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 3, 2026

TO: Chair Becker and Commissioners

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

SUBJECT: **Proposed Fund Balance Designations for Fiscal Year 2026-2027**

SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will conduct its annual review of fund balance designations for the new fiscal year as required by policy. As of July 1, 2026, the spendable cash fund balance is $1,420,344. This represents a decrease of $251,447 from the preceding fiscal year, consistent with – and less than – the Commission's budgeted use of $317,202 in reserves as offsetting revenue in 2025-2026. Staff proposes reducing committed monies by $300,000 to ensure unassigned monies satisfy the policy minimum of 33.3% of budgeted operating expenses. Staff recommends approval.

BACKGROUND

Policies on the Fund Balance

San Diego LAFCO's Fiscal Policy No. 101 establishes responsibilities for uniform fund balance reporting consistent with Government Accounting Standards Board Statement 54 ("GASB 54"). The policy includes discretionary standards for managing fund balances to ensure LAFCO meets its statutory requirements for planning and regulating local agency boundaries and service areas in San Diego County. Compliance requires an annual review and designation of spendable fund balances as of the start of each fiscal year, following these standards:

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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 funds are used to absorb unexpected costs or revenue shortfalls. Opportunity funds support long-term efficiencies and cost savings. Commission approval is required to access committed monies.[1]

Assigned Monies:
These monies are available to the Executive Officer at their discretion to cover special legal services, applicant fee reductions and/or waivers, and costs necessary to advance high-priority projects under the adopted work plan. 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 at least 33.3% of budgeted operating expenses. The Commission shall limit unassigned monies to no more than six months or 50.0% of budgeted operating expenses. Commission approval is required to access unassigned monies.

Recent Budget Actions

In adopting budgets over several recent fiscal years, the Commission has elected to appropriate a portion of available reserves as offsetting revenue for the express purpose of moderating year-over-year increases in member agency apportionments. The most recent application of this practice occurred in 2025-2026, when the Commission budgeted $317,202 in reserves for this purpose. In adopting the 2026-2027 budget, the Commission did not budget any use of reserves – recognizing the need to begin rebuilding the fund balance.

DISCUSSION

This item is for San Diego LAFCO to perform its annual review and make discretionary designations for the spendable portion of the fund balance totaling $1,420,344 as of July 1, 2026. This review is based on the Executive Officer attesting all fund balance monies are currently spendable and not subject to external constraints or designated purposes.

Budgeted operating expenses for 2026-2027 total $2,804,049. Applying the policy minimum, unassigned monies must equal at least $933,748. This threshold takes precedence over committed and assigned designations, both of which are expressly subject to first satisfying the minimum reserve requirement. The available balance therefore allows no more than $486,596 in combined committed and assigned monies. Maintaining the preceding year's designations would leave unassigned monies at $670,344, or 23.9% of budgeted operating expenses, and would not comply with policy.

[1] Committed monies for stabilization and opportunity uses are deposited with the County Treasurer's Office in dedicated accounts.
[2] Assigned monies can be accessed by the Executive Officer to cover authorized expenses by transferring funds from the fund balance into the operating budget, ensuring other budgeted expenses remain funded.

The proposed designations for the current fiscal year are as follows:

- **Committed Monies:**
  Reduce from $650,000 to $350,000 by decreasing the opportunity subcategory from $500,000 to $250,000 and the stabilization subcategory from $150,000 to $100,000.

- **Assigned Monies:**
  Maintain at $100,000.

- **Unassigned Monies:**
  Set at $970,344, representing 34.6% of budgeted operating expenses.

ANALYSIS

San Diego LAFCO's financial position remains sound. The proposed designations satisfy every applicable standard under Fiscal Policy No. 101, with unassigned monies at 34.6% of budgeted operating expenses – above the 33.3% minimum and well within the 50.0% ceiling. As discussed by the Commission during the most recent budget adoption process, the trend underlying these designations nonetheless warrants continued attention. Total spendable reserves have declined from 61.7% of budgeted operating expenses at the start of 2025-2026 to 50.7% at the start of 2026-2027. The entire fund balance is now only marginally greater than the amount policy would permit to be held in unassigned monies alone. Two points provide important context and measured assurance going forward. First, the actual decline of $251,447 between the start of 2025-2026 and 2026-2027 is $65,755 less than the $317,202 the Commission budgeted, reflecting favorable operating results. Second, and more significantly, the Commission's decision to budget no use of reserves in 2026-2027 arrests the practice that produced this trend. Absent an operating deficit, the fund balance should stabilize this fiscal year and begin recovering thereafter.

RECOMMENDATION

It is recommended San Diego LAFCO approve the proposed fund balance designations for 2026-2027 consistent with Alternative One in the following section.

ALTERNATIVES FOR ACTION

The following alternatives are available to San Diego LAFCO:

Alternative One (recommended):
Approve fund balance designations for 2026-2027 as follows:

a) Designate $250,000 in committed – opportunity monies.
b) Designate $100,000 in committed – stabilization monies.
c) Designate $100,000 in assigned monies.
d) Designate all remaining monies as unassigned.

Alternative Two:
Approve fund balance designations for 2026-2027 with modifications as directed, provided unassigned monies equal at least 33.3% of budgeted operating expenses.

Alternative Three:
Continue the item 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