	Fund Balance and Reserve Policy	
	Responsible Party: Finance Director	**Effective Date:** 8/18/2026
	Approval Authority: City Council	**Next Review Date:** 7/1/2028

I. PURPOSE OF POLICY

The purpose of this policy is to provide a structured approach in setting reserve levels in major funds of the City. The overall objective of fund balance reserve reporting is to reflect the unencumbered balance available that may be segregated by policy for various uses. In many ways, fund balance represents working capital, which can either be used as a liquidity reserve or for spending in future years.

This fund balance reserve management policy is intended to guide prudent use of resources to provide for the much needed services to taxpayers and to maintain sound management practices. It is essential that governments maintain adequate levels of fund balance reserves to mitigate risks and provide for revenue shortfalls.

II. POLICY

It is the policy of the City of Manteca to provide for the continuity of City government by planning ahead for recognized economic uncertainties and major expenditures – particularly those that are unplanned. To achieve reserve goals, the City will follow sound fiscal management practices, including prudent debt and liability management, that support financial stability and prioritize the delivery of core services. The City has established various reserve fund balance accounts pursuant to this Policy that are utilized to set aside funding for emergencies, contingencies, liabilities, and planned major capital expenditures. In addition, the City has adopted the provisions of Governmental Accounting Standards Board Statement (GASB) no. 54, Fund Balance Reporting and Governmental Fund Type Definitions. A comprehensive review of, and updates to, this Policy will occur not less than once every year with the budget process.

III. OBJECTIVES

The purpose of this Fund Balance Reserve Management Policy is to assist the City in the pursuit of the following equally important objectives:

1. Build adequate reserves that will provide the City the resources necessary for financial stabilization, particularly during times of unforeseen emergencies and economic downturns;

2. Provide a clear understanding of the goals and objectives of all funds maintained by the City – particularly those with constraints or designations making them unavailable for current expenditures, including its unassigned fund balances;

3. Provide prudent guidelines regarding the establishment, use, and replenishment of City unassigned fund balance reserves;

4. Establish a process for periodic reporting and review of the City's various fund balances reserves; and

5. Enhance the City's credit ratings received from rating institutions through the establishment of clearly delineated fund balance reserve policies that promote strong fiscal management, recognizing that credit rating agencies evaluate fund balance and unrestricted fund balance levels – particularly in the General Fund – when assessing overall creditworthiness.

IV. CRITERIA FOR ESTABLISHING APPROPRIATE FUND BALANCE RESERVE LEVELS

Reserve balances will be established, reviewed, and analyzed using industry best practices. In establishing the appropriate fund balance reserve levels, the following criteria should be considered:

1. Vulnerability to Extreme Events and Public Safety Concerns – Major extreme events to which the community could reasonably be subjected and the likelihood and potential magnitude of loss for each event.

2. Revenue Source Stability – Volatility of each major revenue source based on factors such as past experience and trends with that revenue, characteristics of the tax or rate payers, state or federal revenue takeaways, and economic factors. Revenues that fluctuate with economic conditions or are subject to statutory or voter-imposed constraints are considered more volatile or less flexible. The greater the percentage of such revenues in a fund, the greater the need for a fund balance reserve.

3. Expenditure Volatility – Spikes in expenditures, usually arising from special, nonrecurring circumstances such as lawsuits; critical special projects without a funding source; or new state or federal spending requirements and unfunded mandates. Typically recurring sources of expenditure volatility, such as health care costs, would not be included because they should be addressed within the context of the annual budget process. An exception may be made for other infrequent, highly variable and difficult-to-predict costs not otherwise described above (e.g., catastrophic insurance losses or disaster-related emergency response costs).

4. Leverage – Identified expenditures or liabilities that may inhibit the City's financial flexibility to meet ongoing service levels. Common examples include pensions, unfunded asset maintenance and debt.

5. Liquidity – Intra-period cash flow imbalances, such as due to property taxes that are only received at periodic points during the year.

6. Dependency of Other Funds – Identified funds that have significant dependence on the General Fund. Dependence can be indicated by regular operating transfers or "back stopping."

7. Growth – May be a relevant factor if significant growth is probable in the next three to five years. Risk is assessed if the potential incremental costs associated with serving new growth exceed associated revenues. Additional risk may be assessed if there is a gap due to significant timing difference between when revenues from the growth will be received and when expenditures from the growth are expected to occur.

