

**City of Oceanside**  
***Office of the City Manager***

## **Memorandum**

To: Mayor and Councilmembers

From: Jonathan Borrego, City Manager *for*  
Jill Moya, Financial Services Director *JM*

Date: February 2, 2026

Subject: **General Fund Reserves Accounts**

The purpose of this memorandum is to provide an overview of the City's General Fund reserves, explain how these reserves are structured and used, and outline the policy framework that guides their management. This information is intended to support City Council consideration of budget priorities, one-time funding requests, and proposed updates to Council Policy 200-13.

### **General Fund Reserves – Policy Framework:**

Sound financial planning requires maintaining adequate reserves to manage risk, respond to unforeseen events, and plan for long-term obligations. Council Policy 200-13, Financial Policies, first adopted in 2011, establishes the City's framework for maintaining and using General Fund reserves.

Under this policy, the City maintains several reserve categories, some with defined targets and others designed to provide flexibility based on future needs. Key reserves with established policy targets include:

- Healthy City Reserve: Maintained at 12 percent of General Fund operating expenditures
- Economic Stabilization Reserve: Maintained at 3 percent of General Fund operating expenditures

- Post-Employment Leave Reserve: Maintained at 8 percent of the prior year's compensated absences balance, as reported in the Annual Comprehensive Financial Report

Other reserves, such as Infrastructure, Pension, and Employee Cost Reserves, do not have fixed targets and are managed as planning tools to address known or anticipated future obligations.

### **Reserve Balances:**

The table below summarizes the City's General Fund reserve balances for fiscal years 2022/23 through 2025/26. These reserves represent resources set aside by the City Council to manage financial risk, address one-time needs, and plan for future obligations. Together, they provide financial stability, flexibility during economic uncertainty, and the capacity to respond to both planned and unforeseen costs without disrupting ongoing City services.

	<b>FY 25/26</b>	<b>FY 24/25</b>	<b>FY 23/24</b>	<b>FY 22/23</b>
<b>Healthy City/Econ. Stab.</b>	\$38,223,343	\$38,223,343	\$36,321,227	\$33,894,000
<b>Infrastructure Reserves</b>	60,216,756	61,774,625	44,492,346	35,684,520
<b>Pension Reserves</b>	24,128,631	23,388,554	22,116,383	21,197,658
<b>Employee Cost Reserves</b>	1,728,923	1,728,923	1,641,781	2,841,207
<b>Unassigned</b>	5,274,219	6,435,266	3,374,755	6,937,036
<b>Grand Total</b>	<b>\$129,571,871</b>	<b>\$131,550,711</b>	<b>\$107,946,491</b>	<b>\$100,554,420</b>

### **Description and Use of Reserve Categories:**

#### **Healthy City and Economic Stabilization Reserves**

The Healthy City Reserve (12 percent) and Economic Stabilization Reserve (3 percent) have been fully funded in each of the last four fiscal years. Together, these reserves provide the City with the capacity to maintain essential services during economic downturns, revenue volatility, or temporary budget disruptions.

While best practice does not prescribe a single optimal reserve level, local government practice commonly places combined stabilization reserves in the 13–15 percent range of General Fund operating expenditures. Oceanside's current reserve structure aligns with this guidance and reflects a conservative approach to fiscal management.

#### **Infrastructure Reserves**

Infrastructure reserves do not have a defined policy target and are used as a planning tool to address future capital and infrastructure needs. These balances include funding

set aside for projects such as the San Luis Rey River infrastructure, Pier maintenance, and other citywide infrastructure priorities. The reserve balance has increased over the last three years as the City has intentionally planned for significant upcoming capital obligations, as outlined in the section below.

### **Pension Reserves**

Pension reserves are not explicitly defined in Council Policy 200-13 but are maintained to manage pension cost volatility. Pension valuations are sensitive to changes in assumptions such as the discount rate and investment returns, which can cause significant year-to-year fluctuations in required contributions. Current pension reserves include approximately \$5 million set aside for pension volatility and \$19 million held in an IRS Section 115 Pension Stabilization Trust. These reserves provide an important buffer against unexpected increases in CalPERS contribution requirements.

### **Employee Cost Reserves**

Employee cost reserves primarily consist of the Post-Employment Leave Reserve, which is maintained in accordance with policy at 8 percent of the prior year's compensated absences balance. These reserves are used to fund payouts of accrued leave, such as vacation and a portion of sick leave, when employees retire or separate from service. Because the timing of employee departures is unpredictable, these costs are not fully budgeted at the departmental level and are appropriately managed through reserves.

