



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 5, 2024

TO: Commissioners

FROM: Keene Simonds, Executive Officer
 Erica Sellen, Commission Clerk

SUBJECT: Proposed Fund Balance Designations for 2024-2025

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, 2024 was \$1,732,010. It is proposed the Commission reset the designations to largely match the preceding fiscal year and marked by continuing to set \$750,000 aside as committed monies for opportunity or stabilization uses. A change is proposed to lower the assigned monies set aside to the Executive Officer to cover specific expenses under policy from \$125,000 to \$100,000. The remaining monies –\$882,010– would be left unassigned and meet the Commission’s 33.3% operating reserve standard.

BACKGROUND

Policies on the Fund Balance

San Diego LAFCO’s Fiscal Policy 101 addresses the Commission’s responsibilities to provide uniform reporting of fund balances consistent with 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 annually reviewing and designating the spendable fund balance consistent with the following standards.

<p>Administration Keene Simonds, Executive Officer 2550 Fifth Avenue, Suite 725 San Diego, California 92103 T 619.321.3380 www.sdlafco.org lafco@sdcounty.ca.gov</p>	<p>Joel Anderson County of San Diego</p> <p>Jim Desmond County of San Diego</p> <p>Nora Vargas, Alt. County of San Diego</p>	<p>Kristi Becker City of Solana Beach</p> <p>Dane White City of Escondido</p> <p>John McCann, Alt. City of Chula Vista</p>	<p>Chair Stephen Whitburn City of San Diego</p> <p>Marni von Wilpert, Alt. City of San Diego</p>	<p>Vice Chair Barry Willis Alpine Fire Protection</p> <p>Jo MacKenzie Vista Irrigation</p> <p>David Drake, Alt. Rincon del Diablo</p>	<p>Harry Mathis General Public</p> <p>Vacant, Alt. General Public</p>
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Committed Monies

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

Assigned Monies

These monies are available to the Executive Officer at his or her discretion to cover special legal services, applicant fee reductions and/or waivers, and costs necessary to advance a high-priority project under the adopted workplan. 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. Commission approval is needed to access unassigned monies.

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 2024-2025 totaling \$1,732,010. 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 for the current fiscal year follow.

- It is proposed the Commission 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 decrease assigned monies available to the Executive Officer from \$125,000 to \$100,000. The remaining balance – \$882,010 – would be unassigned and meet the 33.3% operating reserve standard. (The adopted operating budget total in 2024-2025 totals \$2,428,138 with one-third of this amount equaling \$808,570.)

Classification	Approved FY2022	Approved FY2023	Approved FY2024	Proposed FY2025
Committed				
... Opportunity	500,000	500,000	500,000	500,000
... Stabilization	250,000	250,000	250,000	250,000
Assigned	125,000	62,500	125,000	100,000
Unassigned	762,178	735,065	762,356	882,010
	1,637,178	1,547,565	1,637,356	1,732,010
Unassigned % to Operating Budget	46.5	35.9	33.7	36.3

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

² Assigned monies can be drawn 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.

ANALYSIS

San Diego LAFCO remains in good financial condition and is marked by a healthy fund balance total of \$1,732,010 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. 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.

RECOMMENDATION

It is recommended San Diego LAFCO approve the proposed fund balance designations for 2024-2025 and amendments consistent with Alternative One in the proceeding section.

ALTERNATIVES FOR ACTION

The following alternatives are available to San Diego LAFCO:

Alternative One (recommended):

Approve fund balance designations in 2024-2025 as follows:

- a) Designate \$500,000 in committed – opportunity monies.
- b) Designate \$250,000 in committed – stabilization monies.
- c) Designate \$100,000 in assigned monies.
- d) Designate all remaining monies 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) LAFCO Fiscal Policy 101

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ADMINISTRATIVE 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 use 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 \$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 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
Amended: August 7, 2023