8. Capital Projects – Through the use of a Capital Improvement Plan (Program), determine high-priority projects without an identified funding source where reserves may be required as a funding source.

V. USE AND REPLENISHMENT OF FUND BALANCE RESERVE

The City establishes criteria for the use, maintenance, and replenishment of fund balance reserves to ensure long-term financial stability and continuity of core City services. This includes adopting reserve range targets, defining appropriate circumstances for the use of fund balance reserves – particularly when addressing structural imbalances – and establishing a process and timeframe for replenishing reserves following their use.

The City will maintain fund balance reserves at levels sufficient to mitigate current and future financial risks and to ensure the continued delivery of core City services.

A. Fund Balance Reserve Ranges – Fund balance reserve ranges are to be established based upon a percentage of the upcoming year's budgeted expenditures. These set amounts may require modification to allow for additional fund balance reserve levels as revenues decrease, expenditures increase, or other economic risks become known. Based on industry best practices, a target range for General Fund reserves is no less than 17% of total budgeted General Fund operating expenditures in the adopted annual operating budget, excluding interfund transfers and capital expenditures, and up to 25%, depending upon identified risk factors. The City's objective is to maintain reserves at 25% of operating expenditures over time. Reserve levels may fluctuate within the 17%–25% range based on fiscal conditions and use of reserves for their intended purposes.

B. Use of Fund Balance Reserves to Address Structure Imbalance – When an imbalance exists between budgeted revenues and budgeted expenditures, it is important that the fund balance reserves are carefully accessed and utilized cautiously and judiciously, since the fund balance reserves are a one-time non-recurring funding source. In order to maintain prudent fiscal management, any budgetary structural imbalance must be addressed promptly. At the same time, the implementation of a replenishment plan will be developed in accordance with the guidelines set forth below. A planned draw down of the unassigned fund balance should not exceed 3% of budgeted revenues unless determined necessary by the City Manager and approved by a vote of the Council. 'Budgeted revenues' includes total budgeted General Fund operating revenues in the adopted annual operating budget, excluding interfund transfers, one-time revenues, and debt proceeds.

C. **Replenishment of Fund Balance Reserve** – Fund balance reserves should be restored to an amount within the minimum required reserve range as of June 30th each year, if sufficient funds are available. If sufficient funds are not available, a plan to replenish the reserves back to the minimum required amount within five years, shall be presented to the City Council, by the following year's budget.

VI. ASSIGNED GENERAL FUND BALANCE RESERVE POLICIES

This policy sets the target for General Fund reserves based on the "unrestricted" fund balance; net of non-spendable, restricted, and designated balances. It is further recommended that the General Fund reserve balances as defined by this policy be shown as "assigned" in the City's audited financial statements per the financial reporting policies set forth in Governmental Accounting Standard Board (GASB) Statement No. 54. The adoption of this policy shall set forth the prioritization hierarchy as outlined below.

A. **Fiscal Stability Reserve** – The City will strive to maintain an unrestricted fund balance in the General Fund at a target level of 25% of operating expenditures, consistent with the General Fund reserve range established in this Policy and the risk assessment methodology for setting reserve levels developed by the Government Finance Officers Association in adequately addressing:

- Revenue source stability, local disasters and other financial hardships or downturns in the local or national economy.
- Contingencies for unseen operating or capital needs.
- Dependency of other funds on the General Fund.
- Cash flow requirements.

The target of 25% of operating expenditures will be determined in conjunction with the City's budget process and will be established based on the annual adopted budget. This committed fund balance reserve is limited for use under currently budgeted operations and should not be used to fund new programs or new positions added outside of the current fiscal year budget.

Circumstances where taking reserves below policy levels would be appropriate include responding to the risks that reserves are intended to mitigate, such as:

- One-time uses in meeting cash-flow needs; closing a projected short-term revenue-expenditure gap; responding to unexpected expenditure requirements or revenue shortfalls; natural disasters and liability reductions, revenue base improvements, productivity improvements, and other strategies that will strengthen City revenues or reduce future costs.

- However, reserves should not be used to fund ongoing costs or projected systemic "gaps." Stated simply, reserves should only be used once, so their use should be restricted to one-time (or short-term) uses.