### **Unassigned Fund Balance**

The unassigned fund balance provides flexibility to address unforeseen needs not otherwise covered by specific reserves. Consistent with Council policy, unassigned fund balance is used only for one-time, non-recurring purposes. Any ongoing costs resulting from the use of reserves must be supported by ongoing revenues in future years.

### **Long Term Unfunded Liabilities:**

The City faces significant long-term unfunded liabilities and major capital obligations that must be considered when determining appropriate General Fund reserve levels. Awareness of these upcoming costs is essential to ensuring reserves are sized and preserved to address known future obligations, manage risk, and maintain long-term financial stability.

Key obligations include:

- **CalPERS Unfunded Liability:** As of June 2025, the pension system is approximately 78 percent funded, with an unfunded liability of \$274 million. The FY 2026/27 required contribution is estimated at \$37 million, with potential for future increases if investment returns fall below the assumed 6.9 percent discount rate.
- **San Luis Rey River Flood Risk Management Project:** Total project cost is \$230.6 million, with the City responsible for \$57.6 million. Currently, \$25.9 million is set

aside, leaving a funding gap of \$31.7 million, which may increase following a 2026 design review by the U.S. Army Corps of Engineers.

Additionally, periodic sediment removal is required every 10–15 years. The next project, scheduled for Fall 2026, is estimated at \$34.7 million, with the City's share at \$8.7 million, currently unfunded.

- Police Headquarters Relocation: Estimated cost ranges from \$86 million to \$105 million, with no dedicated funding source identified.
- Pier View Bridge Project: Total cost of \$67.3 million, with \$11.8 million currently funded, leaving an unfunded gap of \$55.6 million.
- Fire Station 8: Estimated cost of \$30.5 million, currently unfunded.
- Beach Restoration Projects: Major upcoming obligations include the RE:BEACH Oceanside project (estimated at \$55 million) and the Regional Beach Sand Project III, with Oceanside's share estimated at \$26 million, plus additional design and permitting costs.

These obligations underscore the importance of maintaining reserves and exercising caution when allocating one-time funding.

#### **Proposed Changes to Council Policy 200-13:**

Staff is proposing an update to Council Policy 200-13 to clarify the allocation of excess General Fund revenues at fiscal year-end. The proposed change prioritizes restoring required reserves and replenishing fund balances used for one-time purposes before allocating remaining surpluses to unassigned fund balance or long-term liability reduction.

This refinement reinforces the City's conservative financial practices, supports long-term fiscal stability, and preserves flexibility to respond to future risks. While the City remains committed to reducing its CalPERS unfunded liability, staff believes it is appropriate to balance continued liability reduction with reserve restoration, particularly given the City's existing pension-related reserves and proactive funding strategies.

#### Attachments:

1. Proposed Changes to Council Policy 200-13

cc: Department Directors

<b>SUBJECT:</b>	<b>POLICY NUMBER</b>	<b>200-13</b>
<b>Financial Policies</b>	<b>ADOPTED</b>	<b>11-8-11</b>
	<b>REVISED</b>	<b>6-6-12</b>

It is the policy of the City Council of the City of Oceanside to establish a comprehensive set of financial policies for the City that will serve as a guideline for operational and strategic decision-making related to financial matters. The goal is to maintain the City's financial stability in order to sustain and enhance a sound fiscal condition.

### **Operating Budget Policies**

Preparation of the City's operating budget (which includes the General Fund, Special Funds, Capital Project Funds, Debt Service Funds, Enterprise Funds, and Internal Service Funds) is guided by the following policies:

- OB-1** All budgetary procedures will conform to state regulations and generally accepted accounting principles (GAAP).
- OB-2** The City Council shall adopt an annual operating budget by resolution at a fund level prior to June 30. The Council may amend or supplement the budget at any time after its adoption by majority vote of the Council. The City Manager has the authority to transfer monies appropriated within the same fund for the same department provided the total amount within a fund has not changed. Individual budget transfers in excess of ~~\$5025,000~~ will be presented to the City Council on a quarterly basis for notification purposes. The City Manager has the authority to appropriate up to ~~\$210,000~~ for each one-time funding source received from private foundations, community donations or other unanticipated miscellaneous revenue provided the revenue is received in advance.
- OB-3** It is the intent of this policy that the budget be structurally balanced (a) at the time of adoption, (b) throughout the budget year, and (c) at year-end. A structurally balanced budget requires that operating revenues must fully cover operating expenditures, including debt service. Beginning fund balance (i.e., "reserves") can only be used to fund capital assets or projects, or other "one-time" non-recurring expenditures. Total estimated resources (beginning fund balance plus revenues) equal the total appropriation (expenditures plus ending fund balance). Specific Special Funds such as Landscape Maintenance Assessment Districts (LMADs) and the Lighting District are exempt from this requirement due to the nature of their funding source.

