

*STAFF REPORT**CITY OF OCEANSIDE*

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DATE: February 1, 2023  
TO: Honorable Mayor and City Councilmembers  
FROM: Financial Services Department  
SUBJECT: **GENERAL FUND FIVE-YEAR FINANCIAL FORECAST**

**SYNOPSIS**

Staff submits the FY 2023-24 through FY 2027-28 General Fund Five-Year Financial Forecast for review and requests direction to proceed with developing a fiscally sustainable budget strategy.

**BACKGROUND**

The financial forecast takes a forward look at the City of Oceanside's General Fund revenues and expenditures. Its purpose is to identify financial trends, shortfalls and issues so the City can proactively address them. It does so by projecting the fiscal results of continuing the City's current service levels, policies, and any new or anticipated changes to the City's revenue streams. It provides a snapshot of what the future will look like as a result of decisions made in the recent past. It also recaps historical data to indicate the City's financial position in the past.

A surplus balance indicates monies available to fund new initiatives; if negative, it shows the likely budget gap. Throughout the five-year forecast period, staff is projecting a positive balance, with a surplus of \$1.32M forecast for the next year (Fiscal Year 2023-24), based on projected revenues of \$203.51M and expenditures of \$202.19M.

It is important to stress that this financial forecast is not a budget, nor is it a proposed financial plan for achieving City or City Council objectives. The forecast is a projection based on currently available economic data, consultant reports, and staff analysis of current trends, and represents a staff consensus on likely revenues and expenses.

The Measure X revenues and expenditures are placed in a separate fund and are not included in the Five-Year Forecast.

**FISCAL IMPACT**

There is no fiscal impact.

**INSURANCE REQUIREMENTS**

Does not apply.

**COMMISSION OR COMMITTEE REPORT**

Does not apply.

**CITY ATTORNEY'S ANALYSIS**

Does not apply.

**RECOMMENDATION**

Staff submits the FY 2023-24 through FY 2027-28 General Fund Five-Year Financial Forecast for review and requests direction to proceed with developing a fiscally sustainable budget strategy.

PREPARED BY:

  
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SUBMITTED BY:

  
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City Manager

REVIEWED BY:

Michael Gossman, Assistant City Manager

  
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ATTACHMENTS:

