



San Diego County
Local Agency Formation Commission
 Regional Service Planning | Subdivision of the State of California

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AGENDA REPORT
 Consent | Action

August 1, 2022

TO: Commissioners

FROM: Keene Simonds, Executive Officer
 Erica Blom, Executive Assistant

SUBJECT: Approval of Fund Balance Designations for 2022-2023

SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will perform its annual task under policy to review and make fund balance designations. The total spendable cash fund balance as of July 1, 2022 was \$1,547,565. It is proposed the Commission reset the fund balance designations in 2022-2023 to largely match the preceding fiscal year and marked by continuing to allocate \$750,000 in committed monies for opportunity or stabilization uses. An additional \$62,500 would be assigned by the Executive Officer as provided under policy and be available to accommodate otherwise merited fee waivers and/or reductions. The remaining balance – totaling \$735,065 – would be left unassigned. It is recommended the Commission approve the designations as proposed.

BACKGROUND

Policy on LAFCO Fund Balance

San Diego LAFCO’s Fiscal Policy 101 was updated in May 2019 and addresses the Commission’s responsibilities under Governmental Accounting Standards Board’s Statement No. 54 and its provisions to provide uniform reporting of fund balances. The policy includes several discretionary standards set by the Commission in managing its fund balance relative to meeting its statutory requirements to plan and regulate local

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jurisdictions' boundaries and municipal services in San Diego County. This includes the regular task of the Commission to review and designate the spendable fund balance consistent with the following policy standards.

Committed Monies

The Commission shall designate fund balance monies as committed for either stabilization and/or opportunity uses in specified amounts subject to first satisfying the minimum reserve requirement as detailed below. Monies set aside for stabilization use are available to absorb unexpected costs or shortfalls. Monies set aside for opportunity use are available to pursue long-term efficiencies and costs-savings.¹

Assigned Monies

The Commission delegates the Executive Officer to designate fund balance monies as assigned up to \$125,000 to cover special legal services as well as subsidize applicant fee reductions/waivers. This allowance is subject to the Commission first satisfying its minimum reserve requirement as detailed below.²

Unassigned Monies

The Commission shall designate fund balance monies as unassigned sufficiently to ensure no less than four months or 33.3% of budgeted operating expenses are readily available. The Commission shall similarly limit unassigned monies to no more than six months or 50.0% of budgeted operating expenses.³

San Diego LAFCO is tasked under the policy to annually review and make appropriate classifications and related designations for the fund balance as needed. Additional details on addressing insufficient or excess unassigned monies is footnoted.⁴

DISCUSSION

This item is for San Diego LAFCO to perform its annual review and make discretionary designations involving the spendable portion of the fund balance for 2022-2023. This review is premised on the Executive Officer attesting all fund balance monies are currently spendable and not subject to external constraints or purposes. The proposed designations by the Executive Officer follows with past designations provided as context.

¹ Committed monies for stabilization and opportunity uses are deposited with the County Treasurer's Office in dedicated accounts.

² Assigned monies are deposited with the County Treasurer's Office in a dedicated account.

³ The majority of unassigned monies are deposited with the County Treasurer's Office in a dedicated account with a small remainder held in a checking account with San Diego County Credit Union.

⁴ Should unassigned monies in the fund balance be less than three months of operating expenses the Executive Officer shall provide a plan for Commission approval to restore reserves within a three-year period. Should unassigned monies exceed six months of operating expenses the Executive Officer shall proportionally credit excess monies to the funding agencies based on their prior fiscal year contribution percentages.

LAFCO Fund Balance As of July 1 st			
Classification	2020-2021 Approved	2021-2022 Approved	2022-2023 Proposed
Committed			
... Opportunity	300,000	500,000	500,000
... Stabilization	250,000	250,000	250,000
Assigned	125,000	125,000	62,500
Unassigned *	1,015,769	762,178	735,065
... % of Operating Budget	60.0%	46.5%	35.9%
TOTAL FUND BALANCE	1,690,769	1,637,178	1,547,565

* The amount of unassigned monies is based on totaling all accounts and does not adjust for payments made but not deposited as of the date.

