



## City Council Agenda Item

**City Council Meeting Date:** February 7, 2023

**TO:** Dean Albro, City Manager

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

**SUBJECT:** Adoption of Resolution No. 6558(23) to Transfer Unassigned General Fund Reserve from Unrestricted Operating Cash to Restricted Economic Uncertainty Restricted Cash; and Adoption of Resolution No. 6559(23) to Transfer Capital Improvement Program Funding from General Fund Unassigned Fund Balance to Capital Development Fund Committed Fund Balance

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### **Recommendation:**

Staff recommends the City Council:

- 1) Adopt Resolution No. 6558(23) to set aside a total of \$6.8 million from General Fund unassigned fund balance as General Fund reserve and to transfer \$4.8 million from General Fund operating cash to General Fund restricted cash account titled Economic Uncertainty Restricted Cash, making the total in the Economic Uncertainty Restricted Cash Account \$6.8 million; and
- 2) Adopt Resolution No. 6559(23) to:
  - a) Approve the transfer of \$8.0 million from General Fund unassigned fund balance reserves to the Capital Development Special Revenue Fund; and
  - b) Assign 50% of that \$8.0 million, or \$4.0 million, specifically for building replacement reserve; and
  - c) Assign the same \$8.0 million to the respective restricted cash accounts within the designated Capital Development Special Revenue Funds; or
- 3) Provide staff with alternate direction.

### **Background:**

On January 17, 2023, staff presented the Fiscal year 2021-22 audited Annual Comprehensive Financial Report (ACFR) which reported an ending unassigned fund balance of \$17.8 million. This is an increase of \$9.8 million over the prior fiscal year's unassigned fund balance of \$8.0 million. For prior fiscal year (FY) 2020-21, staff

recommended, and the City Council resolved to move \$4.0 million of the unassigned fund balance to a capital development fund committed balance and to retain the remaining \$4.0 million of the unassigned fund balance as General Fund reserve. Staff now makes a similar recommendation based on the most recent FY 2021-22 audited financial results. Staff also adds the additional recommendation that the entirety of the General Fund reserve balance is set aside in the restricted cash account titled “Economic Uncertainty Reserve,” as well as specifying that 25% of all one-time capital development funds set aside be specified as building replacement reserve.

**Discussion:**

At the January 17, 2023, City Council meeting, staff presented the actual revenues and expenditures from the 2021-22 ACFR as follows:

2021-22 General Fund - All Activity			
	Original Budget	Actuals	Variance
<b>Revenues</b>	\$ 40,072,453	\$ 53,512,607	\$ 13,440,154
<b>Expenditures</b>	44,437,460	43,080,865	1,356,595
<b>Excess of revenues (under) expenditures</b>	<b>\$ (4,365,007)</b>	<b>\$ 10,431,742</b>	<b>\$ 14,796,749</b>
One-time Revenues			
	Original Budget	Actuals	Variance
<b>One-time Revenues and Adjustments</b>			
American Recue Plan Act (ARPA)		(8,833,687)	8,833,687
ARPA - one time transfer to CIP		4,000,000	(4,000,000)
OLDCC Grant		(549,969)	549,969
Encumbered & committed		(1,932,840)	1,932,840
<b>Less One-time Revenues</b>		<b>\$ (7,316,496)</b>	<b>\$ 7,316,496</b>
2021-22 General Fund Operating Activity (less One-time Revenues )			
	Original Budget	Actual	Variance
<b>Revenues, adjusted</b>	\$ 40,072,453	\$ 46,196,111	\$ 6,123,658
<b>Expenditures</b>	44,437,460	43,080,865	1,356,595
<b>Net change in fund balance from Operations</b>	<b>\$ (4,365,007)</b>	<b>\$ 3,115,246</b>	<b>\$ 7,480,253</b>

According to the audited ACFR, the City’s ending unassigned fund balance for the General Fund was \$17.8 million. As noted in the table above, this balance is partly attributable to one-time revenues and adjustments, including \$8.8 million related to the American Rescue Plan Act (ARPA) second tranche drawdown.

Current City policies have set the standard that the General Fund hold 2 months, or 16.7%, of annual operating expenditures as unrestricted fund balance, which for FY

2021-22 equals approximately \$6.8 million. Governmental accounting best practices further suggest that the goal for unrestricted fund balance is to reach up to a balance of 3 months, or 25%, of annual operating expenditures. This would be the equivalent approximately \$10.2 million for FY 2021-22. Given City policy and the fact that the City is still in the process of rebuilding its unrestricted General Fund fund balance reserve, staff recommends that the City Council direct \$6.8 million be set aside in the General Fund as reserve. Furthermore, staff recommends that the entire \$6.8 million reserve be set aside in a restricted cash account, namely the Economic Uncertainty Cash Account No. 110-102110 first established and funded with \$2,000,000 in 1994. Finally, in light of ever-changing GASB standards and the time that has passed since the last review, staff expect to conduct a thorough review of General Fund reserve policies and bring back their recommendations to City Council within the upcoming FYs 2023-25 budget cycle.

After holding \$6.8 million of the unassigned fund balance in the Economic Uncertainty Cash Account, as well as accounting for encumbrances and budget carryforwards, approximately \$9.1 million remains for City Council consideration and direction. Earlier discussions by the City Council instructed that the approved one-time essential-worker pay be made from the ARPA-related funds. Therefore, after that adjustment of approximately \$1.1 million, there would be a total of \$8.0 million remaining to consider for transfer to the Capital Development Special Revenue fund. Staff recommends that the entire available balance of \$8.0 million be transferred to the Capital Development Special Revenue fund and that those \$8.0 million be classified as committed fund balance and restricted for the use of one-time capital outlay projects. Furthermore, recognizing the growing need to consider aging City buildings, specifically the police and fire stations, and the prohibitive cost of fully financing the replacement of those essential work and living spaces, staff recommends that the City Council establish a "Building Replacement Reserve" restricted cash account as a component of the Capital Development Fund, and subsequently set aside 50% of the recommended \$8.0 million being considered for transfer into that restricted cash account, which would equal \$4.0 million for the building replacement reserve.

Finally, it needs to be noted that Committed Fund Balance is specifically defined as action taken by the 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 2022-23); 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 actions will result in a decrease in unassigned General Fund balance by \$8.0 million and an increase in committed “other governmental funds” balance by the same amount. The increased \$8.0 million balance in other governmental funds would be committed to spend on capital outlays only, and \$4.0 million of that \$8.0 million would be specifically committed to governmental building replacements. In addition, \$6.8 million of the remaining unassigned General Fund balance would be set aside in a restricted cash account. No appropriations or specific capital projects are proposed at this time with the adoption of either resolution.

**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, adoption of Resolution Nos. 6558(23) and 6559(23) will accomplish the aforementioned transfers to further the long-term fiscal health and sustainability of the City and its continued services.

Respectfully submitted,

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Christie Donnelly, Management Services Director

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

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Dean Albro, City Manager

Attachments: 1) Resolution No. 6558(23)  
2) Resolution No. 6559(23)