



FUND BALANCE RESERVE POLICY

Prudent financial management dictates that the City reserve a portion of its funds for future use to maintain fiscal stability; ensure the continued orderly operation of government and provision of services to residents; and to mitigate current and future risks.

As a general budget precept, the City Council decides when and whether to appropriate available funds to and from a reserve account. Use of reserve funds must be authorized by either specific direction in the annual budget, or by a separate City Council action – unless specifically directed by policy. Responsible fiscal stewardship also requires adequate reserves be maintained for all known liabilities and established City Council and community directed initiatives.

In the following Fund Balance/Reserve Policy guidelines, the descriptions include identification of the fund type and classification, the purpose of the reserve, minimum and maximum funding goals if appropriate, appropriate utilization of the reserve and by what authority, and the procedure for funding the reserve initially; on an ongoing basis, or after utilization.

FUND BALANCE AND NET POSITION

In 2009, Governmental Accounting Standards Board (“GASB”) Statement No. 54 revised fund balance classifications for “Governmental Funds” into five specific classifications of fund balance with the intent to identify the extent to which a specific fund balance reserve is available for appropriation and therefore spendable, or whether the fund balance reserve is constrained by special restrictions. Government Funds for which these new rules apply include: General Fund, Special Revenue Funds, Capital Project Funds, and Debt Service Funds.

For “Non-Governmental Funds” equity classifications are classified as “Net Position” with sub-classifications of Restricted or Unrestricted Net Position. A third component of a Non-Governmental Fund’s equity is “Net Investment in Capital Assets,” which for Saratoga refers to the

non-monetary portion of equity such as vehicles and equipment, net of depreciation. Non-Governmental Fund types include Proprietary Funds (Enterprise and Internal Service Funds) and Fiduciary Funds.

GOVERNMENTAL FUND TYPE RESERVE CLASSIFICATIONS

The Governmental Reserve classifications are defined as follows, which includes the applicable reserves that fall into the classification.

Non-Spendable Fund Balance

Represents resources that are inherently non-spendable from the vantage point of the current period. The City does not presently hold Non-Spendable Reserve funds.

Restricted Fund Balance

Represents fund balance that is subject to external enforceable legal restrictions. The City maintains the following restricted fund balances under this designation:

- General Fund: Environmental Services Fund Balance Reserve
- Special Revenue Funds: Landscape & Lighting Assessment Districts Fund Balances
- Debt Services Fund: Library General Obligation Bond Debt Service Fund
- Capital Project Funds
 - a) Park in Lieu Funds
 - b) Highway User Tax Allocation Fund (Gas Tax)
 - c) Capital Project Grant Funds

Committed Fund Balance

Represents fund balance constrained by limitations the government imposes upon itself at its highest level of decision making and remains binding unless removed in the same manner. The City maintains the following fund balances under this designation:

- General Fund: Hillside Stability Reserve
- General Fund: Road and Facility Replacement Reserve
- Capital Improvement Plan Funds:



- a) Streets Capital
- b) Gas Taxes Capital
- c) Capital Grants, including ARPA
- d) Parks Capital
- e) Park In-Lieu Capital
- f) Facilities Capital
- g) Administrative & Technology Capital

Assigned Fund Balance

Represents fund balance identified by Council for an intended use; however as no legal obligations exist, the funds may be re-designated and utilized for another purpose if Council chooses. The City maintains the following General Fund reserves under this designation:

- General Fund: Future Capital & Efficiency Project Reserve
- General Fund: Carryforward Reserve

Unassigned Fund Balance

Represents funding which may be held for specific types of uses or operational funding/stabilization purposes, but is not yet directed to a specific purpose. Only General Fund reserves can be designated under the "Unassigned" fund balance classification. Other fund types are by nature structured for specific purposes, hence the fund balances are therefore considered "assigned" for that purpose.

- General Fund: Working Capital Reserve
- General Fund: Fiscal Stabilization Reserve
- General Fund: Other Unassigned Fund Balance Reserve

Fund Balance Ratios

To ensure the City maintains available working cash flow and emergency funding at all times, the collective total of the General Fund's Assigned and Unassigned Reserves shall be sustained at a minimum of 20 percent of General Fund expenditure appropriations, net of transfers out.

