

## SACRAMENTO AREA COUNCIL OF GOVERNMENTS FUND BALANCE POLICY

Revised May 2021

### I. PURPOSE

SACOG believes that sound financial management principles require that sufficient funds be retained by the Agency to provide a stable financial base at all times. To retain this stable financial base, SACOG needs to maintain a fund balance that is sufficient to fund all cash flows of the Agency, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, and to provide funds for all existing encumbrances.

The purpose of this policy is to establish a key element of the financial stability of SACOG by setting guidelines for fund balance. Fund balance is an important measure of economic stability. It is essential that SACOG maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the general operations of the Agency. In addition, this policy addresses SACOG's requirements under Governmental Accounting Standards Board Statement No. 54 (GASB 54) surrounding the composition of fund balance, including the establishment and use of the various components of fund balance.

### II. DEFINITION

**Fund Balance** – A government fund's fund balance is the difference between its assets, deferred outflows and its liabilities and deferred inflows.

**Fund balance Components** – An accounting distinction is made between the portions of fund equity that are spendable and nonspendable. Under GASB 54, these are broken up into five categories:

- A. **Nonspendable Fund Balance** – Amounts that are (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of endowment.
- B. **Restricted Fund Balance** – Amounts that can be spent only for specific purposes stipulated by (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- C. **Committed Fund Balance** – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level

of decision-making authority and remain binding unless removed in the same manner.

- D. **Assigned Fund Balance** – Amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intents need to be established at either the highest level of decision making, or by an official designated for that purpose.
- E. **Unassigned Fund Balance** – is the residual classification of the general fund and includes all amounts not contained other classifications. Unassigned amounts are technically available for any purpose.

### III. POLICIES

#### A. **General Policies**

1. Maintaining adequate fund balance reserves is an essential part of sound financial management. SACOG realizes the importance of reserves in providing reliable service to its members, financing its operations, and funding emergencies should the need arise.
2. For committed fund balances, the highest level of decision- making authority is the Board of Directors; a Board resolution or motion is required to formally establish, modify, or rescind a fund balance commitment.
3. The board delegates to the executive director authority to assign, change, and manage unrestricted fund balance transactions going in and out of the funds where SACOG's intend for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.
4. It is the policy of SACOG that when an expenditure is incurred, and both restricted and unrestricted fund balance is available for the expenditure, that the expenditure reduces the restricted balance first and the unrestricted balance second.
5. It is the policy of SACOG that when an expenditure is incurred, and committed, assigned, or unassigned fund balance is available for the expenditure, that the expenditure reduces the committed balance first, the assigned fund balance second, and the unassigned fund balance last.
6. SACOG's Fund Balance Policy will be reviewed and reported back any recommended changes as a part of the annual budget process.

#### B. **Governmental Fund Definitions and Policies**

##### 1. **Planning and Administration Funds (General Fund)**

The SACOG Planning and Administration Fund is SACOG's primary operating fund. It is used to account for SACOG's transportation planning and

administrative activities funded from various federal, state, and local sources. Under the umbrella of the Planning and Administrative fund is the Board and Advocacy budget, which is a separate budget approved by the SACOG Board of Directors at the same time the primary budget is approved.

#### Nonspendable Fund Balance

- This category is used for any funds that cannot be spent because of their form, such as prepaid expenses, inventories, or loan receivable.

#### Restricted Fund Balance

- This category is used for any funds in the Planning and Administration Fund that are constrained either by creditors, grantors, contributors, law or regulation, or limitations imposed by law through constitutional provisions or enabling legislation.

#### Committed Fund Balance

- *Board and Advocacy*

Revenue from member jurisdiction dues, and interest earned thereon, provides local discretionary funding, and is committed for Board and Advocacy costs. The funds accumulate over all fiscal years and can be used only at the discretion of the board. As part of the annual budget for Board and Advocacy, the Board of Directors also may choose to designate other funds, such as interest income from the Planning and Administrative Fund, for this purpose.

- *Community Design Grants*

The funds formerly maintained in the SACOG Managed Fund that are committed for Community Design Grant projects.