**OB-4** The City will take corrective actions on a quarterly basis during the fiscal year if expenditure and revenue estimates are such that an operating deficit is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of reserves.

**OB-5** In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of fund balance (i.e., reserves) to balance the budget is permitted. In the event that a budget shortfall is projected to continue beyond one year, the planned use of fund balance must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases and/or expenditure decreases.

**OB-6** ~~If, during the annual budget process, it is determined that there will be ongoing projected revenues for the General Fund which will exceed proposed budgeted expenditures, the excess revenues will be budgeted as follows:~~

~~50 percent to enhance the unassigned fund balance~~

~~50 percent to reduce long-term unfunded liabilities~~

**OB-7** The annual budget review process should include an assessment to determine if funds are available to operate and maintain proposed capital facilities and other public improvements. If funding is not available for operations and maintenance costs, the City will delay construction of new projects. Funding for new programs and services in operating funds should be limited to the extent that they can be reasonably funded over the near-to-long-term given the current revenue stream (see Council Policy 200-01, Budget Implications of Proposed Programs). Positions funded via grants will terminate when the grant expires (a/k/a "provisional" positions).

**OB-8** The City will use "prudent revenue and expenditure assumptions" in the development of the operating budget. Revenue estimates will be prepared on a conservative basis to minimize the economic fluctuations that could imperil ongoing service programs during the upcoming budget cycle. Revenue increases greater than inflation (i.e., CPI-U semi-annual index for San Diego, CA) will require additional documentation. Debt financing will not be used for operating expenses.

**OB-9** Recognizing that personnel-related expenditures represent the largest portion of the City's operating budget, methods to increase effectiveness and efficiencies of the delivery of City services through technology improvements should receive priority funding if it can forestall the addition of permanent staff. Regular employee positions will be budgeted only in the City's operating funds.

## **Capital Budget Policies**

Preparation of the City's capital budget is guided by the following policies:

**CA-1** All budgetary procedures will conform to state regulations and generally accepted accounting principles (GAAP).

**CA-2** The City Council shall adopt an annual five-year capital improvement plan and budget. The budget is adopted by resolution at a fund and project level prior to June 30. Funding approval is limited to the first year of the five-year CIP program; the remaining four years are shown for budget planning purposes only. The Council may amend or supplement the budget at any time after its adoption by majority vote of the Council. The City Manager has the authority to transfer monies appropriated within the same fund for the same project provided the total amount for the project has not changed. Individual budget transfers in excess of \$5025,000 will be presented to the City Council on a quarterly basis for notification purposes.

## **Fund Balance Policies**

Reporting of Fund Balance (defined as the excess of assets over liabilities) is guided by the following policies:

**FB-1** Effective June 30, 2010, the City is complying with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 defines five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts can be spent:

- a. Nonspendable fund balance (not in spendable form such as inventories, prepaids, long-term receivables or non-financial assets held for resale).
- b. Restricted fund balance (externally enforceable limitations on use such as debt covenants, grantors, contributors, or laws and regulations of other governments).
- c. Committed fund balance (constrained to specific purposes by a formal action of the City Council such as an ordinance, resolution or Council Policy).
- d. Assigned fund balance (limited to the Council's intent to be used for a specific purpose, but not restricted or committed such as economic stabilization or continuing appropriations).
- e. Unassigned fund balance (residual net resources, either positive or negative, in excess of the other four fund balance components).

Unassigned amounts are available for any purposes with City Council approval.

- FB-2** The City will maintain a Healthy City Reserve Fund (see Council Policy 200-08, Fiscal Adversity and Healthy City Reserves) of at least 12 percent ~~for of~~ the General Fund operating expenditures. If this amount falls below 12 percent, the City will set aside a minimum rate of 1 percent over the next three future years' General Fund budgets to meet the required reserve amount until the Healthy City Reserve Fund reaches the 12 percent minimum. The Healthy City Reserve Fund is classified as a committed fund balance.
- FB-3** Council may designate specific fund balance levels for future development of capital projects which it has determined to be in the best long-term interests of the City (see Council Policy 200-06, Capital Projects Advance Fund). The Infrastructure Reserve Fund is classified as an assigned fund balance.
- FB-4** An Economic Stabilization Reserve Fund of at least 3 percent of the General Fund operating expenditures is set aside for the purpose of stabilizing the delivery of City services during periods of operational budget deficits including any impact the State's budget may have on the City including the deferral of state remittances. This balance will be reviewed annually during each budget cycle. The Economic Stabilization Reserve Fund is classified as an assigned fund balance.
- FB-5** When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to first apply committed fund balance, then assigned fund balances, and finally unassigned fund balance.
- FB-6** This policy delegates to the Financial Services Director the authority to assign unrestricted fund balance amounts where the City's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.
- FB-7** Should a portion of any unrestricted fund balance (i.e., committed, assigned and unassigned combined) of the General Fund ever exceed an excess of 30 percent of annual revenues resulting from the previous fiscal year's operations, the City Council will consider such one-time fund balance surpluses to be used to retire existing debt and/or fund future liabilities.