GENERAL FUND YEAR-END ALLOCATIONS

After the City's financial records are finalized and audited, with legal obligations and liability reserves funded, revenues in excess of expenditures are closed out to the Other Unassigned Fund Balance Reserve. A base amount of funding, as set by budget policy, is to remain in the Other Unassigned Fund Balance Reserve, with the remainder distributed in the following order:

1. Repayment of Fund Balance Reserve loans - back to established levels (*e.g. borrowing from/usage of the Fiscal Stabilization or Hillside Stability Reserves*).
 - For the Hillside Stability Reserve, loan repayment shall be repaid with year-end net operations if funding in excess of the next year's priority Capital Improvement Project is available. At a minimum, reimbursements shall be made in annual contributions of \$100,000 until reserve balance reaches the \$1 million reserve goal.
 - Fiscal Stabilization loan repayments shall be made as directed by Council.
2. Annual contribution shall be made to Facilities Replacement Reserve and Fiscal Stabilization Reserve as directed by Council.
3. Remaining funds are allocated to the Future Capital Improvement and Cost Efficiency Projects Reserve.

GENERAL FUND RESERVES

Environmental Services Reserve

Under the Restricted Fund Balance classification, the Environmental Services Reserve represents revenues collected under a prior funding structure for environmental purposes and is therefore restricted for use in funding environmental program costs such as clean water programs, street sweeping, and storm drain cleaning services. Per policy, the Environmental Service Reserve is being utilized through annual budget appropriations of \$50,000.

The Environmental Services Reserve originated from a one-time funding structural change and therefore will not be replenished when depleted.

Hillside Stability Reserve

Under the Committed Fund Balance classification, a Hillside Stability Reserve of \$1 million is set aside to provide funding for unanticipated or unforeseen emergency or extraordinary costs related to hillside degradation, inclusive of slide prevention and mitigation, slide repair, and associated drainage and roadwork which must be commenced prior to the next fiscal year's CIP Project funding availability.



Use of the reserve requires an analysis be prepared and presented to Council for approval, or in the event of a landslide requiring immediate emergency work, the Public Works Director may direct use of up to 10 percent of the reserve to make emergency repairs and mitigate further damage until Council takes action. Reserve funding is to be used for emergency work which exceeds operational funding provided for in the Operations Budget. Upon use, refunding of the reserve shall be provided from year-end net operations, in full if funding is available, or at minimum in the amount of \$100,000 each fiscal year until the \$1,000,000 reserve cap is reached.

Road and Facility Replacement Reserve

The Road and Facility Replacement Reserve is established to accrue funding for the major rehabilitation or replacement of City-owned roads, building, and structures. Eligible uses of this reserve include direct funding of public road and facility improvements and related debt service, if applicable. Road and facility improvements include major and minor replacements, renovations, or city-match for grant or debt financed projects.

Changes in annual contributions and the reserve goal amount shall be determined by Council during the budget process, in line with changes in the City's economic situation. Utilization of the reserve shall be brought to Council for discussion and consideration as needed.

Future Capital & Efficiency Projects Reserve

Under the Assigned Fund Balance classification, the Reserve for Future Capital Improvement & Efficiency Projects shall reserve funding for as yet undefined capital and efficiency improvement projects. Reserve funding is derived from General Fund accumulated net operations (as available) and is therefore considered a "one-time funding source." Funds are held in this reserve until Council reviews funding requests and approves a use or transfer to a capital project fund.

Use of the reserve funding is at the Council's discretion, but typically occurs in conjunction with the annual budget adoption after Council conducts a comprehensive review of capital and efficiency improvement needs. Reserve

replenishment is dependent upon net operational savings in subsequent fiscal years.

Carryforward Reserve

Under the Assigned Fund Balance classification, the Reserve for Carryforwards represents funding held at the end of each fiscal year for critical unexpended operating budget appropriations to be purchased in the following fiscal year, and any remaining Council Contingency funding. The reserve is reconciled at the end of each fiscal year to both release prior year carryforward funding and reserve current year carryforward funding into the following budget year.

