



CITY COUNCIL STAFF REPORT

MEETING DATE: June 9, 2025

ITEM TITLE: Consideration of Adopting a Resolution Classifying the Various Components of General Fund Fund Balance as Committed Balances as Defined in Governmental Accounting Standards Board Statement No. 54 ("GASB 54").

RECOMMENDATION:

Staff recommend that the City Council adopt a Resolution classifying the various components of General Fund Fund Balance as Committed Balances as defined in GASB 54.

FISCAL IMPLICATIONS:

There is no direct fiscal impact. The amounts reported in the total fund balance are not altered. Classifications under GASB 54 are for financial reporting purposes only.

BACKGROUND:

GASB 54 was issued in February 2009 and implemented by the City in fiscal year (FY) 2010-11. This pronouncement defines five distinct classifications of fund balances as follows:

CLASSIFICATION	NATURE OF DESIGNATION
Non-Spendable	Cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to remain intact.
Restricted	Restriction either externally imposed or imposed by law through constitutional provisions or enabling legislation.
Committed	Reserved for specific purposes pursuant to constraints imposed by formal action of the City Council. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
Assigned	Reserved by the City Council or the City Manager for the intent to be used for specific purposes, but neither restricted nor committed.
Unassigned	Residual balance not classified in any of the above categories and not restricted for any use. Unassigned fund balance is a residual classification and is technically available for any purpose.

Per the City's Adopted Financial Policies (last adopted in May 2025), we will work toward establishing, dedicating, and maintaining reserves annually to meet known and estimated future obligations. The hierarchy followed to deplete these reserves is as follows: first unassigned fund

balance will be depleted; second assigned fund balances will be depleted at discretion of the City Manager; and lastly committed fund balances will be depleted in accordance with the conditions of commitment and formal action of the City Council.

ANALYSIS:

Economic Uncertainty Reserve:

In the past seventeen years, the only time the City contemplated dipping into this reserve was during FY 2020-21, following the national declaration of the COVID-19 emergency. In March 2020, the City and the rest of the world experienced an unprecedented event with the declaration of the worldwide pandemic of a novel coronavirus (named COVID-19 by the World Health Organization). It was also highly unexpected when the City of San Carlos was informed that a hotel within the city would be used to quarantine several individuals from a passenger ship that had been exposed to COVID-19. In response, the City Manager immediately activated the City's Emergency Operations Center and, acting as Director of Emergency Services, proclaimed the existence of a local emergency pursuant to 2.28.060(A)(1) of the San Carlos Municipal Code. Even though it was expected the funds would be needed, due to higher revenues and savings achieved from vacancies throughout the year, the funds were not needed.

In June 2024, the Council adopted Resolution 2024-071 that further clarified the use of these funds. The commitment definition was updated to state that appropriations and access to these funds will be reserved for emergency situations. Emergency situations are further defined as catastrophic disasters as declared locally or by the state or federal government or budgeted revenue taken by another government entity. This definition would require the formal action of the City Council to utilize these funds and as stated in the definition, an emergency would not be something that should routinely occur. The reserve would not be used for ongoing expenditures and is therefore separate from a stabilization or "rainy-day" fund that could be used more frequently if budget projections are not met. A "rainy-day" fund would fall into the definition of Unassigned Fund balance as reflected in the table above.

The Government Finance Officers Association (GFOA) has issued its best practice in determining the appropriate level of unrestricted fund balance in the General Fund to be at a minimum of no less than two months of regular general fund operating revenues or expenses, which equates to approximately 17%. The Economic Uncertainty Reserve has been set at 17% of total operating expenditures, or two months of regular general fund expenditures, for several years in accordance with GFOA guidance.

Strategic Property Acquisition Reserve (SPAR):

As is done at the end of every fiscal year audit, the City Manager and the Administrative Services Director review the fund balances and determine what the appropriate assignments should be. In FY 2023-24, there were General Fund savings and a portion of that, or \$2,000,000, was set aside to be added to the existing SPAR balance of \$10,191,795. Since fund balances can only be committed by the City Council, it is recommended that the City Council recognize the additional \$2,000,000 as SPAR funds, bringing the total balance available for this purpose to \$12,191,795.

If the attached Resolution is approved, the General Fund Reserve Balances would be as follows:

RESERVE FUND BALANCES - GENERAL FUND						
	Projected FY 24-25	% of FY 25 Exp	Proposed FY 25-26	% of FY 26 Approp	Proposed FY 26-27	% of FY 27 Approp
Committed Fund Balances:						
Economic Uncertainty	\$ 10,188,605	17.0%	\$ 11,379,600	17.0%	\$ 11,862,489	17.0%
Strategic Property Acquisition	\$ 10,191,795		\$ 12,191,795		\$ 12,191,795	
Assigned Fund Balances:						
Unfunded Liabilities	\$ 3,000,000		\$ 2,600,000		\$ 2,200,000	
Strategic Property Acquisition	\$ 2,000,000		\$ -		\$ -	
Facility/Infrastructure	\$ 23,990,500		\$ 10,891,500		\$ 3,891,500	
Ending Reserve Balances	\$ 49,370,900	82.4%	\$ 37,062,895	55.4%	\$ 30,145,784	43.2%
Unassigned Fund Balance	\$ 2,003,841		\$ 1,355,320		\$ 1,282,787	
Nonspendable Fund Balances	\$ 2,159,946		\$ 1,637,946		\$ 1,118,946	
Total Ending Fund Balance	\$ 53,534,687		\$ 40,056,161		\$ 32,547,517	

When looking at the total reserve percentages, all categories need to be considered. In the Annual Comprehensive Financial Report, the categories that make up the unrestricted fund balance as defined by the GFOA are the following: Economic Uncertainty Reserve, Strategic Property Acquisition Reserve, Unfunded Liability Reserve, Facility and Infrastructure Reserve, and the Unassigned Fund balance. For our purposes, we will consider our reserves to be those defined as committed and assigned as noted in the chart. Even excluding the unassigned fund balance, the City maintains healthy reserves well above the GFOA best practice guidelines.

ALTERNATIVES:

The alternatives available to the City Council include:

1. Adopt a Resolution classifying the various components of General Fund Fund Balance as Committed Balances as defined in the GASB 54; or
2. Do not adopt a Resolution; or
3. Provide staff with alternative direction.

Respectfully submitted by:

Rebecca Mendenhall, Administrative Services Director

Approved for submission by:



Jeff Maltbie, City Manager

ATTACHMENT(S):

1. Resolution