I move to approve the Fund Balance and Reserve Policy Amendment, dated October 5, 2026, that modifies the self-insurance fund's reserve target and processes.

ALTERNATIVE OPTIONS:

The Board may elect to maintain the current policy, which establishes a medical self-insurance reserve range of 10% to 30% of budgeted expenditures.

ATTACHMENTS:

Fund Balance and Reserve Policy - Redlined

SOUTH METRO FIRE RESCUE POLICIES & PROCEDURES



Subject: Fund Balance and Reserve Policy

Division: Board of Directors, Business Services, Finance

Effective Date: 5/2/2022

Revision Date: 10/5/2026

Purpose:

This Fund Balance and Reserve policy promotes responsible and sustainable financial management by maintaining sufficient fund balances and reserves. In doing so, the District will be well positioned to provide financial security and sustainability ensuring the continued delivery of District services, protect the District's creditworthiness and potential bond rating, provide flexibility to respond to unanticipated opportunities, and consider long-term financial planning needs.

Scope:

This policy outlines required reserves for several of the District's funds.

Definitions:

The terms "fund balance" and "reserves" are used interchangeably in this policy and in practice. Fund balance is an accounting term to describe the difference between a fund's assets and liabilities. Fund balance is intended to serve as a measure of the financial resources available in any given fund.

As defined by GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District will reserve funds in the following designations:

Non-Spendable Fund Balance

Inherently non-spendable portions of net resources that cannot be spent because of their form or portions of net resources that cannot be spent because they must be maintained. Examples include inventory and prepaid items.

Restricted Fund Balance

Externally enforceable limitations on the use of funds that are imposed by creditors, grantors, contributors, or laws and regulations of other governments or limitations imposed by law through constitutional provisions or enabling legislations. Examples include fund balances related to TABOR, excise taxes, and medical self-insurance.

SOUTH METRO FIRE RESCUE POLICIES & PROCEDURES

Committed Fund Balance

Self-imposed limitations on the use of funds that are set in place prior to the end of a period. Limitations imposed at the highest level of local decision making that requires formal action at the same level to remove. Examples include fund balance for capital projects and operations.

Assigned Fund Balance

Limitations resulting from intended use that is established by the highest level of decision making or intended use established by the Board of Directors for a specific purpose. Examples include fund balance related to the building rental fund.

Unassigned Fund Balance

Residual fund balance that does not fit one of the other designations. The general fund is the only fund that reports an unassigned fund balance.

Policy/Procedure:

District Reserves:

The District shall maintain the following reserves:

TABOR Emergency Reserve:

The TABOR Amendment to the State Constitution requires the District to establish a TABOR emergency reserve fund equal to 3% of “fiscal year spending” which the District interprets as 3% of budgeted General Fund revenues. The use of the TABOR reserve is limited to declared emergencies only and therefore cannot be used to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The TABOR emergency reserve will be designated as restricted fund balance on the District’s financial reports.

Operating Reserve:

The District shall maintain a fund balance of 20% of budgeted general fund expenditures as an operating reserve. 20% of expenditures is the estimated amount of reserves necessary to cover two months of general fund expenditures. This estimate should be reevaluated on a periodic basis. Operating Reserves will be designated as committed fund balance on the District’s financial reports.

Maintaining an adequate level of operating reserves is a prudent financial management practice. It is expected, however, that the District may need to use operating reserves from time to time. Operating reserves may be utilized at

SOUTH METRO FIRE RESCUE POLICIES & PROCEDURES

the discretion of the Board of Directors to:

- Provide temporary resources in the event of an economic downturn.
 - Reserves should only be used to provide a short-term solution to maintaining service levels until projected revenue growth or necessary expenditure reductions are achieved to balance the budget.
 - The District should first seek to offset revenue declines with expenditure reductions. Reserves should only be used when further reductions in expenditures would affect essential District service levels.
- Provide resources for expenditures in the case of an unexpected event such as natural disaster or an accident.
- Provide resources for one-time capital outlay expenditures.
- Make strategic expenditures as part of the District's long-term financial plan.

Operating reserves may be utilized at the discretion of the Chief Financial Officer to:

- Provide cash flow to pay budgeted expenditures when due and unassigned reserves are unavailable. This is common from November – March while the District waits to receive property tax collections.
- Provide cash flow to pay for expenditures related to major incidents.

Any reserves utilized at the discretion of the Chief Financial Officer shall be replenished as soon as revenue becomes available by either tax collections or reimbursement for major incidents. The Chief Financial Officer shall inform the Board of Directors of any use of operating reserves.