Staff determines the year-end reserve amount after all fiscal year payments are finalized; the reserve amount is conceptually appropriated by Council each year in the budget adoption resolution.

Working Capital Reserves

In accordance with the City's cautious and conservative fiscal philosophy, the City's general prevailing financial policy holds that the City should fund daily operations with current resources in order to avoid use of short-term borrowing for cash flow management.

To support this policy, a Working Capital Reserve is maintained that meets cash flow requirements, and in turn, ensures the continuance of services to the public while also preserving the City's credit worthiness. To provide adequate working capital in the case of extreme circumstances, the City shall maintain, in combination with the Fiscal Stabilization Reserve, a minimum operational reserve of 60 days of the following year's General Fund budgeted expenditures (net of internal service charges and transfers out), up to a maximum operational reserve amount equal to 90 days of the following year's General Fund budgeted expenditures (again, net of internal service charges and transfers out). This reserve falls under the Unassigned Fund Balance classification.

Effective FY 2016/17, the Working Capital Reserve is maintained at \$1 million (reduced from \$2 million), and the Fiscal Stabilization Reserve is maintained at \$2.5 million (increased from \$1.5



million). At this time, a Working Capital Reserve of \$1 million is sufficient for cash flow needs, however, the funding level will be assessed on an annual basis to ensure \$1 million is sufficient for cash flow needs. The \$1 million funding shift to the Fiscal Stabilization Reserve reflects a more realistic reserve usage structure – the Working Capital Reserve’s purpose is to ensure sufficient operating cash; the reserve has no defined fund uses, repayment terms, or authorization requirements. On the other hand, the Fiscal Stabilization Reserve’s purpose is defined and may be called upon for critical uses in the future. The overall 60-day General Fund operational reserve minimum requirements shall continue to be met.

Fiscal Stabilization Reserve

Under the Unassigned Fund Balance classification, the Fiscal Stabilization Reserve represents a funding set-aside to provide temporary financing for budget stabilization caused by fiscal downturns, unanticipated extraordinary expenditures related to a natural disaster or calamity, or from an unexpected liability or funding decrease created by a legislative action. Effective July 1, 2016, the Fiscal Stabilization Reserve funding level increased by a \$1 million transfer from the Working Capital Reserve, up to \$2.5 million. As of FY 2018/19, the Development Services Reserve of \$650,000 was integrated into the Fiscal Stabilization Reserve to reflect the Council’s desire to review citywide operational priorities and needs as a whole rather than segmented sections. This brought the Fiscal Stabilization Reserve up to \$3,150 million; approximately 15 percent of the General Fund’s budgeted operations. Together, these funding shifts provide a focused but flexible reserve funding purpose and utilization structure.

Fiscal stabilization uses are defined and restricted to 1) revenue declines lasting more than one year and equal to more than 5 percent of either property tax, the combined total of other taxes, or General Fund revenues in total; 2) an unanticipated extraordinary operational increase of more than 5 percent such as from a natural disaster; or 3) an unexpected Federal, State, County or CalPERS funding change.

Council may utilize funding at budget adoption, by adoption of a budget adjustment resolution during the course of the year, or after a Federal, State, or locally declared emergency. In the event a locally declared emergency takes place, the City Manager has the authority to spend funds until such time as the City Council takes action. Reserve appropriations are to be replenished from year-end net operations, as available, on a priority basis. The Fiscal Stabilization Reserve funding level will be assessed on an annual basis and may direct staff to increase the reserve fund through the budget adoption or through a budget adjustment to ensure this funding level is sufficient in light of operational reserve requirements and utilization needs.