A – General Fund Five-Year Financial Forecast

## GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

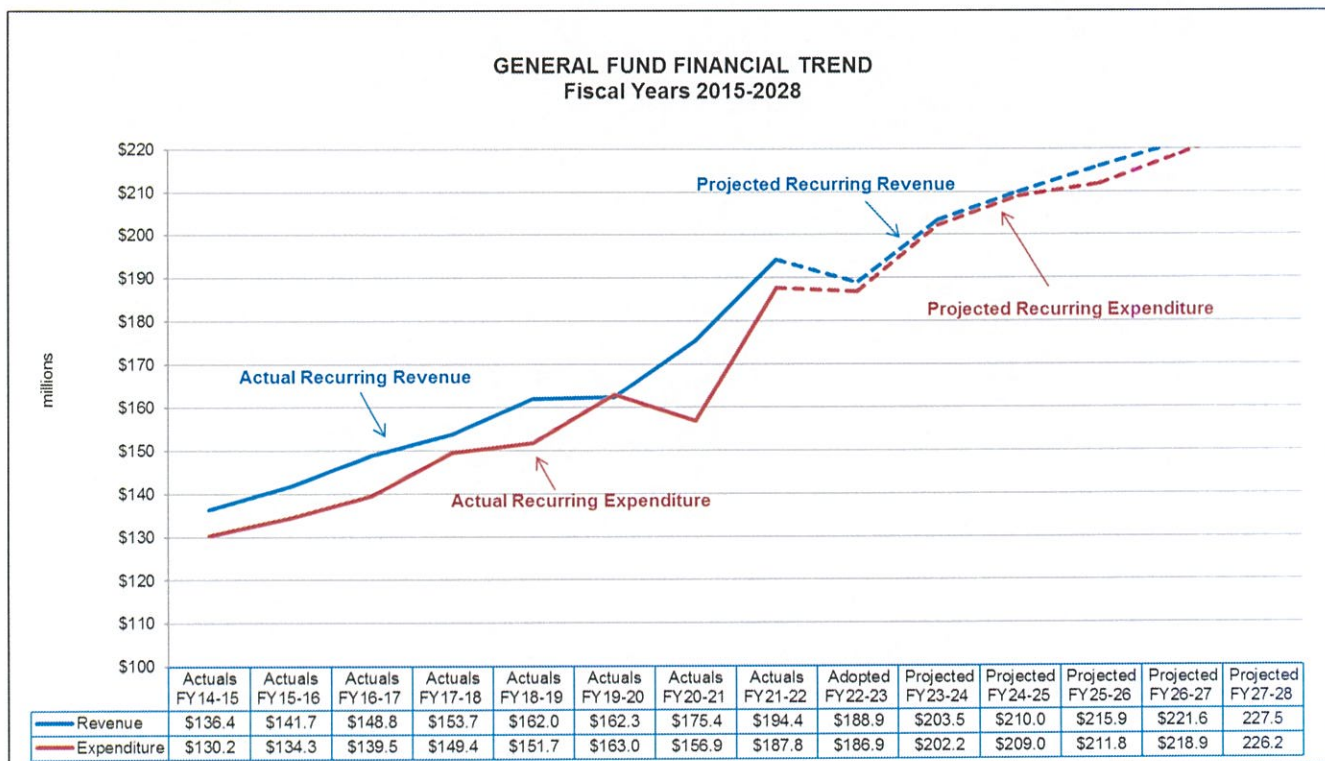
### PURPOSE OF THE FORECAST

The financial forecast takes a forward look at the City of Oceanside's General Fund revenues and expenditures. Its purpose is to identify financial trends, shortfalls and issues so the City can proactively address them. It does so by projecting out into the future the fiscal results of continuing the City's current service levels and policies, provides a snapshot of what the future will look like as a result of the decisions made in the recent past. It also recaps historical data to indicate the financial status of the past.

If the results are positive, the balance remaining is available to fund new initiatives; if negative, it shows the likely budget gap.

The National Advisory Council on State and Local Budgeting (NACSLB) has endorsed the forecasting of revenues and the forecasting of expenditures in their Recommended Budget Practices.

It is important to stress that this financial forecast is not a budget, nor is it a proposed financial plan for achieving City or Council objectives.



## GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

Table 1 shows the next five years as forecasted in February 2023. The FY 2023-24 General Fund forecast includes \$203.51M in revenues and \$202.19M in expenditures with an anticipated surplus of \$1.32M.