* The designations for 2020-2021 were rolled over from 2019-2020 without Commission review due to an oversight by the Executive Officer. This oversight underlies why the unassigned portion of the fund balance exceeded the maximum amount of reserves – 50% - allowed in policy.

ANALYSIS

San Diego LAFCO remains in good financial condition and marked by a healthy fund balance total of \$1,547,565 as of the start of the new fiscal year. This balance first and foremost ensures a sufficient amount of unassigned monies are available for cash-flow purposes under policy to meet no less than four months of budgeted operating costs. This balance and the remainder also – pertinently – allows the Commission to continue to set aside \$750,000 in committed monies to invest in long-term cost-savings opportunities and/or stabilize against unexpected costs during the fiscal year.

RECOMMENDATION

It is recommended San Diego LAFCO approve the fund balance designations for 2022-2023 as detailed in the preceding sections. This recommendation is consistent with Alternative One in the proceeding section.

ALTERNATIVES FOR ACTION

The following alternatives are available to San Diego LAFCO:

Alternative One (recommended):

- (a) Designate \$500,000 in committed monies within the fund balance for opportunity uses in 2022-2023

- (b) Designate \$250,000 in committed monies within the fund balance for stabilization uses in 2022-2003
- (c) Affirm and authorize the Executive Officer to designate \$62,500 in assigned monies within the fund balance in 2022-2023 with the authority to draw on these monies as needed during the fiscal year per policy.
- (d) Designate all remaining monies in the fund balance as unassigned.

Alternative Two:

Continue to the next regular meeting and provide direction to staff as needed.

PROCEDURES

This item has been placed on San Diego LAFCO's agenda as part of the consent calendar. A successful motion to approve the consent calendar will include taking affirmative action on the staff recommendation unless otherwise specified by the Commission.

Respectfully,



Keene Simonds
Executive Officer

Attachment:

- 1) F-101 Policy

FISCAL POLICY F-101

Subject

SAN DIEGO LAFCO FUND BALANCE

Purpose

This policy establishes guidelines and requirements for the classification of fund balances consistent with the Governmental Accounting Standards Board (GASB) Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Background

The term, “fund balance” is used to describe the difference between assets and liabilities reported within a fund. In the past, fund balances have been classified into three separate components: reserved, designated, and undersigned. Limitations were associated with these classifications with respect to the purpose and usage of funds. The force of these limitations could vary significantly, depending on the funding source.

The Governmental Accounting Standards Board (GASB) issued Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for implementation in 2011. This new standard does not affect the calculation of fund balance; however, it altered various components used to report it. There are also new categories and terminology reflected in an approach that focuses on the constraints placed on the specific purposes of the funds. GASB Statement Number 54 applies to governmental funds such as LAFCO’s General Fund.

With the shift of focus of GASB Statement Number 54, emphasis is now placed on the extent to which the government agency (LAFCO) is bound to honor constraints on the specific purposes for which amounts in the fund can be spent, rather than availability of fund resources. Under this new GASB, fund balances are classified as “non-spendable” and “spendable”. Spendable categories are further classified as *restricted, committed, assigned, and unassigned*. Definitions and LAFCO policies for non-spendable and spendable categories follow:

- *Non-Spendable*: Amounts that cannot be spent or are not in spendable form (i.e. prepaid items, land held for resale, long-term receivables), or are legally or contractually required to be maintained intact.

- *Restricted:* Amounts that are externally imposed by creditors, grantors, contributors, or laws and regulations of other governments. They may also be internally imposed by enabling legislation. Examples are debt service reserves, gas tax funds and grants.
- *Committed:* Amounts committed for specific purposes by formal action of the governing body, such as enacted ordinances and resolutions, which prevent the amounts from being used for any other purpose without the governing body's formal action. These also include contractual obligations to the extent that existing resources have been specifically committed for us in satisfying those contractual requirements.
- *Assigned:* Amounts intended to be used for specific purposes without formal action by the governing body. This authority to determine the portions of a fund's balance that is to be assigned and reported as "assigned" in the agency's audited financial statements may be delegated to the Executive Officer or the Executive Officer's designee.
- *Unassigned:* Amounts in the General Fund in excess of non-spendable, restricted, committed, and assigned fund balances. For LAFCO, the General Fund Contingency Reserve and remaining spendable amounts which are not included in one of the other classifications would be classified as "unassigned" for presentation in the audited financial statements.