The General Fund budget continues to increase each fiscal year. The overall 60-day General Fund operational reserve minimum requirement level is close to the current total of Working Capital and Fiscal Stabilization Reserve Fund total. To ensure that the Fiscal Stabilization and Working Capital Reserves remain at a minimum requirement level, \$100,000 shall be allocated annually into the Fiscal Stabilization Reserve from Net Operations as part of the General Fund Year End Close, effective FY 2021/22. This allocation shall only occur if General Fund Net Operations exceed a minimum of \$1,000,000 to ensure adequate funding is available for other necessary allocations.

Compensated Absences Reserve

Under the Unassigned Fund Balance classification, the Compensated Absences Reserve is established to smooth expenditure fluctuations resulting from the payout of accrued leave to employees at service separation and distribution payouts. Reserve funding equal to one-third of the compensated absences liability is established at year-end. Reserve funding in excess of one-third of the liability is to be returned to the General Fund’s Other Unassigned Reserve.

Use of the reserve occurs when total annual compensated absences payouts exceed budgeted salary funds. Large payouts decrease the compensated absences liability at year-end, thereby supporting the practice of utilizing the reserve if needed. Year-end reconciling allocations to and from the reserve are approved



though Council's budget resolution adoption each fiscal year, with the liability and resulting reserve amounts determined as part of the year-end close process.

Other Unassigned Reserve

The 'Other Unassigned Reserve' represents accumulated net operations not yet allocated to other fund balance reserves, and by definition, fall into the Unassigned Fund Balance classification.

General Fund vs Other Fund Reserves

Other Fund's accumulated net operations are typically accounted for in an undefined reserve account in the fund – and typically titled 'Fund Balance Reserve' meaning they do not have reserve categories. This difference is because other funds are structured for specific uses or commitments, hence the fund balance already has a directed function and fund balance is therefore committed for that purpose. Whereas the General Fund is used for multiple and various operational purposes thereby requiring a distinction of purpose for each reserve.

SPECIAL REVENUE FUND RESERVES

Landscape & Lighting and Storm Water Assessment Zone Funds

Assessment Zone Funds are Special Revenue Funds, which is a type of governmental fund. As a governmental fund, the Landscape & Lighting and Storm Water Assessment Zone Funds comply with GASB 54 fund balance classifications, and by nature of the fund's purpose, fund balance reserves are classified as restricted reserves.

Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to specified purposes (other than for debt service or capital projects.) For Saratoga, Assessment Zone Special Revenue Funds are established to account for each individual assessment zone financial assets separately; thereby each fund has its own separate fund balance reserve.

Each zone's Fund Balance Reserve should be sufficient to provide working capital to cover operational expenses through the first half of assessment receipts in February, therefore equitable to approximately one-half of a district's

annual expenditure budget. The second half of receipts are received in late May or early June. Some districts may include capital improvement projects in addition to ongoing regular maintenance. This requires accumulating fund balance over the years to generate sufficient resources for the improvement projects. As each zone's situation is different, a maximum fund balance shall be determined by the Public Works Director.

Requests for use of the reserve for special projects are approved by Council through budget adoption or by a Council approved budget adjustment resolution throughout the year. Reserves are replenished from the Fund's net operations in subsequent years.

DEBT SERVICE FUND RESERVES

Library General Obligation (GO) Bond Debt Fund

The Library General Obligation (GO) Bond Debt Fund is a Debt Service Fund established to account for the financial resources accumulated for principal, interest, and cost of issuance expenditures associated with the Library Bond Debt. As Debt Service Funds are a governmental fund type, the fund reserves fall under the GASB 54 fund balance classifications. Debt Service Fund reserves are classified as a Restricted Reserve with the funding only spent for specific purposes as stipulated by the bond covenants.

The Library GO Bond Debt Fund ensures receipts are tracked separately, and that funding is available for the GO Bond debt service requirements. At a minimum, the year-end fund balance reserve shall be sufficient to provide working capital to cover the semi-annual principal and interest debt payment due on August 1st as the GO Bond tax receipts are received after the 1st debt payment is due. December receipts provide for the February payment. In addition, as bond assessments are collected as a percentage of property values, reserves should provide sufficient funding to compensate for tax fluctuations. The fund's reserve maximum is set at no more than one-year of budgeted annual expenditures.