**Table 1**

**City of Oceanside**  
**GENERAL FUND FINANCIAL FORECAST**  
**Fiscal Years 2023-24 through 2027-28**  
in millions

	Adopted	PROJECTION				
	Budget FY22-23	Year 1 FY23-24	Year 2 FY24-25	Year 3 FY25-26	Year 4 FY26-27	Year 5 FY27-28
<b>RECURRING REVENUES</b>						
Property Taxes	\$ 79.79	\$ 85.07	\$ 88.99	\$ 91.61	\$ 94.30	\$ 97.06
Sales & Use Taxes	27.55	29.38	30.67	31.62	32.65	33.71
Transient Occupancy Tax	8.80	12.49	12.77	13.32	14.54	15.75
Beachfront TOT	2.21	2.15	2.21	2.28	2.35	2.42
All Other Taxes	4.32	4.59	4.64	4.70	4.76	4.82
Franchise Fees	4.26	4.34	4.30	4.27	4.23	4.20
Licenses & Permits	4.33	4.50	4.50	4.51	4.51	4.51
Fines & Forfeitures	3.84	3.93	3.93	3.93	3.93	3.93
Use of Money & Property	7.76	7.75	7.87	7.99	8.11	8.23
Intergovernmental	0.47	0.52	0.52	0.52	0.52	0.52
Ambulance Billing	5.57	7.08	7.17	8.07	7.92	8.02
Charges for Services	14.87	15.57	15.75	15.94	16.13	16.33
Transfers In & Other Revenues	25.15	26.15	26.68	27.12	27.60	27.95
<b>Total Recurring Revenues</b>	<b>\$ 188.91</b>	<b>203.51</b>	<b>210.00</b>	<b>215.88</b>	<b>221.55</b>	<b>227.45</b>
<b>RECURRING EXPENDITURES</b>						
Personnel						
Compensation Cost	\$ 71.96	\$ 77.56	\$ 81.67	\$ 85.57	\$ 89.24	\$ 93.04
Overtime	7.00	7.64	7.65	7.67	7.63	7.63
PERS	27.78	29.09	30.54	32.07	33.35	34.69
Pension Bond	4.23	4.38	4.54	0.26	-	-
Health Insurance	10.78	10.68	11.10	11.60	12.30	12.92
Workers Comp	5.41	5.63	5.93	6.22	6.49	6.76
Other Benefits	3.99	4.14	4.27	4.39	4.50	4.62
Personnel Cost Subtotal	\$ 131.16	\$ 139.12	\$ 145.72	\$ 147.78	\$ 153.51	\$ 159.65
Maintenance & Operations	\$ 27.49	\$ 30.96	\$ 31.81	\$ 32.02	\$ 32.60	\$ 33.49
Rebate for OBR	2.21	2.15	1.51	1.56	1.60	1.65
Transfers Out & Internal Service Charges	26.00	29.96	29.94	30.41	31.18	31.45
<b>Total Recurring Expenditures</b>	<b>\$ 186.85</b>	<b>\$ 202.19</b>	<b>\$ 208.98</b>	<b>\$ 211.76</b>	<b>\$ 218.89</b>	<b>\$ 226.24</b>
<b>Surplus/(Shortfall)</b>	<b>\$ 2.06</b>	<b>\$ 1.32</b>	<b>\$ 1.02</b>	<b>\$ 4.12</b>	<b>\$ 2.66</b>	<b>\$ 1.21</b>

## GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

**Table 2**

General Fund Revenues Projected Percent Changes					
	Year 1	Year 2	Year 3	Year 4	Year 5
	FY23-24	FY24-25	FY25-26	FY26-27	FY27-28
Property Taxes	6.6%	4.6%	2.9%	2.9%	2.9%
Sales & Use Taxes	6.6%	4.4%	3.1%	3.3%	3.2%
Transient Occupancy Tax	41.9%	2.2%	4.3%	9.2%	8.3%
Beachfront TOT	-2.6%	3.0%	3.0%	3.0%	3.0%
All Other Taxes	6.2%	1.1%	1.3%	1.3%	1.3%
Franchise Fees	1.9%	-0.9%	-0.7%	-0.9%	-0.7%
Licenses & Permits	3.9%	0.0%	0.2%	0.0%	0.0%
Fines & Forfeitures	2.3%	0.0%	0.0%	0.0%	0.0%
Use of Money & Property	-0.1%	1.5%	1.5%	1.5%	1.5%
Intergovernmental	10.6%	0.0%	0.0%	0.0%	0.0%
Ambulance Billing	27.1%	1.3%	12.6%	-1.9%	1.3%
Charges for Services	4.7%	1.2%	1.2%	1.2%	1.2%
Transfers In & Other Revenues	4.0%	2.0%	1.6%	1.8%	1.3%
<b>TOTAL RECURRING REVENUES</b>	<b>7.7%</b>	<b>3.2%</b>	<b>2.8%</b>	<b>2.6%</b>	<b>2.7%</b>

### ECONOMIC OUTLOOK

The Five-Year Forecast was developed using economic indicators and industry expert forecasts.

The US economy is showing signs of slowing down and some economist have warned that the US economy may be entering into a recession. The National GDP has stagnated as it was roughly the same level in the 3rd quarter of this year as it was in the last quarter of 2021. However, despite the lack of overall GDP growth many economists agree that the U.S. economy is not currently in a recession as there have been 4 million payroll jobs added since the start of this year and the U.S. unemployment rate remains well below 4%. Furthermore, industrial production is at a record high, manufacturing orders are still rising, and overall inventories remain low.

