



# CITY COUNCIL STAFF REPORT



**February 13, 2024**

## **ITEM TITLE**

Annual Report: Accept the Audited Annual Comprehensive Financial Report (ACFR) for Fiscal Year Ended June 30, 2023 and Update on General Fund Reserve Funds

**Report Number:** 24-0045

**Location:** No specific geographical location

**Department:** Finance

**G.C. § 84308:** No

**Environmental Notice:** The activity is not a “Project” as defined under Section 15378 of the California Environmental Quality Act State Guidelines. Therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

## **Recommended Action**

Adopt a resolution accepting the audited Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2023, and update on City reserve funds.

## **SUMMARY**

Presented for City Council information and acceptance are the audited basic financial statements included in the Annual Comprehensive Financial Report for the fiscal year ending June 30, 2023, as prepared by the City and audited by the independent audit firm of Lance Soll & Lunghard, LLP. The audit report submitted for the City has received an unmodified (clean) opinion from the independent audit firm. An update on General Fund reserve funds is also provided.

## **ENVIRONMENTAL REVIEW**

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because the proposed activity consists of a governmental fiscal/administrative activity which does not result in a physical change in the environment. Therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is required.

## BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Not applicable.

## DISCUSSION

Pursuant to City Charter Section 1012, an annual audit of the City's financial records is performed by an independent accounting firm. The Annual Comprehensive Financial Report ("ACFR") report is included as Attachment 1 to this report. The firm of Lance Soll & Lunghard, LLP has audited the basic financial statements of the City of Chula Vista and has issued their opinion that the statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the City as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Additionally, Lance Soll & Lunghard, LLP considered the City's internal control over financial reporting to determine the appropriate audit procedures for expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. The Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards is included in the ACFR for fiscal year 2023. This was Lance Soll & Lunghard, LLP's tenth year serving as the City's independent auditors.

### General Fund Reserve Update

Below is an update of various General Fund Reserve funds in accordance with the City of Chula Vista Council Policy General Fund Reserves – Fiscal Health Plan (Policy No. 220-03). The table below reflects the reserve target %, current reserve %, and current reserve amounts as of June 30, 2023 for each General Fund reserve.

General Fund Reserve Funds	Reserve Target %	Current Reserve %	Current Reserve \$ (in millions)	Target Met
General Fund Operating Reserves	15.00%	15.00%	\$ 29.1	✓
Economic Contingency Reserves	5.00%	5.00%	\$ 9.7	✓
Catastrophic Event Reserves	3.00%	2.18%	\$ 4.2	
Pension Reserve Fund	15.00%	13.54%	\$ 26.3	

### *General Fund Operating Reserves*

The General Fund Operating Reserves represent unrestricted resources available for appropriation by the City Council to address extraordinary needs of an emergency nature, such as a major storm drain repair, litigation, settlement costs or an unexpected liability created by Federal and State legislative action. This reserve has a minimum level of no less than fifteen percent (15%) of annual General Fund budgeted operating expenditures (excluding Measure A and P Sales Taxes).

The General Fund ended fiscal year 2023 with \$29.1 million in the General Fund Operating Reserve. This fully funds the General Fund Operating Reserve at fifteen percent (15%) of the fiscal year 2024 budgeted operating expenditures. This is the City's sixth consecutive year fully funding the General Fund Operating Reserve.

#### *Economic Contingency and Catastrophic Event Reserves*

The Economic Contingency Reserves represent monies set aside to mitigate service impacts during a significant downturn in the economy which impacts City revenues such as sales tax and property tax, etc. This reserve has a minimum level of no less than five percent (5%) of annual General Fund budgeted operating expenditures. The General Fund ended fiscal year 2023 with \$9.7 million in the Economic Contingency Reserve. This fully funds the Economic Contingency Reserve at five percent (5%) of the fiscal year 2024 budgeted operating expenditures. This is the City's fourth consecutive year fully funding the Economic Contingency Reserve.

The Catastrophic Event Reserves represent monies set aside to fund unanticipated expenses related to major or natural disasters in the City. This reserve has a target level of three percent (3%) of annual General Fund budgeted operating expenditures. The General Fund ended fiscal year 2023 with \$4.2 million in the Catastrophic Event Reserve. This amount is equal to 2.18% of the 3% Catastrophic Event Reserve target level.

#### *Pension & OPEB (Other Post-Employment Benefits) Reserve Funds*

The Pension & OPEB (Other Post-Employment Benefits) Reserve Fund Policy established the City's Pension Reserve Fund (PRF). This reserve sets aside surplus funds to address future potential pension liability increases and potentially pay off the City's Pension Obligation Bonds (POBs) debt early. This reserve is to be funded only after funding the fifteen percent (15%) minimum reserve level of the General Fund Operating Reserve. Should the fiscal year result in a surplus, such surplus funds will be split between the PRF (75%) and the other two reserves (25%), the Economic Contingency Reserve and Catastrophic Event Reserves, until all three reserves are fully funded. PRF contributions are transferred to the City's Section 115 Trust Fund. The General fund ended fiscal year 2023 with \$6.5 million in surplus funds to contribute to the PRF.