The reserve balance is increased (or reduced) through establishing assessment rates at more



(or less) than the semi-annual payments and bond services require. Therefore, use or replenishment of the reserve is approved by Council through budget adoption, and implemented through an increased or reduced assessment rate as a result of the fund's net operations.

Arrowhead Community Facility District Bond Debt Fund

In 2016, the City agreed to act as the fiduciary agent for the Arrowhead Community Facility District's bond issuance to fund the community's water system infrastructure. The bond was issued in December 2018, and participants in the bond issuance began assessment payments in FY 2018/19. The annual debt service assessment pays for the cost of the bond's principal and interest payments, and the associated administrative costs. Fund reserves are comprised of assessments collected less bond costs. Assessments are established as dollar amounts rather than percentage rates, so the CFD Bond Debt Reserve does not generate unexpected excess fund balance as does the GO Bond Debt Fund.

CAPITAL IMPROVEMENT PROJECT FUND RESERVES

Overview

Capital Improvement Project (CIP) Funds account for the acquisition and maintenance of major capital assets other than those financed through special assessments or enterprise funds. Capital Project Funds are a type of governmental fund and therefore comply with GASB 54 fund balance classifications. Because Council has directed the fund's appropriated funding be spent on specific capital improvement projects, the Capital Project Fund Balance Reserve is classified as Committed Fund Balance.

Budgeted capital improvement project funding is determined by the scope of work approved by Council, and remains assigned for that use until completed or reassigned by Council. Fund Balance amounts represent the total remaining funds in the individual projects at year-end. As Fund Balance amounts are determined by the amount of project completion at year-end, setting a minimum or maximum amount is not applicable. Fund Balance is automatically re-appropriated to

budgeted capital projects in the following fiscal year for the improvement work to be completed.

Street Improvement Projects Funds

Street Improvement Project Funds provide for a safe and functional roadway and pedestrian street system. Each Street Improvement Fund (CIP Street Fund, CIP Grant Fund, and Gas Tax Fund) has multiple projects which roll up into the overall fund balances, but remain designated for use by project.

The CIP Street Fund receives annual funding from designated fees, reimbursements, contributions, and transfers from other funds. The CIP Grant Fund receives federal, state, and local grants which vary in source and amount from year-to-year. On occasion, a private grant may be received. Typically, CIP Grant Funds have a negative fund balance as project work is conducted before reimbursement is received. Gas Tax Funds represent annual Highway User Tax and Transportation Congestion Relief revenue allocations that are to be accounted for separately and are subject to State audits.

Park & Trail Improvement Project Funds

Park & Trail Improvement Project Funds provide for capital improvements to the City's neighborhood and city parks and plaza, the sport fields, bike and pedestrian trails, and open space areas throughout the City. Each of the Park & Trail Improvement Funds (CIP Park & Trail Fund, CIP Tree Fund, and the CIP Park & Trail Grant Fund) have multiple projects which roll up into the overall fund balances but remain designated for use by project.

The CIP Park & Trail Fund receives annual funding from Park-In-Lieu fees, occasional subventions, reimbursements and contributions, and transfers in from other funds. The Tree Fund receives revenue from tree fines and transfers from other funds upon Council direction. The CIP Grant Fund receives federal, state, local and occasional private grants which vary in source and amount from year-to-year. Typically, CIP Grant Funds have a negative fund balance as project work is conducted beforehand and then reimbursed from expenditure invoices.

Year-end fund balance represents the remaining unexpended project funds (net of any negative



CIP Grant Fund Balance) which are subsequently re-appropriated by Council into the following budget year through budget adoption.

Facility Improvement Project Funds

Facility Improvement Project Funds provide for capital maintenance and improvements of City-owned buildings and structures throughout the City. Each of the Facility Improvement Funds (CIP Facilities Fund and the Facility Grant Fund) have multiple projects which roll up into the overall fund balances, but remain designated for use by project.

The CIP Facilities Fund receives annual funding from a General Fund transfer, from Theater Ticket Surcharge Fees, and from reimbursements and contributions. The Facility Grant Fund receives revenue from grants that vary in amount from year-to-year. Typically, CIP Grant Funds have a negative fund balance as project work is conducted beforehand and then reimbursed from expenditure invoices.