Regardless of these positive indicators, however, the US economy continues to face struggles such as a sharp increase in prices with inflation currently at 7.1%. The Federal Reserve responded with interest rate hikes, which has had drastic effects on the asset markets and slowed the US real estate markets. There have been layoffs on the tech industry. Beacon Economics' forecasters assert that these are not drivers of a coming recession, but rather symptoms of the stimulus hangover the nation is currently suffering from. The UCLA Anderson School of Management forecast noted "the national economy has proved resilient as consumers continue to spend and businesses continue to invest."

Per the UCLA Anderson School of Management's December 2022 Economic Outlook, any economic recession in 2023 will be milder in California compared to the rest of the country. "There are economic forces that will lead the state to a more moderate outcome. These include construction, non-information technology and the defense buildup," the UCLA economists said.

## GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

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The forecasters predict that the US economy will either continue to grow but at slower rate, or experience a mild short-live recession. If the economy does not go into a recession in 2023 they expect economic growth to slow in the first quarter of 2023 and then pick up in the last half of 2023. However, the UCLA economists expect California to be speared the worst of any potential recession do to job growth within the state. According to their December 2022 economic forecast, “With growth in greentech, medtech, aerospace tech and construction employment fueled by the infrastructure and defense budgets and a healthy rainy-day fund in Sacramento, the 2023 forecast for California is for ... faster growth — or, in the case of recession, a milder downturn than for the U.S.”

It is important to note that these forecasts are for the overall economy and may not mirror the forecast for Oceanside. Oceanside continues to grow with strong home sales and construction of new commercial properties and hotels which will result in consistent incremental increases in property tax and transient occupancy tax over the next several years.

The City's pension cost is projected to increase \$5.6 million in the general fund over the next five years. The City continues to pay down the unfunded liability with one-time funds and a third of quarterly investment interest earnings.

### KEY POINTS

- The financial forecast does not address any future adverse budget impacts from State or Federal actions beyond the CalPERS July 2022 Actuarial Report.
- For year 1, as a percent of compensation, Safety personnel CalPERS costs as a percentage of salary is 46.58% and Miscellaneous personnel CalPERS costs as a percentage of salary is 32.90%.
- Assumptions used to forecast revenue and expenditures are noted in a separate section of the report.
- The financial forecast will be updated on an annual basis to accommodate adjustments in economic trends and operational costs.

### MEASURE X

Over the past decade, revenues have not kept pace with growing costs associated with providing municipal services and facilities. It is becoming increasingly challenging to maintain the quality of City services expected by residents, such as crime and gang prevention, 911 response, pothole repair, and street maintenance. The City has been proactive in responding to this challenge by reducing its costs where feasible, including laying off more than 100 employees, deferring street and infrastructure maintenance, and cutting back on basic City Services in order to maintain service levels, however additional revenue sources were needed.

On June 6, 2018, Council approved the placement of temporary one-half cent general transactions and use (sales) tax measure on the November 6, 2018 municipal election ballot.

## GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

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In November 2018, the citizens approved Measure X by 55.7%. Measure X raised the sales tax in the City of Oceanside by a half cent for a period of seven years beginning April 1, 2019. The annual revenues were estimated to be \$11.2M but have performed stronger than originally forecasted; revenue for FY 2023-24 is forecasted at \$18.3M. The additional half cent sales tax is to be used for improving City services as noted above and not ongoing employee or operating costs. The Measure X revenues and expenditures are placed in a separate fund and is not included in the Five-Year Forecast.

In order to provide for citizens' oversight, transparency and accountability in connection with expenditures of tax revenues generated by Measure X a Citizens Oversight Committee ("COC") was created. The COC is responsible for review and comment on the Finance Report, Spending Plan and Annual Audit; review of annual report regarding compliance with the Spending Plan; and work with City staff to identify and apply "best practices" for tracking and reporting.

