



Administrative Report

J.1., File # BF23-5489

Meeting Date: 1/31/2023

To: BUDGET AND FINANCE COMMISSION
From: LORI YAMASAKA, ACTING FINANCE DIRECTOR

TITLE

DISCUSSION AND RECOMMENDATIONS TO THE CITY COUNCIL REGARDING ASSIGNMENTS OF THE GENERAL FUND BALANCE FOR THE FISCAL YEAR ENDED JUNE 30, 2022

EXECUTIVE SUMMARY

Each year, the Financial Services Department presents budget carryovers from one fiscal year to the next and fund balance constraints to the City Council for its consideration of approval. The carryovers and classifications are part of the City's efforts, with independent outside auditors, to prepare the City's Annual Comprehensive Financial Report (ACFR).

As shown on the General Fund Constraints schedule (Attachment 1) and described below, the City's General Fund balance (including the CalPERS Reserve Fund) at fiscal year end June 30, 2022 is expected to be roughly \$30.3 million (up from \$18,279,165 at June 30, 2021, primarily due to proceeds from the Lease Revenue Bond that was utilized in the payoff of the CalPERS Unfunded Liability debt and the receipt of American Rescue Plan Act (ARPA) funds. Of the year-end balance, \$71,426 is non-spendable and \$8,599,208 is committed for the City's 8.33% General Fund Reserve required by the City Council's Financial Principles.

Other significant General Fund constraints include regular encumbrances (\$1,270,389), compensated absences (\$785,832), carryover assignments (\$1,845,807), the set aside for the CalPERS Reserve Fund (\$4,975,712), and appropriations made by the City Council during the adoption of the FY 2022-23 Budget (\$8,531,279), which leave a remaining available Fund Balance of \$4,207,538.

Of the available Fund Balance, staff is recommending the traditional \$1,000,000 annual transfer to the Capital Projects Fund (which would be allocated as part of the FY 2023-24 Capital Improvement Program), a \$3,000,000 transfer to the newly titled Employee Compensation, Benefit and Pension Reserve Fund (formally titled the CalPERS Reserve Fund) bringing the total reserve amount to nearly \$8 million, and a \$160,000 appropriation to the City Clerk's General Fund operating budget to cover the cost of the October 19, 2022 special election. If all of these recommendations are approved, the remaining Unassigned General Fund Balance will be \$47,538.

BACKGROUND

The following provides details of the General Fund constraints and answers questions that are likely to arise regarding the FY 2021-22 year-end report.

How is the Unassigned Fund Balance calculated, and how much funding remains after mandatory designations and transfers?

The estimated General Fund balance effective June 30, 2022 before any designations or transfers totals \$30,300,000. There are mandatory designations of these monies as listed below:

\$30,300,000	General Fund Balance before mandatory designations/transfers
(52,821)	Prepaid Costs (payments for goods to be received or services to be rendered in the near future, such as postage and lease payments)
(18,605)	Notes and Loans (City loans to employees for computer purchases)
(8,599,208)	General Fund Contingency Reserve (one-month reserve)
<u>\$21,629,366</u>	General Fund Balance after mandatory designations/transfers

In addition to the General Fund Contingency Reserve, what are the standard designations/transfers that happen at year-end to keep the budget in balance?

\$21,629,366	General Fund Balance before mandatory designations/transfers
(1,270,389)	Encumbrances (open General fund purchase orders for contracted goods or services not yet received - See Exhibit C for detailed listing)
(12,800)	Petty Cash (small cash funds held by departments for cash register change drawer or reimbursement to expenses in the amount of \$50 or less)
(785,832)	Compensated Absences (provision for vacation cash outs upon retirement/termination funded at 30% of employee balances as of June 30, 2022)
(1,845,807)	Carryover Assignments (unspent FY 21-22 funds to be used for FY 22-23 departmental and donation expenditures as detailed in Exhibits A and B)
(4,975,721)	CalPERS Reserve Fund
(8,531,279)	FY 2022-23 Appropriations (Use of Fund Balance per FY 22-23 City Council Approved Budget Motion)
<u>\$4,207,538</u>	General Fund Balance after mandatory designations/transfers

Are there staff-recommended uses for the \$4,207,538 million in unassigned General Fund monies?

Staff is recommending that the CalPERS Reserve Fund be renamed the Employee Compensation, Benefit and Pension Reserve Fund and that \$3,000,000 of the unassigned General Fund monies be transferred to this fund to support increases to employee compensation until the City's Transient

Occupancy Tax revenues fully recover from the pandemic and/or there is other sufficient structural General Fund revenue to cover ongoing costs. The reserve fund will also be used to support the City's Unfunded Accrued Liability (UAL) payment expected in Fiscal Year 2024-25 due to CalPERS' substandard investment performance in Fiscal Year 2021-2022. The current balance of the CalPERS Reserve Fund is \$4,975,721 and would be nearly \$8 million dollars if the assignment is approved.

Staff is also recommending approval of the traditional \$1,000,000 transfer to the Capital Projects Fund which would be used to pay for Capital Project's approved in the FY 2023-24 Budget, and a \$160,000 appropriation that is needed to cover the costs of the October 19, 2022 special election.

These actions would leave \$47,538 of the General Fund balance unassigned.

What are some reasons for having the roughly \$4.2 million General Fund balance after the standard designations/transfers (as compared to \$2.87 million at FY 2020-21 year-end?)

- During Fiscal Year 2021-22, the City issued Lease Revenue Bonds to pay off the CalPERS Unfunded Liability debt and made an interest only bond payment which provided the City with significant one-time funds.
- The City received one time grant revenue from the American Rescue Plan Act that helped offset the effects of the COVID-19 pandemic.
- Most of the one-time proceeds from the bond issuance and ARPA grant were spent as part of the FY 2022-23 budget motion which appropriated \$8,531,279 of anticipated FY 2021-22 year-end funds.
- The increase in total FY 2022-23 budgeted expenditures, also increased the amount needed to be set aside for the City's the 8.33% contingency reserve, which is reflected in the allocations above.

COORDINATION

Financial Services staff coordinated the preparation of the schedules related to the recommended carryovers with each City department. Year-end balances and recommendations were prepared by the Financial Services and City Manager's Departments as part of the City's work with its independent outside auditors.

FISCAL IMPACT

The General Fund constraints include non-spendable items of \$71,426 and committed policy-designated items of \$8,599,208 of the General Fund balance. Also included are \$17,421,828 of budget assignments, \$4,160,000 of additional staff recommended assigned items and \$47,538 remaining unassigned.

ATTACHMENTS

Attachment 1 - Draft General Fund Constraints

Attachment 2 - Draft General Fund Financial Report

Attachment 3 - Draft Re-Appropriation Summary

Exhibit A - Draft Departmental Carryover requests

Exhibit B - Draft Unexpended Balances for Donations

Exhibit C - Draft Unexpended Balances for Grants

Exhibit D - Draft Unexpended Balances for Capital Projects

Outstanding

Exhibit E - Draft Encumbrance