#### Assigned Fund Balance

- *Reserves*

The board delegates the executive director the authority to move funds between reserves.

- *Legal Defense*

This reserve, in the amount of \$500,000, is for costs to defend a legal action.

- *Capital Equipment*

This reserve will take the remainder of the unused annually capital budgeted and set aside for future capital equipment

purchase. As funds are required for capital equipment purchase, this fund may be used at the discretion of the executive director. Any unused funds shall be carried over into future fiscal year until a balance of \$300,000 is reached.

- *Contingencies*

A contingency fund shall be established and funded through the annual budgeting process. As funds are required for additional project work or as match for grants, this fund may be used at the discretion of the Executive Director. Any unused funds shall be carried over into future fiscal year until a balance of \$1,000,000 is reached.

#### Unassigned Fund Balance

These funds are the amounts in the Planning and Administration Fund not classified as nonspendable, restricted, committed, or assigned. Board action is required to change these policies.

- The unassigned fund balance includes a reserve for the cash required to keep SACOG operating for a period of three months. Annually, an analysis is done to determine the level at which the reserve should be funded for three months of current operations. Incremental funding will occur through the budgeting process as funds are available to fully fund up to the required level. The current 3 months operating expense is \$3,200,000.
- The unassigned fund balance also includes the SACOG Managed Fund (Managed Fund). The Managed Fund has been used to accumulate funds from local agencies for reimbursement of projects originally expected to have been completed with local funds but were instead funded with available Federal Funds. Through these reimbursement arrangements, SACOG has been able to accumulate flexible local funds without the burden of state and federal restrictions and processes. The Managed Fund can be used for spending on the committed projects in Community Design Program, funding exchanges, and loans to other projects that (a) would be significantly delayed or compromised by the requirements that accompany federal transportation funding; (b) ineligible for use of federal transportation funds; (c) need non-federal transportation funds as match for federal transportation funding; or (d) need financing and/or cash flow.
- The board delegates the executive director authority to borrow up to \$1,000,000 from the Managed Fund for SACOG's short term cash

flow needs, should that be necessary. However, the funds must be repaid back to Managed Fund by the end of each fiscal year.

## **2. Public Transportation Modernization, Improvement, and Service Enhancement Account**

The Public Transportation Modernization, Improvement, and Service Enhancement Account Program (PTMISEA) was created by Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.925 billion available to Transportation, \$3.6 billion dollars was allocated to PTMISEA to be available to transit operators over a ten-year period. PTMISEA funds may be used for transit rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, or rolling stock (buses and rail cars) procurement, rehabilitation, or replacement. Funds in this account are appropriated annually by the Legislature to the State Controller's Office (SCO) for allocation in accordance with Public Utilities Code formula distributions: 50% allocated to Local Operators based on fare-box revenue and 50% to Regional Entities based on population.

In Fiscal Year (FY) 2007-08, Senate Bill 88 identified the Department of Transportation as the administering agency. The final appropriation of program funds was made in the FY 2014-15 State Budget. The Budget Act of 2019 re-appropriated the remaining balances of PTMISEA appropriations, which are available for encumbrance and liquidation until June 30, 2023.

The PTMISEA fund is restricted fund and can only be used for projects consistent with Proposition 1B and its enabling legislation. The SACOG Board of Directors approves the award of funds from the PTMISEA and authorizes the executive director, or his/her delegate(s), to execute any required funding requests or agreements to implement the award.

## **3. State Transit Assistance Fund**

In 1979, the State Transit Assistance (STA) Fund was created under the Transportation Development Act to provide funding for transportation planning, public transportation, and community transit purposes. Funding comes from 75% of the statewide sales tax on diesel fuel. The money is appropriated to the State Controller's Office and is then allocated by formula to each designated regional planning and programming agency. The formula allocates 50% of the funds based upon population of the region compared to the population of the State, and 50% based upon transit operator revenues for the prior fiscal year compared with statewide transit operator revenues.

SACOG is the designated Regional Transportation Planning Agency (RTPA) for the Sacramento Region, which includes the Counties of Sacramento, Sutter, Yolo and Yuba. The STA allocations for the Sacramento Region are deposited in the

STA Fund and, as the RTPA, SACOG is responsible to allocate the STA Fund to the transit operators and claimants within the four-county region. The Fund supplies the capital and operating needs of transit providers.