- In accordance with generally accepted accounting principles, when the unrestricted balance at fiscal year-end meets or is less than this target, the amount will be shown as "assigned" in the City's audited financial statements.

B. Pension Stabilization Reserve – The purpose of this reserve is to mitigate the operational impact of employer contribution rate volatility, as well as to set aside funding for strategic opportunities to reduce the City's pension liability. The City will strive to maintain an assigned fund balance of at least 5% of operating expenditures in the General Fund. This assigned fund balance shall serve as a source of funding for situations included but not limited to:

- Mitigating the impact of a significant year-over-year increase in employer contribution rates due to actions outside of the City's control, such as low investment returns in the CalPERS portfolio and/or changes to actuarial assumptions.
- Take advantage of opportunities to make non-recurring payments to CalPERS that will reduce the City's Pension liabilities, such as paying down or paying off unfunded liabilities earlier than scheduled.

In addition to the Pension Stabilization Reserve, any unused pension funding, as a result of vacant positions, budgeted for each fiscal year, will be used to make a one-time payment to pay down the City's unfunded liability.

C. Economic Development Reserve – Due to the dissolution of redevelopment agencies, enterprise zones, and other incentives in the state, locally designated funds for economic development purposes are needed to promote downtown revitalization and city-wide marketing and other strategies to stimulate the local economy.

The funds for this reserve assignment will come from a pro-rata portion of residual property tax generated from the former redevelopment project areas in excess of State-approved Enforceable Obligations.

At June 30th each year, any Economic Development Reserve balance in excess of $2,500,000 will be transferred to the General Fund Unassigned Reserve.

D. Public Facilities Oversizing Reserve – In June 1994, the City Council adopted Ordinance No. 998, imposing a Business License Tax on the Business of Constructing Residential Dwelling Units in the City. While the revenues generate from this tax are general in nature, the tax was adopted in conjunction with the City's Public Facilities Implementation Plan (PFIP) to fund required public facilities oversizing in the central and "core" areas of the City.

In February 2013, the City Council approved the updated PFIP. Per Section 2 (H)(3) of the adopted plan, 50% of the revenue received from this tax is to be transferred to the

PFIP Sewer Fund to help lower the PFIP Sewer Fee. The remaining 50% of the revenue received will be assigned to the Public Facilities Oversizing Reserve. The use of these funds shall be restricted to projects identified in the City's adopted Capital Improvement Plan.

E. **Capital Facilities Reserve –** It shall be the policy of the City to pre-fund anticipated capital needs for General Fund Departments by establishing a dedicated assigned fund balance for major capital improvements for City-owned or operated buildings such as roofs, HVAC, parks, irrigation wells and improvements needed to comply with the Americans with Disabilities Act (ADA). This policy is primarily intended for facility capital repairs. Planning for new City facilities shall be governed by the policies set forth in the City's Government Building Facilities Fee study.

   It shall be the policy of the City to establish an annual contribution amount equal to 3% of operating expenditures in the General Fund, with a maximum reserve set at $1,500,000, to be used exclusively for capital items described herein.

F. **Technology Reserve** – It shall be the policy of the City to pre-fund major anticipated capital needs for Technology replacement and upgrade needs by establishing a dedicated fund balance reserve to be funded through annual budget appropriations. Major capital needs may include, but are not limited to: Enterprise Resource Planning (ERP) software replacement, Virtual Storage upgrades/replacement, and fiber optic deployment.

   It shall be the policy of the City to establish an annual contribution amount of three percent 3% of operating expenditures in the General Fund, with a maximum reserve set at $1,500,000, to be used exclusively for major hardware and software items described herein.

VII. OTHER ASSIGNED FUND BALANCE RESERVE POLICIES

A. **Public Safety Sales Tax Fund** – The City will strive to maintain a fund balance of at least 25% of operating expenditures in the Public Safety Sales Tax Fund consistent with the risk assessment methodology for setting reserve levels developed by the Government Finance Officers Association in adequately addressing:

   - Higher levels of fund balance may be needed if significant revenue sources are subject to instability and downturns in the local or national economy.
   - Potential reliance on the General Fund to support public safety operations in the event of sales tax revenue instability or shortfalls.

   This committed fund balance reserve is limited for use under currently budgeted operations and should not be used to fund new programs or new positions added outside of the current fiscal year budget.

