



City Council Agenda Item

City Council Meeting Date: June 18, 2024

TO: Dean Albro, City Manager

FROM: Christie Donnelly, Management Services Director
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SUBJECT: In Response to City Council Direction at February 20, 2024, Regularly Scheduled Meeting, Adoption of Resolution No. 6673(24) to Transfer Unassigned General Fund Reserve from Unrestricted Operating Cash to Restricted Economic Uncertainty Restricted Cash; to Transfer Capital Improvement Program Funding from General Fund Unassigned Fund Balance to Capital Development Fund Committed Fund Balance; and to Transfer Funds for Contributions to the Mural Projects Fund and other Nonprofit Organizations Still to be Determined by the City Council

Recommendation:

Staff recommends the City Council adopt Resolution No. 6673(24) to:

- 1) Set aside a total of \$7.5 million from General Fund unassigned fund balance as General Fund reserve and to transfer \$700,000 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 \$7.5 million; and
- 2) Approve the transfer of \$600,000 from General Fund unassigned fund balance reserves to the Capital Development Fund (424) and assign the same \$600,000 to the Capital Development Restricted Cash – CIP account within the Capital Development Fund; and
- 3) Approve the Transfer of \$25,000 from General Fund unassigned fund balance reserves to the Mural Projects Fund and \$75,000 from General fund unassigned fund balance reserves to General Fund Contributions restricted cash, to be distributed to other nonprofit organizations still to be determined by the City Council.

Background:

On February 20, 2024, staff presented the Fiscal Year (FY) 2022-23 audited Annual Comprehensive Financial Report (ACFR) which reported an ending unassigned fund balance of \$8.27 million. This is an increase of approximately \$1.47 million over the prior fiscal year's unassigned fund balance, after adjusting for prior year one time transfers. After City Council discussion following the presentation, City Council provided staff with direction that the items recommended above be implemented.

Discussion:

At the February 20, 2024, City Council meeting, staff presented the actual revenues and expenditures from the 2022-23 ACFR as follows:

2022-23 General Fund - All Activity		
	Original Budget	Actuals
Revenues	\$ 41,308,865	\$ 46,850,806
Expenditures	(39,956,120)	(44,640,209)
Transfers In (Out) - one time activity	-	(8,000,000)
Excess of revenues (under) expenditures	\$ 1,352,745	\$ (5,789,403)

2022-23 General Fund Operating Activity (less One-time Activity)		
	Original Budget	Actual
Revenues, adjusted	\$ 41,308,865	\$ 46,850,806
Expenditures	(39,956,120)	(44,640,209)
Net change in fund balance from Operations	\$ 1,352,745	\$ 2,210,597

2022-23 General Fund Reserves (Unassigned General Fund Balance)	
End FY 2021-22, adjusted	\$ 7,122,455
Change in Restricted/Assigned Balances	(1,061,669)
Net Change in GF balance from Operations 2023	2,210,597
End FY 2022-23, adjusted	\$ 8,271,383

According to the audited ACFR, the City's ending unassigned fund balance for the General Fund was \$8.27 million.

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 2022-23 equals approximately \$8.1 million. Governmental accounting best

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Transfer of Unassigned General Fund Reserve

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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 of approximately \$12.2 million for FY 2022-23. 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 a total of \$7.5 million be set aside in the General Fund as reserve. Furthermore, staff recommends that the entire \$7.5 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 million in 1994. Finally, in light of ever-changing GASB standards and the time that has passed since the last review, staff expects to conduct a thorough review of General Fund reserve policies and bring back their recommendations to the City Council within the upcoming FYs 2023-25 budget cycle.

After holding \$7.5 million of the unassigned fund balance in the Economic Uncertainty Cash Account, approximately \$770,000 remains for City Council consideration and direction. After City Council discussion on February 20, 2024, it directed that \$600,000 of the remaining available balance be transferred to the Capital Development fund and that it be classified as committed fund balance and restricted for the use of one-time capital outlay projects. Furthermore, recognizing various requests made of Council Members from nonprofit organizations for additional funds, the City Council directed \$100,000 of the remaining available balance be transferred to a General Fund Contributions account, with \$25,000 to be distributed to the Mural Projects Fund and the remaining \$75,000 of distributions to be held as restricted cash, and the distribution of the funds to be determined by future City Council direction.

Finally, it should 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 2023-24); however, the specific amount can be determined subsequently. Therefore, any funds committed by City 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 \$1.4 million and an increase in committed "other governmental funds" balance by \$0.6 million. The increased \$0.6 million balance in other governmental funds would be committed to spend on capital outlays only. In addition, \$7.5 million of the remaining unassigned General Fund balance would be set aside in a

restricted cash account. Also, \$75,000 of the unassigned fund balance will be restricted in the “General Fund – City Contributions account.” Staff will bring back a report that compiles any requests for contributions received to date, as well as recommendations for how the City Council might consider and prioritize those appropriation requests. Finally, appropriations are requested in the amount of \$25,000 from General Fund unassigned fund balance to the Mural Projects Fund. The Mural Project is a beautification and tourism project, which brings visitors to Lompoc from around the world.

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 No. 6673(24) will accomplish the aforementioned transfers to further the long-term fiscal health and sustainability of the City and its continued services..

Respectfully submitted,

Christie Donnelly, Management Services Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Dean Albro, City Manager

Attachment: Resolution No. 6673(24)