



## City Council Agenda Item

**City Council Meeting Date:** January 18, 2022

**TO:** Dean Albro, City Manager

**FROM:** Christie Donnelly, Acting Management Services Director  
c\_donnelly@ci.lompoc.ca.us

**SUBJECT:** Adoption of Resolution No. 6470(22) to Transfer Capital Improvement Program Funding from General Fund Unassigned Fund Balance to Capital Development Fund Committed Fund Balance and to Restrict and Commit Those Funds for Future One-Time Expenditure Capital Outlay Projects

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### **Recommendation:**

Staff recommends the City Council:

- 1) Adopt Resolution No. 6470(22) to:
  - a. Approve the transfer of \$4.0 million from General Fund unassigned fund balance reserves to a Capital Development Special Revenue Fund; and
  - b. Classify that \$4.0 million as a restricted cash and committed fund balance to be used solely for the purpose of funding future one-time expenditure capital outlay projects; or

### **Background:**

On December 7, 2021, during a mid-year budget workshop, staff presented a preliminary financial update of the Fiscal Year (FY) 2020-21 General Fund unrestricted fund balance. The then-unaudited FY 2020-21 Annual Comprehensive Financial Report (ACFR) reported an ending unassigned fund balance of \$8 million. Staff requested direction from the City Council to set aside \$4 million of the excess revenues as committed for the purpose of funding future one-time expenditure Capital Outlay Projects.

### **Discussion:**

At the budget workshop, staff presented the actual revenues and expenditures from the then-unaudited FY 2020-21 Annual Comprehensive Financial Report. The ending unassigned fund balance for the General Fund was \$8 million. According to best practices, the goal for unrestricted fund balance should be to reach a balance of 25% of annual operating expenditures, which is the equivalent of 90 days reserve, or in the

City's case, approximately \$12 million. In addition, best practices direct that if there is a surplus in unrestricted fund balance in any given year, 50% of the surplus should be set aside in reserves until the reserve obtains the 25% goal. Therefore, staff recommended that the City Council direct staff to retain 50% of the general fund unassigned fund balance in the General Fund reserves and that the remaining \$4.0 million be transferred to a capital development special revenue fund. Furthermore, staff recommended that the funds set aside in the capital development special revenue fund be classified as committed fund balance and restricted for the use of one-time capital outlay projects.

Committed Fund Balance is specifically defined as action taken by City Council, the City's highest level of decision-making authority, to commit fund balance for specific purposes. According to the Governmental Accounting Standards Board (GASB) guidance, in order for funds to be categorized as a committed fund balance, the constraint must be imposed by formal action of the City Council, such as an ordinance or resolution. These committed amounts then cannot be used for any other purpose, unless the City Council were to remove or change the specified use through the same type of formal action taken to establish the commitment (ordinance or resolution). City Council action to commit fund balance is required to occur before the end of the fiscal reporting period (FY 2021-22); however, the specific amount can be determined subsequently. Therefore, any funds committed by Council resolution or ordinance will remain committed for capital outlays until the City Council removes the restriction by a majority.

**Fiscal Impact:**

The fiscal impact of the recommended City Council action will result in a decrease in unassigned general fund balance by \$4 million and an increase in committed "other governmental funds" balance by the same amount. The increased \$4 million balance in other governmental funds would be committed to spend on capital outlays only. The remaining unassigned General Fund balance would decrease from \$8 million to \$4 million.

**Conclusion:**

In order to both address the significant infrastructure needs of the City, as well as to follow best practices for establishing and maintaining sufficient General Fund reserves, staff recommends the City Council approve the transfer of \$4.0 million from General Fund unassigned fund balance reserves to a Capital Development Special Revenue Fund to be held in a restricted cash account and categorized as committed fund balance.

Respectfully submitted,

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Christie Donnelly, Acting Management Services Director

**APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:**

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Dean Albro, City Manager

Attachment: Resolution No. 6470(22)