The COC recommended and the City Council approved a Measure X Spending Plan for Year 1 on June 5, 2019. The Spending Plan for Year 2 was approved on June 3, 2020 to continue the programs and projects initiated in Year 1 with additional funding programmed for crime prevention and equipment needs. The Spending Plan of \$16.93M for Year 3 was approved on June 2, 2021. The Spending Plan for Year 3 continues the programs and infrastructure projects initiated in Year 1 and 2. The Spending Plan for Year 4 was approved on June 8, 2022 and updated at a special meeting on September 26, 2022. The Spending Plan for Year 4 continues the previously approved programs and infrastructure projects and includes new programs such as \$300,000 a year for traffic calming measures, \$1.7 million for implementation of a new community services officer model of staffing in the Police Department, downtown security officers, and youth programming.

### DEMOGRAPHIC TRENDS

**Population** - Oceanside's 2022 population per the California Department of Finance is 173,048.

**Inflation** — The City monitors the Consumer Price Index for All Urban Consumers (CPI-U) for San Diego, CA, as reported by the US Department of Labor. It is a measure of change in prices paid by consumers for goods and services and reflects spending patterns. The most recent data released in December 2022 shows the CPI at 7.1 percent at the end of November 2022 down from 7.7 percent the previous month. Although the CPI has increased compared to 6.8 percent in November 2021, it has been declining since June 2022 at 9.1 percent. The major increases were energy prices increasing by 13.1 percent and food prices at 10.6 percent.

**Consumer Confidence Index** — This index is a barometer of the health of the US economy from the perspective of the consumer. The index is based on consumers' perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment and income. The Consumer Confidence index as

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of November 2022 is at 100.2 which is a decrease from 102.2 from the previous month, and up from 95.7 index in July 2022.

**Unemployment Rate** - As of October 2022, Oceanside's unemployment rate was 3.4 percent, slightly higher than the San Diego North County unemployment rate of 3.2 percent. The State of California unemployment rate was 4 percent as of October 2022.

### REVENUES

**Property Tax** – Oceanside continues to experience commercial and residential construction growth and increases in property values.

The City of Oceanside contracts with HdL Companies for property tax management services. HdL Companies reports the median sale price of a single-family home in Oceanside at \$830,000 in 2022, a 16.08 percent increase from 2021.

HdL Companies preliminary guide of the City's property tax revenues for FY 2022-23 shows the City experienced a net taxable value increase of 7.7 percent, which is slightly lower than the countywide at 8.3 percent increase. The City's assessed value increase between FY 2021-22 and FY 2022-23 was \$2.1 billion.

Due to the economic uncertainty in the housing market resulting from increasing interest rates, in years 3 to 5 we conservatively projected an increase of about 3%. Projections based on historical data and projected tax base growth are as follows: Year 1, 6.6 percent; Year 2, 4.6 percent; Years 3-5, 2.9 percent.

**Sales & Use Tax** –The City of Oceanside contracts with HdL Companies for sales tax management services. Oceanside's FY 2021-22 sales increased 12.4 percent above the prior year. Looking ahead statewide, sustained sales tax growth is still anticipated through the end of the 2022 calendar year. Higher priced goods through periods of consistent demand have led to economic inflation. The Federal Reserve Board's recent actions to curb inflation are anticipated to put downward pressure on sales of autos, building materials and financed general consumer goods, resulting in slower growth by year end and into 2023, which has been factored into our projections.

Projections based on historical data, retail and restaurant continued growth are as follows: Year 1, 6.6 percent; Years 2, 4.4 percent: Year 3, 3.1 percent: Year 4, 3.3 percent: Year 5, 3.2 percent.