Year-end fund balance represents the remaining unexpended project funds (net of any negative CIP Grant Fund Balance) which are subsequently re-appropriated by Council into the following budget year through budget adoption.

Administrative & Technology Improvement Funds

Administrative & Technology Improvement Project Funds provide for major capital expenditures to improve or enhance administrative, operational, and technology-based systems and processes. Each of the Administrative & Technology Improvement Funds (CIP Admin & Tech Improvement Fund and the Admin & Tech Grant Fund) have multiple projects which roll up into the overall fund balances but remain designated for use by individual project.

The CIP Administrative & Technology Improvement Fund typically receives funding from a General Fund transfer. Administrative and technology improvement focused grants are typically limited to the Community Development function for housing elements or development processes. If grants are received, projects typically have a negative fund balance as project work is conducted beforehand and then reimbursed from expenditure invoices.

Year-end fund balance represents the remaining unexpended project funds (net of any negative CIP Grant Fund Balance) which are subsequently re-appropriated by Council into the following budget year through budget adoption.

INTERNAL SERVICE FUND RESERVES

Overview

Internal Service Funds are established to provide centralized cost centers for shared expenses and services in order to efficiently track costs and manage resources. Costs are then allocated back to operational programs based on usage to determine cost of service.

The City's Internal Service Funds include two insurance funds: Risk Management and Workers Compensation, four service/support funds: Office Support, IT Services, Vehicle & Equipment Maintenance, and Building Maintenance Funds, and three equipment replacement funds: the Vehicle & Equipment Replacement Fund, the Office Technology Equipment Replacement Fund, and the Building FF&E (Furniture, Fixture, & Equipment) Replacement Fund.

Internal Service Funds are similar to the separate checking or savings accounts a person may use for different purposes. And, as each fund is accounted for as a separate entity, operational revenues less expenditures result in either a positive or negative net operations, with their own fund balance to offset operational losses if needed. At year end, each fund's net balance is represented as the "Fund Balance Reserve."

The intent of the Internal Service Funds Reserves is to hold appropriate levels of reserves to support cash flow throughout the fiscal year and to minimize interfund loans. Some of the Internal Service Funds do not accumulate funds in excess of expected ongoing operational costs, but for the replacement funds, the purpose is to accumulate a rolling balance to fund future replacement costs as needed. Individual fund reserve levels are explained in more detail in the following fund sections.

Internal Service Funds are a type of Proprietary Fund; therefore GASB 54 fund balance classification (*for Governmental Fund types*) does not apply. Instead, Internal Service Fund's



financial statement reports are presented similar to private-sector businesses and use “Restricted” and “Unrestricted Net Position” to define net operational balances (equity/fund balance reserves).

Unrestricted Net Position allows reserve funding to be used (with Council approval) within the general scope of the fund’s purpose. Restricted Net Position reserves are limited to a specific use, narrower than the stated purpose of the fund. For example, grant funding provided for a defined use, as in remaining funds from a Risk Management Training Grant within the Liability/Risk Management Fund, must be used for qualified training purposes. Most Internal Service Funds reserves are held in the Unrestricted Net Position category.

Liability /Risk Management Reserve Fund

The Liability/Risk Management Fund’s Unrestricted Net Position Reserve supports cash flow needs and minimizes interfund loans. Appropriate levels are maintained through service chargebacks to the programs, based on operational risk factors. Most claims are covered under the insurance risk pool JPA. The City is self-insured up to \$25,000 per General Liability and City Vehicle Auto Liability occurrence, and up to \$5,000 for Property Damage and 3rd Party Auto Liability. Non-covered claims are paid fully by the City.