Eligible claimants include cities, counties, transit districts, consolidated transportation service agencies, and operators located or operating within the four counties.

The STA Fund is restricted fund and can only be used for expenditures consistent with the Transportation Development Act. The Act prescribes the processes, including audits, for the expenditure of funds. The SACOG Board of Directors approves the claims for funding from the STA Fund and authorizes the executive director, or his/her delegate(s), to take all actions required to implement the funding program.

#### **4. Local Transportation Funds: Sacramento County; Sutter County; Yolo County; Yuba County**

In 1971, the Local Transportation Funds were created under the Transportation Development Act to provide funding for public transportation. Funds for the program are derived from ¼ cent of the retail sales tax collected statewide by the State Board of Equalization. The funds are returned to each county, through a designated RTPA, based upon the sales tax collected in that county. The RTPA is responsible for the administration of the Local Transportation Funds for these counties and jurisdictions within them.

Local Transportation Funds are used to administer the Transportation Development Act and to provide transit services, pedestrian and bicycle facilities, and streets and roads funding within each county. Eligible claimants include the cities, counties, consolidated transportation service agencies, transit districts, and transit joint powers agencies located within, or operating within, the counties. Funds initially are apportioned on an annual basis to areas within each County based upon population. Funds are then allocated by the RTPA based on a locally adopted process.

The Local Transportation Funds are restricted fund balance that can only be used for expenditures consistent with the Transportation Development Act. The Act prescribes the processes for the expenditure of funds.

Once funds are apportioned to a jurisdiction, they are available only for allocation and payment to claimants within that jurisdiction upon the submission of a claim and approval by the SACOG Board of Directors. The board authorizes the executive director, or his/her delegate(s), to take all actions required to implement the funding program.

## **5. State of Good Repair Fund**

The Road Repair and Accountability Act of 2017, Senate Bill (SB) 1 passed in 2017, established the State of Good Repair Fund (SGR) to be administered by the California Department of Transportation (Caltrans). The SGR funding is derived from a portion of vehicle registration to provide approximately \$105 million annually to transit operators statewide for eligible maintenance, rehabilitation, and capital projects. SACOG administers the SGR funding for the four-county region (Sacramento, Sutter, Yolo, and Yuba counties). The El Dorado County Transportation Commission and Placer County Transportation Planning Agency administer the SGR funding for their respective counties. Transit operators are required to submit to SACOG eligible projects approved by their respective governing boards and staff will provide recommendations for the regional SGR project list for board action in August of each year. The regional project list is then submitted to Caltrans for final approval by September each year.

The SGR fund is classified as restrict fund balance that can only be used for expenditures consistent with the SGR guidelines and other statutory objectives of the Road Repair and Accountability Act of 2017. The SACOG Board of Directors approves the claims for funding from the SGR Fund and authorizes the executive director, or his/her delegate(s), to take all actions required to implement the funding program.

## **6. Capital Valley Regional SAFE and Glenn County SAFE Funds**

The Capital Valley Regional SAFE and Glenn County SAFE are administered by the governing board consisting of members of SACOG's board of directors plus one member representing San Joaquin County and one member representing the cities of San Joaquin County. Revenues are derived from the vehicle registration fee imposed pursuant to the provisions of Chapter 14 of Division 3 of the Streets and Highways Code. SACOG provides administrative services for Capital Valley Regional Safe (SAFE) and Glenn County Safe (Glenn SAFE). The SAFE fund is restricted fund and is used for implementing, operating, and maintaining the motorist air system of call boxes and 511 operations within the counties of El Dorado, Sacramento, San Joaquin, Sutter, Yolo, and Yuba. Glenn SAFE fund is restricted fund and is used for implementing, operating, and maintaining the motorist air system of call boxes within the counties of County of Glenn pursuant to Street and Highways Code section 2553.

The SAFE Board of Directors approves SAFE and Glenn SAFE annual budget and authorizes SACOG executive director, or his/her delegate(s), to take all actions required to implement the funding program.