**Transient Occupancy Tax (TOT)** – City's transient occupancy tax revenues (not including the beachfront hotels) are projected to increase 41.9 percent in Year 1 over the FY 2022-23 adopted budget which was a conservative projection due to the COVID-19 economic disruption. The revenue projection for Year 1 is based on the actual revenue received in the

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prior year of \$12.7M not including the beachfront hotels. The growth is primarily due to an increase in short term rentals. Year 2 is projected to increase 2.2 percent as a 6 room bed and breakfast is expected to open January 2025. Additionally, although the Beachfront Resort opened late in FY 2020-21, per their agreement, the Resort will start paying the City TOT in FY 2024-25 and this revenue is included in Year 2. Year 3 is projected to increase 4.3 percent as Home 2 Suites hotel is expected to open in January 2026 with 136 rooms. Year 4 is projected to increase 9.2 percent due to Airport Hotel expected to open with 86 rooms and Marriott Residence Inn opening with 117 rooms in January 2027. Year 5 is projected to increase by 8.3 percent based on full year of new hotel openings from prior year along with a 64 room hotel expected to open at 712 and 716 Seagaze Dr.

There are additional hotels in the planning stage that were not considered in the forecast as the completion dates have been postponed and are unknown.

**Beachfront Hotels (TOT)** - City's transient occupancy tax revenues for the Seabird and Mission Pacific hotels are projected to decrease 2.6 percent in Year 1 compared to the FY 2022-23 adopted budget based on actual revenues received in the prior year of \$2.15M. Year 2 through 5 is expected to increase 3 percent.

**All Other Taxes:** This category includes business license and card room revenues. Year 1 is expected to increase 6.2 percent. Business license tax, the largest contributor to this category, is projected to increase 2 percent in Years 2-5 due to moderate economic growth and ongoing new commercial buildings. Card Room fees are projected to increase 2 percent Years 2-5. Measure M Cannabis business tax is projected to increase 1 percent Years 2-5.

**Franchise Fees:** Includes fees from SDG&E, Cox, and AT&T. Overall revenues are projected to decline due to decreasing numbers of cable subscribers and an increase in internet-based options. Year 1 is projected to increase 1.9 percent based on actual revenues received in the prior year, then decreasing an average of .8 percent in Years 2 through 5.

**Licenses & Permits:** A majority of these permits are development and parking related, with the largest portion for building permits and annual parking permits. The forecast projects a 3.9 percent increase in Year 1 due to building trending upward. Years 2 through 5 is projected to remain relatively flat.

**Fines & Forfeitures:** The majority of these revenues collected by the City are for parking citations and traffic fines. The forecast projects a 2.3 percent increase in Year 1. Years 2 through 5 is projected to remain relatively flat.

**Use of Money and Property:** The revenues collected in this category are from investment returns, leases and rentals. Year 1 is projected to remain the same as prior year. Subsequent Years 2-5 have a modest increase of 1.5 due to the unpredictability of investment returns.

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**Intergovernmental:** The revenue in this category relies on State and Local programs which can be difficult to project. Year 1 is projected to have an increase of 10.6 percent. Years 2 through 5 remains flat.

**Ambulance Billing:** Rates are adjusted annually each July. Revenues are expected to increase 27.1 percent in Year 1 due to expanded EMT services. Year 2 is projected to increase by 1.3 percent; Year 3 by 12.6 percent due to increase in AB1705 reimbursement rate; Year 4 is projected to decrease 1.9 percent due to Measure X EMT services possibly ending; Year 5 is projected to increase 1.3 percent.

**Charges for Services:** This category of revenue includes development-related revenues, fire inspections, parking machine collection and general administration charges. The forecast assumes revenues will increase 4.7 percent in Year 1 based on prior year actuals and a conservative increase of 1.2 percent in Years 2 through 5 due to the unpredictability of development.

**Transfers In & Other Revenue:** Transfers are projected to increase 4.0 percent in Year 1. Years 2, 2.0 percent: Year 3, 1.6 percent: Year 4, 1.8 percent: Year 5, 1.3 percent.

### EXPENDITURES

**Personnel:** Year 1 total costs are projected to increase 7.8 percent. Costs for years 2-5 is expected to increase an average of 4.7 percent. An estimate was used for the three bargaining groups that will finish negotiations and will go into effect in FY 2023-24. The estimate was based on recently completed bargaining group's negotiations. All bargaining group's costs approved by Council prior to December 2022 have been included in the forecast.