The Liability/Risk Management program receives funding from allocations charged to departments, from grant funding, and from claim reimbursements. On occasion, the City is obligated to pay a claim settlement. While some funds are budgeted for miscellaneous claim expenses each year, large claims may need to utilize reserves. For this reason, the Fund Balance Reserve goal is set at about 100 percent of annual budget to both fund operational activity and for claim funding as needed. At year-end, unspent funding flows into Unrestricted Net Position or Restricted Net Position for specific purposes. Requests for use of reserve balance are approved by Council through budget adoption or by a Council approved budget adjustment resolution during the year. If claim payments do utilize reserve funds, the reserve is replenished from the Fund’s net operations in subsequent years.

Workers Compensation Fund

The Workers Compensation Fund’s Unrestricted Net Position Reserve supports cash flow needs and minimizes interfund loans. Appropriate levels are maintained through service chargebacks to the programs, based on operational risk factors. The purpose of the Workers’ Compensation program is to provide insurance benefit coverage for employee work-related illness and/or injuries through its membership in a shared risk pool. The risk pool provides self-insurance coverage up to \$250,000, and excess insurance provides coverage over this amount up to \$10 million.

The Workers Compensation program receives funding from allocations charged to departments, from grant funding, and from claim reimbursements. At year end, unspent funding flows into Unrestricted Net Position, or Restricted Net Position for grant funding. Requests for use of the reserve balance are approved by Council through budget adoption or by a Council approved budget adjustment resolution during the year, such as for an unexpected large claim settlement. The reserve is replenished from the Fund’s net operations in subsequent years.

Office Services Fund

The Office Services program provides a centralized cost center for administrative office support expenses, including multifunctional copy machine leases, postage machines, various other office machines and associated maintenance and repair services, as well as postage, paper, and copier supplies. For efficiency, shared office support costs are managed collectively and charged back to departmental programs on a use-basis allocation. Accumulated net operations are held in the Office Services Fund for working capital cash flow.

The reserve is funded from the allocations charged to covered departments. At year-end, unspent funding flows into Unrestricted Net Position. Requests for use of excess reserve balance are approved by Council through budget adoption or by a Council approved budget adjustment resolution during the year. Reserves are maintained at approximately the 50 percent of budget level, however on occasion, excess Reserve funds are used for the replacement of assets such as the mailing machine. The reserve



is replenished from the Fund's net operations in subsequent years.

Information Technology Services Fund

Information Technology Services provide for the delivery of technology-based services throughout the City's operations, including maintenance of the City's information systems and infrastructure, program implementation, streaming video, internet, landline, and wireless communications systems, cloud-based technology, and support of all existing information technology as well as new technology initiatives. For technology oversight, security, and efficiency, information technology costs are managed collectively and charged back to departmental programs on a service-based allocation to fund the program.

Funding for the program comes from these allocations charged to departments. At year-end, unspent funding flows into Unrestricted Net Position. Accumulated net operations are held in the Information Technology Services Fund for working capital cash flow. Requests for use of the reserve are approved by Council through budget adoption or by a Council approved budget adjustment resolution during the year. The reserve is replenished from the Fund's net operations in subsequent years.

Vehicle & Equipment Maintenance Fund

The Vehicle & Equipment Maintenance program provides for the fuel, maintenance, and servicing of the City's fleet and major equipment to ensure all vehicles and equipment comply with manufacturer's recommendations and safety requirements.

To fund the program, vehicle & equipment replacement costs are charged back to the departmental programs based on assigned usage. Accumulated net operations are held in the Vehicle & Equipment Maintenance Fund for working capital cash flow. At year-end, unspent funding flows into Unrestricted Net Position. Requests for use of the reserve are approved by Council through budget adoption or by a Council approved budget adjustment resolution during the year. The reserve is replenished from the Fund's net operations in subsequent years.

Facility Maintenance Fund

The Building Maintenance program provides for the custodial, maintenance, and non-major repairs and building improvement services for all facilities at the Civic Center, Prospect Center, and Museum Park. Additionally, the program supports the maintenance and repair needs for the tenants of City leased buildings as defined in the lease agreements. To fund the program, total costs are allocated back to departmental programs primarily based on building space usage. General and public use is allocated to the Non-Departmental program.