Policy

It is the policy of the San Diego Local Agency Formation Commission to:

1. Classify its fund balance in accordance with the Governmental Accounting Standards Board (GASB) Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Reporting of fund balance in LAFCO's audited financial statements will be based on the amounts and classifications made by the Commission or its delegate as provided in this policy. Classification of fund balance reflects the current plans of the Commission with respect to the use of fund balance. These plans represent current intention and are subject to change and assignment. Furthermore, the classification of funds (reflecting current plans for asset use) does not in any way limit the ability to use those funds for other purposes, as deemed necessary by the Commission.

2. Classify monies in the fund balances as “*non-spendable*” and “*spendable*” consistent with GASB Statement Number 54. Spendable categories will be further classified as *restricted*, *committed*, *assigned*, and *unassigned* as described below.
 - a. Non-Spendable: The Commission shall designate fund balance monies as “non-spendable” for amounts that cannot be spent or are not in spendable form (i.e. prepaid items, land held for resale, long-term receivables), or are legally or contractually required to be maintained intact.
 - b. Restricted (Spendable): The Commission shall designate fund balance monies as “restricted” for amounts that are externally imposed by creditors, grantors, contributors, or laws and regulations of other governments. The Commission may also restrict fund balance if required by internally imposed enabling legislation or regulations.
 - c. Committed (Spendable): The Commission shall designate fund balance monies as “committed” for amounts intended for specific purposes by formal action within the following two categories:
 - i. Stabilization: these monies are committed to absorb unexpected costs incurred during the fiscal year and include – but not limited to – operating shortfalls, litigation, and controlling future increases in agency contributions.
 - ii. Opportunity: these monies are committed to pursue long-term efficiencies and/or related costs savings and include – but not limited to – Commission initiated proposals, capital purchases, prepayments, and transitional costs involving organizational restructuring.
 - d. Assigned (Spendable): The Commission delegates to the Executive Officer the authority to designate fund balance monies as “assigned” for specific purposes without formal action. This delegation is limited to \$125,000 per fiscal year and specific to legal expenses and costs associated with processing proposals with approved fee waivers.
 - i. The designation of assigned monies in cumulative excess of \$125,000 per fiscal year requires formal Commission approval.

- ii. The designation of assigned monies cannot result in unassigned monies falling below the minimum reserve level as described in this policy.
- e. Unassigned (Spendable): The Commission shall designate fund balance monies as “unassigned” for amounts that are in excess of non-spendable, restricted, committed, and assigned fund balances. Additionally:
 - i. The Commission shall maintain a minimum reserve level of unassigned monies equal to four months or 33.3% of budgeted operating expenses. These monies are intended to protect against cash flow shortfalls related to the timing of the collection of agency apportionments in the fiscal year.
 - ii. Should unassigned monies equal less than the minimum reserve level described in this policy, the Executive Officer shall present a restoration plan to the Commission for approval. The restoration plan shall provide options with a recommendation to replenish unassigned monies to meet the minimum reserve level within three fiscal years.
 - iii. The Commission shall maintain a maximum reserve level of unassigned monies equal to six months or 50% of budgeted operating expenses. Should unassigned monies exceed this maximum reserve level the Commission shall proceed to either designate the excess monies for committed uses or return to the funding agencies in the form of agency credits consistent with the provisions outlined in (e)(iv).
 - iv. Commission may authorize credits to reduce new agency apportionments as part of the annual budget process. Individual credit amounts shall be equal to the affected agency’s proportional share of overall invoiced apportionments in the current fiscal year.
- 3. Review the fund balance no less than once per fiscal year as part of the annual budget process and take action as appropriate under this policy.

Adopted: June 3, 2013
Amended: **May 6, 2019**