



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 7, 2023

TO: Commissioners

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

SUBJECT: **Proposed Fund Balance Designations for 2023-2024 and Related Amendments to Fiscal Policy 101**

SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will perform its annual task under policy to review and make fund balance designations for the new fiscal year. The total spendable cash fund balance as of July 1, 2023 was \$1,637,356. It is proposed the Commission reset the designations to largely match the preceding fiscal year and marked by setting \$750,000 aside as committed monies for opportunity or stabilization uses. A change is proposed to assigned monies and double the amount available to the Executive Officer to cover specific and otherwise unique expenses beyond budgeted resources from \$62,500 to \$125,000. The remaining monies – totaling \$762,356 – would be unassigned and meets the Commission’s 33.3% reserve standard. Related amendments are proposed to Fiscal Policy 101 and its provisions governing the fund balance to expand allowance uses for assigned monies to include high-priority projects as set by the Commission in the annual workplans.

BACKGROUND

Policies on the Fund Balance

San Diego LAFCO’s Fiscal Policy 101 was comprehensively updated in May 2019 to address the Commission’s responsibilities to provide uniform reporting of fund balances consistent with

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the Government Accounting Standards Board’s Statement 54 (“GASB 54”). This includes several discretionary standards to manage the fund balance relative to meeting statutory requirements to plan and regulate local agency boundaries and service areas in San Diego County. Compliance rests on the Commission annually reviewing and designating the spendable fund balance consistent with the following standards.

Committed Monies

These monies are divided between stabilization and opportunity uses and subject to first satisfying the minimum reserve requirement. Stabilization uses apply to absorbing unexpected costs or shortfalls. Opportunity use apply to long-term efficiencies and costs-savings.¹ Commission approval is needed to access committed funds.

Assigned Monies

These monies are available to the Executive Officer to cover special legal services as well as covering applicant fee reductions and/or waivers. These monies are subject to first satisfying the minimum reserve requirement and cannot exceed \$125,000.²

Unassigned Monies

These monies serve as all-purpose reserves and must equal no less than 33.3% of budgeted operating expenses. The Commission shall similarly limit unassigned monies to no more than six months or 50.0% of budgeted operating expenses.

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 2023-2024 totaling \$1,637,356. This review is premised on the Executive Officer attesting all fund balance monies are currently spendable and not subject to external constraints or purposes. Related amendments to Fiscal Policy 101 are also proposed. Additional details on both topics follow.

Proposed Designations in 2023-2024

Staff proposes San Diego LAFCO largely reset the fund balance designations from the preceding fiscal year and marked by setting \$750,000 as committed monies. A change is proposed to increase assigned monies by double from \$62,500 to \$125,000. The remaining balance – \$762,356 – would be unassigned and meets the 33.3% reserve standard. The following table shows the proposed designations along with past fiscal year approvals.

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

² Assigned monies can be draw from the Executive Officer to cover authorized expenses by transferring monies from the fund balance into the operating budget and in doing so ensuring other budgeted expenses are funded.

LAFCO Fund Balance & Designations				
Balances as of July 1 st				
Classification	2020-2021 Approved	2021-2022 Approved	2022-2023 Approved	2023-2024 Proposed
Committed				
... Opportunity	300,000	500,000	500,000	500,000
... Stabilization	250,000	250,000	250,000	250,000
Assigned	125,000	125,000	62,500	125,000
Unassigned *	1,015,769	762,178	735,065	762,356
... % of Operating Budget	60.0%	46.5%	35.9%	33.7%
TOTAL FUND BALANCE	1,690,769	1,637,178	1,547,565	1,637,356

- * 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.

Proposed Amendments to Fiscal Policy 101

Staff proposes San Diego LAFCO amend Fiscal Policy 101 for the substantive purpose of expanding allowable uses by the Executive Officer involving assigned monies. The current policy limits the uses to legal expenses and costs associated with processing proposals with approved fee waivers. It is proposed the Commission expand the allowance to include high-priority projects as set by the Commission in the annual workplans and in doing so make available additional resources to advance time-sensitive projects – like high-priority municipal service reviews. Clarifying amendments are also proposed to specify the Commission is responsible for designating assigned monies with authorization thereafter for the Executive Officer to use for authorized purposes without further approvals.

ANALYSIS

San Diego LAFCO remains in good financial condition and marked by a healthy fund balance total of \$1,637,356 as of the start of the new fiscal year. (The balance reflects an overall 5.8% increase over the prior fiscal year and ties to a corresponding net surplus of \$0.088 million). 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. The balance and the remainder also – pertinently – allow 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. Relatedly, the proposed amendments’ focus to expand assigned monies to cover high priority workplan projects provides staff an additional tool to navigate unexpected costs and/or events in accomplishing the most critical activities tasked by the Commission in the fiscal year. The other amendments serve as good clarifications and make certain the Commission sets designations for assigned monies each fiscal year with authorization thereafter for the Executive Officer to utilize the funds as appropriate.

RECOMMENDATION

It is recommended San Diego LAFCO approve the proposed fund balance designations for 2023-2024 and amendments to Fiscal Policy 101 as described 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) With respect to fund balance designations in 2023-2024:

- i. Designate \$500,000 in committed monies.
- ii. Designate \$250,000 in committed monies.
- iii. Designate \$125,000 in assigned monies.
- iv. Designate all remaining monies as unassigned.

(b) Amend Fiscal Policy 101 as shown in Attachment One.

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) Proposed Amendment to Fiscal Policy 101 (track-changes format)

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 shall designate fund balance monies as “assigned” up to 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. Assigned monies are delegated for use by the Executive Officer without formal action thereafter and specific to legal expenses, ~~and~~ costs associated with processing proposals with approved fee waivers or reductions, and high-priority projects included in the annual workplan.
 - i. ~~The designation of assigned monies in cumulative excess of~~

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

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