Additionally, the City shall budget a minimum of 75% of the estimated net annual savings from the issuance of POBs to be transferred to the City's Section 115 Trust Fund. The budgeted contribution for fiscal year 2024 is \$10.8 million.

Pursuant to the Pension & OPEB Reserve Fund Policy, the Finance Department is required to provide the following comprehensive pension reserve (Section 115 Trust Fund) funds status report, including five-year reserve fund balance projections, annually to the City Council along with the ACFR. The following schedule also includes projected contributions from net annual savings, contributions from surplus funds, trust net investment activity, future costs in unfunded actuarial liabilities to CalPERS, and trust fees.

**CITY OF CHULA VISTA**  
**COMPREHENSIVE PENSION RESERVE FUNDS STATUS REPORT**

City of Chula Vista Section 115 Trust (Book Value)						
	Actuals	Projections				
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
<b>Estimated Beginning Reserve Balance</b>	<b>\$10,826,452</b>	<b>\$26,256,268</b>	<b>\$ 36,971,097</b>	<b>\$ 45,666,671</b>	<b>\$ 52,473,391</b>	<b>\$58,087,556</b>
<b>Inflows</b>						
City Contributions - Annual Projected Savings from Issuance of POBs <sup>1</sup>	\$ 9,929,907	\$10,848,629	\$ 11,976,156	\$ 11,892,443	\$ 12,513,429	\$13,054,311
City Contributions - Pension Reserve Fund (PRF) from Surplus Funds	6,541,296	-	-	-	-	-
Trust Net Investment Activity <sup>2</sup>	(67,199)	-	-	-	-	-
<b>Total Inflows</b>	<b>\$ 16,404,004</b>	<b>\$10,848,629</b>	<b>\$ 11,976,156</b>	<b>\$ 11,892,443</b>	<b>\$ 12,513,429</b>	<b>\$13,054,311</b>
<b>Outflows</b>						
Miscellaneous Plan UAL <sup>3</sup>	\$ (609,449)	\$ -	\$ (1,727,976)	\$ (2,600,000)	\$ (3,472,534)	\$(4,344,813)
Safety Plan UAL <sup>3</sup>	(313,125)	-	(1,406,006)	(2,334,268)	(3,262,529)	(4,190,791)
Trust Fees	(51,614)	(133,800)	(146,600)	(151,200)	(164,200)	(168,400)
<b>Total Outflows</b>	<b>(974,188)</b>	<b>(133,800)</b>	<b>(3,280,582)</b>	<b>(5,085,723)</b>	<b>(6,899,263)</b>	<b>(8,704,004)</b>
<b>Net Inflows (Outflows)</b>	<b>\$15,429,816</b>	<b>\$10,714,829</b>	<b>\$ 8,695,574</b>	<b>\$ 6,806,720</b>	<b>\$ 5,614,166</b>	<b>\$ 4,350,307</b>
<b>Estimated Ending Fund Balance</b>						
Estimated Balance with Trustee <sup>4</sup>	\$19,714,972	\$30,534,351	\$ 32,061,068	\$ 33,664,122	\$ 35,347,328	\$37,114,694
Estimated OPEB Reserve	-	3,218,373	6,802,801	9,404,635	11,370,114	12,661,584
Estimated Bond Call Reserve	-	3,218,373	6,802,801	9,404,635	11,370,114	12,661,584
Additional City Contribution	6,541,296	-	-	-	-	-
<b>Total Estimated Reserves</b>	<b>\$26,256,268</b>	<b>\$36,971,097</b>	<b>\$ 45,666,671</b>	<b>\$ 52,473,391</b>	<b>\$ 58,087,556</b>	<b>\$62,437,863</b>

1. Per the Pension & OPEB Reserve Fund Policy, 75% of the net annual savings from the issuance of POBs (determined at bond issuance for years 1-10, not adjusted annually for any new unfunded liability or change in actuarial assumptions) for bond fiscal years 1 through 10 is required to be transferred to the PRF on an annual basis.

2. Trust Net Investment Activity includes: interest, dividends, realized gain/loss, and net accrued income. Trust Net Investment Activity in FY 2023 is as of December 31, 2023 and is not projected beyond that date.

3. UAL projections are from the CalPERS Actuarial Valuation - June 30, 2022 Report, which may change in future valuation reports issued by CalPERS.

4. Once the balance with trustee reaches the goal of 15% of next year's General Fund operating budget (less Measure A and Measure P) a 5% escalator per year is assumed to maintain the balance at the targeted 15%.

## **DECISION-MAKER CONFLICT**

Staff has reviewed the decision contemplated by this action and has determined that it is not site-specific and consequently, the real property holdings of the City Council members do not create a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, et seq.).

Staff is not independently aware and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

## **CURRENT-YEAR FISCAL IMPACT**

There is no fiscal impact as a result of accepting the ACFR for Fiscal Year Ended June 30, 2023 and General Fund Reserve update.

## **ONGOING FISCAL IMPACT**

There is no ongoing fiscal impact as result of this action.

## **ATTACHMENTS**

1. Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2023

*Staff Contact: Sarah Schoen, Director of Finance/Treasurer*