Accumulated net operations are held in the Building Maintenance Fund for working capital cash flow. Funding comes from the allocations charged to covered departments. At year-end, unspent funding flows into Unrestricted Net Position. Requests for use of the reserve are approved by Council through budget adoption or by establishing chargeback funding levels higher or lower than budgeted expenditures. The reserve is replenished from the Fund's net operations in subsequent years.

Vehicle & Equipment Replacement Reserve

The Vehicle and Equipment Replacement Fund Balance Reserve accounts for accumulated funding over an asset's lifespan, to be used for the replacement of the vehicle or equipment at the end of its useful life. Initial purchases are paid for through a department's operational budget. If the purchased item is for ongoing use, the Vehicle & Equipment Replacement program appropriates an annual allocation for the replacement of the vehicles and equipment based on the asset's cost and years of life. Final determination for replacement of the asset is determined through an analysis of whether the cost of maintenance equals or exceeds the cost of replacing the asset.

The reserve is funded from allocations charged to departments and represents accumulated funding, less amounts expended for asset replacement. At year-end, unspent funding is held in Unrestricted Net Position. The reserve is to be maintained at a level sufficient to provide replacement funding of vehicles and equipment in accordance with replacement schedules.



Requests for use of the reserve are approved by Council through budget adoption or by a Council approved budget adjustment resolution throughout the year. The reserve is replenished from the Fund's net operations in subsequent years.

Office Technology Equipment Replacement Fund

The Office Technology Equipment Replacement Fund accounts for accumulated funding over an asset's lifespan to be used for the replacement of office technology-based equipment such as desktop computers and monitors, laptops and tablets, network infrastructure, and various other related equipment. Replacement costs are charged back to the departments based on assigned equipment costs. Initial purchases are paid for through a department's operational budget. If the purchased item is for ongoing use, the Office Equipment Replacement program appropriates an annual allocation for the replacement of the equipment based on the asset's cost and years of life.

The reserve represents accumulated funding, less amounts expended for replacements. The reserve shall be funded to provide replacement funding in accordance with replacement schedules. Funding for the reserve comes from the allocations charged to covered departments. Requests for use of the reserve are approved by Council through budget adoption or by a Council approved budget adjustment resolution during the year. The reserve is replenished from the Fund's net operations in subsequent years.

Facility Furniture, Fixtures & Equipment (FFE) Replacement Fund

The Facility FF&E Fund accumulates funding over an asset's lifespan to be used for the replacement of furniture – such as tables, chairs, and cubicle partitions; for fixtures - such as kitchen appliances, sound equipment, lighting, for equipment - such as HVAC units, boilers, and generators; and for facility infrastructure – such as roof, door, window, and floor/carpeting replacement.

Initial purchases for new assets may be paid for through the Operating Budget or through the Capital Budget. Annual replacement charges are charged-back to the supported department programs with full replacement funding to be accumulated over the asset's estimated lifetime. Final determination for replacement of the asset is determined through an analysis of whether the cost of maintenance equals or exceeds the cost of replacing the asset. The reserve is intended to be maintained at a level sufficient to provide replacement funding in accordance with replacement schedules.

Requests for use of the accumulated reserve funding are approved by Council through budget adoption, or if an unplanned situation occurs, by a Council approved budget adjustment resolution during the fiscal year. The reserve is replenished by replacement charge allocations in subsequent years.

TRUST AND AGENCY FUND RESERVES

Overview

Trust and Agency Funds are created to assist City-related agencies with fund management needs. Trust Funds hold another entity's funds and ensure the proper management of their money. Agency Funds are established to receive and disburse another entity's money, as directed by the associated entity.

The City does not currently have any Trust Funds but has one Agency Fund: the West Valley Clean Water Program. Because Agency Funds manage their own money, the City of Saratoga does not develop Reserve Policies for Agency Funds.

SUMMARY

Fund Balance Reserve Use

Council may utilize reserve funding at budget adoption or by adoption of a budget adjustment resolution during the course of the year if necessary. Reserve funding is replenished from year-end net operations, or if the fund has a negative net operation, then Reserve funds would offset the net operation loss with the close of the fiscal year.