Should the Board authorize a use of operating reserves, the District will strive toward replenishing the reserve to its 20% threshold during the next budget cycle, or as dictated in the District's long-term financial plan approved by the Board.

Excess operating reserves (reserves above the 20% of general fund expenditures) may be appropriated by the Board for one-time expenditures

SOUTH METRO FIRE RESCUE POLICIES & PROCEDURES

with emphasis on achieving future operating cost reductions, capital asset investments, transferred to replenish or supplement other reserves, or prepaying existing debt. The use of excess operating reserves will be determined by the Board of Directors through a budget amendment or during the following budget cycle.

Capital Projects Reserve:

The District shall maintain a reserve in the Capital Projects fund that is sufficient to provide for expenditures outlined in the District's various long-term planning documents, collectively known as the Capital Improvement Plan (CIP), that supports the District's strategic priorities.

The Capital Improvement Plan is derived from and informed by the following supporting schedules:

- Long-Term Financial Plan

The District shall develop and maintain a rolling 10-year financial plan that incorporates the District's sources of revenues and both operating and capital expenditures. The Long-Term Financial plan is intended to serve as the District's comprehensive, forward looking financial planning tool.

- Fleet Capital Replacement Schedule

The District shall develop and maintain a rolling 10-year acquisition and replacement schedule for all the District's vehicles and apparatus. The FCRS was approved by the Board in its original form on July 7, 2020.

- Facilities Operating, Maintenance, and Capital Replacement Schedule

The District shall develop and maintain a rolling 10-year planning tool that facilitates the proper resources to be allocated to the operating, maintenance and capital replacement of the District's facilities in order to meet the District's strategic goals.

The Chief Financial Officer is responsible for the maintenance of the Capital Improvement Plan and its supporting schedules and incorporating them into the District's planning processes and procedures.

The Capital Projects Fund shall maintain the following revenue sources in order to fund the District's ongoing capital expenditures:

- Annual Transfer from the General Fund

The District shall transfer a minimum of fifteen million dollars annually from the General fund to the Capital Projects fund.

SOUTH METRO FIRE RESCUE POLICIES & PROCEDURES

- Sales of Assets
Proceeds from the sale of assets such as vehicles, apparatus, or equipment.
- Wildland Equipment Reimbursement
Reimbursements derived from the use and deployment of apparatus and equipment on federal or state incidents.
- Excise Taxes / Impact Fees
Excise taxes or impact fees received from other jurisdictions for the sole purpose of capital project expenditures.

Self-Insurance Reserve:

The District intends to establish and maintain a defined reserve target in its employee medical self-insurance fund equal to of between 10% and 30% two (2) months of budgeted expenditures, or approximately 16.7% of annual budget expenditures. Maintaining a reserve in the self-insurance fund is prudent to accommodate ~~for~~ cash flow needs, unanticipated claims, fluctuations in claims experience, and stabilized premiums.

~~It is anticipated that once the fund has reached the reserve threshold, a consistent, stable, annual increase of 5% to 6% in premiums will maintain an appropriate reserve level. These estimates should be periodically reviewed and reevaluated. The reserve target and premium funding levels shall be periodically reviewed and reevaluated based on claims experience, projected medical expenditures, plan design, and other factors affecting the financial needs of the self-insurance fund.~~

~~Should the fund fall below 10% reserves, the plan shall increase premiums the following year to replenish the reserves to 10% of budgeted expenditures. If the fund exceeds 30% of reserves, premiums may be held flat or reduced to maintain reserves at 30% of budgeted expenditures. If the fund falls below the established reserve target, the District shall evaluate premium levels and other funding requirements as part of the annual budget and medical plan renewal process and may adjust premiums as necessary to restore the reserve to the established target. If the fund exceeds the established reserve target, excess funds may be used to offset future medical insurance premiums for the District and its employees, subject to annual review and approval through the established budget process.~~

The self-insurance reserve will be designated as restricted fund balance on the District's financial reports.

SOUTH METRO FIRE RESCUE POLICIES & PROCEDURES

Other Reserves

The Board of Directors can establish other reserves through Board action. The list of reserves in this policy are requirements but is not intended to be an exhaustive list.

Fund Balance and Reserve Policy Adoption

This policy shall be adopted and amended by action of the Board of Directors. The Chief Financial Officer shall review the policy periodically and recommend any amendments to the Board of Directors for their considerations and approval.