Circumstances where taking reserves below policy levels would be appropriate include responding to the risks that reserves are intended to mitigate, such as one-time uses in meeting cash-flow needs; closing a projected short-term revenue-expenditure gap; or responding to unexpected revenue shortfalls.

B. **Enterprise Funds** – For Enterprise Funds, the City will evaluate reserve adequacy based on working capital (current assets minus current liabilities), because working capital best reflects liquidity available to mitigate revenue shortfalls and unanticipated expenses, thereby ensuring stable services and fees. Credit rating agencies consider the availability of working capital in their evaluations of continued creditworthiness. Based on industry best practices, the City will target working capital equivalent to 90 days of operating expenditures unless otherwise stated for a specific enterprise fund. If the enterprise fund has outstanding debt issues, bond covenants should be reviewed to ensure compliance with any reserve provisions.

1. **Water, Sewer, and Solid Waste Funds** – Reserves for the Water, Sewer, and Solid Waste Funds will be set at 25% of operating expenditures. This reserve target is intended to provide sufficient working capital to support operating liquidity, mitigate short-term cost volatility, and stabilize rates.

2. **Transit Fund** – Because Transit operations are primarily grant-funded and reimbursements are subject to grant terms and timing, the City will not maintain a minimum operating reserve target for the Transit Fund (target $0), unless required by specific grant or debt provisions. The Finance Director and department responsible for grant administration will review grant allowability and cash-flow needs annually during budget development and in accordance with the City's Grant Management Policy and Procedures.

3. **Golf Fund** – Reserves for the Golf Fund will be set at 15% of operating expenditures.

C. **Internal Service Funds** – The City utilizes internal service funds to allocate the cost of one department providing goods and services to other departments and, where appropriate, to collect funds to cover the future cost of certain expenses such as vehicle replacements.

1. **Self Insurance Fund** – The City will strive to maintain a fund balance of at least 50% of operating expenditures in the Self Insurance Fund consistent with the risk assessment methodology for setting reserve levels developed by the Government Finance Officers Association in adequately addressing:

    - Higher levels of fund balance may be needed if significant operating expenditures are highly volatile or have unpredictable fluctuations.

This committed fund balance reserve is limited for use under currently budgeted operations and should not be used to fund new programs or new positions added outside of the current fiscal year budget.

Circumstances where taking reserves below policy levels would be appropriate include mitigating the impact of a significant year-over-year increase in insurance premiums, unanticipated legal expenses due to negotiated settlements, and short-term revenue-expenditure gaps.

2. **Vehicle Fund** – The City uses the Vehicle Fund to allocate the cost of fleet-related operations across departments. The operating component of this fund is intended to function on a pay-as-you-go basis through annual rate setting and is not intended to maintain a separate operating reserve target beyond normal cash flow needs.

   The City maintains a planned replacement component within the Vehicle Fund to support the acquisition of new or replacement fleet assets. The replacement reserve target shall be based on documented replacement needs and shall be consistent with the City's approved vehicle replacement schedules, including useful life assumptions and estimated replacement costs. Amounts accumulated for replacement purposes will be restricted to the acquisition or replacement of the specific vehicles identified in the City's approved replacement schedules.

3. **Information Technology Fund / Equipment Fund** – The City uses internal service funds to allocate the cost of information technology services and minor capital equipment across departments. The operating component of these funds is intended to function on a pay-as-you-go basis through annual rate setting and is not intended to maintain a separate operating reserve target beyond normal cash-flow needs.

   The City does not maintain a planned replacement component within these funds for information technology systems or equipment beyond those minor capital items covered with annual rate setting. Should the City elect to establish such a component in the future, the replacement reserve target level will be based on documented replacement needs and shall be consistent with the City's approved replacement schedules, including useful life assumptions and estimated replacement costs. Amounts accumulated for replacement purposes will be restricted to the acquisition or replacement of the specific assets identified in the City's approved replacement schedules.

D. **Measure Q Fund** – The City will strive to maintain a fund balance of at least 5% of operating expenditures in the Measure Q Fund.

Circumstances where taking reserves below policy levels would be appropriate include responding to the risks that reserves are intended to mitigate, such as one-time uses in meeting cash flow needs; closing a projected short-term revenue-expenditure gap; or responding to unexpected revenue shortfalls.