Other assumptions:

1. Applicable step increases were included for each year of the forecast.
2. Includes a vacancy factor of 2 percent Years 1-5.
3. PERS normal cost pickup by employees included.
4. Estimated health cap increases for inflation.
5. Does not include additional compensation studies.
6. Includes minimum wage increases for appropriate hourly extra help employees.

The primary issue that the City must contend with is the continued CalPERS rate increases which are based on actuarial assumptions and investment returns.

CalPERS recalculates the costs on an annual basis so the City cannot rule out further increases. The rates are impacted annually by investment returns, retiree longevity, payroll growth and any actuarial assumption changes by CalPERS.

## GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

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Over the next five years, the total General Fund CalPERS increase is estimated at \$6.91M. The yearly increases are as follows: \$1.31M Year 1, \$1.45 Year 2, \$1.53M Year 3, \$1.28M Year 4 and \$1.34M Year 5.

CalPERS annual required contribution increases have been a concern for some time. Consequently, since FY 2015-16, monies have been "set aside" specifically for this reason. To date, the General Fund has accumulated \$5.1M to provide reserves to help offset costs should there be an unexpected increase in rates or a reduction in General Fund revenues.

In addition, during FY 2017-18, an IRS Section 115 Trust was created to earmark funds to be used only for CalPERS expenses. To date, the City has \$14.9M in this trust. No funds have been withdrawn from the trust.

**Maintenance & Operations** – expenditures in this category include such items as professional and contractual service, equipment maintenance and rental, memberships and subscriptions, training, utilities and a variety of other operating costs for departments funded by the General Fund. The FY 2023-24 budget is based on the prior year with a CPI increase of 3.5 percent for Years 1-2, and 2 percent from Years 2-5. Departments will have to justify any new expenditure requests.

**Rebate Beachfront Hotels** – Under the terms of the TOT sharing agreement with the developer of OBR, the developer will receive 100 percent of the TOT revenue for the first three years after the hotel opens. Thereafter, the City and the Developer share in TOT at varying levels for a total period of 15 years on the Seabird Hotel and 14 years on the Mission Pacific Hotel or until total payments of \$11,335,250 are made to the Developer.

Because the hotels are realizing higher than forecasted revenues, payments will likely reach the \$11,335,250 sooner than previously expected. To date, the beachfront hotels have generated a total of \$3.3M in TOT.

**Pension Bond** – the 2015 Refunding Taxable Pension Obligation Bonds (2005 Taxable Pension Obligation Bonds) debt payments ending August 2025, are reflected in the Personnel category.

**Internal Service Charges/Transfers** – the City has five internal service funds that provide services to the City as a whole. Included in each department operating budget is an amount to pay for these services. The services are risk management, fleet management, information services, general services and city building services. Collectively they are known as "internal service charges." Transfers to these internal service funds are allocated based on usage formulas as defined in various Administrative Directives, and encompass costs for the materials, equipment and the overhead of providing these services.

Risk management costs continue to increase. According to our broker PRISM the liability, property and cyber insurance markets have hardened in response to increased claims costs.

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FY 2023-24 assumes a 25 to 40 percent rate increase for excess insurance layers. Estimates also assume a 5 percent exposure increase.

Fleet rate increases are an ongoing concern as fuel costs create challenges for planning and budgeting for this variable. Vehicle acquisition costs have increased due to supply interruptions and a global microchip shortage has caused a lack of availability for specific vehicles and equipment. For FY 2023-24 a CPI increase of 8.4 percent was included.

Additionally, in FY2019-20 the 2019 Lease Revenue Bonds were issued to fund the El Corazon Aquatics Center. The maturity date for these bonds is November 2049. Because of the nature of Lease Revenue Bonds, the debt service payments are collected through Civic Center building rent internal services charges across departments using the Civic Center.

### FUND BALANCE

As of June 30, 2022, the total General Fund balance was \$103.2M. In accordance with the Healthy City Reserve Fund Policy #200-08, a minimum of 12 percent of the General Fund operating expenditure budget (currently at \$23.8M) is identified as a committed fund balance. The General Fund Unassigned Fund Balance available for future capital projects or other City projects/services had \$17.3M as of June 30, 2022.