**FB-8** A Post Employment Leave Reserve Fund will be established in the General Fund to fund post-employment leave liabilities (i.e., payment of certain earned leave balances to employees who have separated or retired from service). The amount will be based on 8 percent of the prior year's compensated absences balance for governmental activities as identified in the ~~Comprehensive~~ Annual Comprehensive Financial Report. Proprietary Funds (i.e., water, sewer, waste disposal, aviation and harbor) already conform to GASB requirements to fund their post-employment leave liabilities, hence will be exempt from this Reserve Fund. This balance will be reviewed annually during each budget cycle. The Post Employment Leave Reserve Fund is classified as an assigned fund balance.

**FB-9** Any excess General Fund revenue at the close of the fiscal year shall be allocated in the following priority order:

- a. Healthy City Reserve Fund - Restore the reserve to the required level of 12 percent of General Fund operating expenditures.
- b. Economic Stabilization Reserve Fund - Restore the reserve to the required level of 3 percent of General Fund operating expenditures.
- c. Post-Employment Leave Reserve Fund - Restore the reserve to 8 percent of the prior fiscal year's compensated absences balance for governmental activities, as reported in the City's Annual Comprehensive Financial Report.
- d. Other Fund Balances - Replenish any Fund Balances that were utilized in the prior fiscal year per City Manager's discretion.

After the above fund balance requirements have been fully met, any remaining General Fund surplus shall be allocated as follows:

- a. 50 percent to enhance the unassigned fund balance.
- b. 50 percent to reduce long-term unfunded liabilities.

## **Revenue Policies**

A revenue system to assure reliable and sufficient revenue stream to support desired City services will be guided by the following policies:

**RE-1** Timely collection and reporting of revenues is essential to provide the resources needed to fund current year appropriations (see Council Policy 200-10, Revenue Control and Management Policy).

**RE-2** Strive to maintain a diversified and stable revenue system to shelter the City from short-term fluctuations or legislative shifts in any one revenue source.

**RE-3** Systematically review user fees and rates and consider adjustments as necessary to take into account the effects of additional service costs and inflation (see Council Policy 600-05, Cost-Recovery Plan for Recreation Activities). User fees should recover the full cost of services provided, except when the City Council determines that a subsidy from the General Fund is in the public interest. Enterprise and Internal Service fees will be on a 100 percent cost-recovery basis with no General Fund subsidy. The City will maintain a comprehensive schedule of all fees and charges.

**RE-4** All non-restricted revenues will be deposited into the General Fund and appropriated by the budget process. Program revenues will be deposited in the corresponding business unit to offset program expenditures. Specific revenue sources will not be dedicated for specific purposes unless required by law or generally accepted accounting principles (GAAP). This will preserve the ability of the Council to determine the best use of available revenues to meet changing service requirements.

**RE-5** One-time revenues will be used only for one-time expenditures, debt reduction or reserve enhancement since they cannot be relied on in future budget periods. Examples of one-time revenues are: sale of government assets, bond refunding savings, litigation settlement, other unexpected revenues; examples of one-time expenditures are: startup costs of new program, rate stabilization fund, early debt retirement, capital purchases. If revenues from one time or limited duration sources are used to balance the City's annual operating budget, it is to be fully disclosed and explained at the time the budget is presented.

## **Expenditure Policies**

Expenditures of available resources are guided by the following policies:

**EX-1** Expenditures may not legally exceed appropriations at the department and fund level. Primary responsibility and authority for the expenditure of monies according to the adopted budget will be vested by the City Manager in the department heads. The Financial Services Department has secondary responsibility to review and audit all expenditures to confirm the mathematical accuracy along with verification that all expenditures are for a City of Oceanside public purpose and are supported by complete and accurate documentation.

**EX-2** The City's goal is to maintain annual expenditure increases at a conservative growth rate, and to limit expenditures to anticipated revenues (refer to OB-8).

**EX-3** Long-term debt or bond financing shall not be used to finance operating expenditures.

- EX-4** The City shall avoid budgetary procedures which rely on financial strategies that defer payment of current operating expenses to future years.
- EX-5** All compensation planning and collective bargaining will focus on the total cost of compensation, which includes direct salary, health care benefits, pension contributions, and other benefits of a non-salary nature which are a cost to the City.
- EX-6** Capital expenditures may be funded from special revenues (i.e., developer impact fees, grants, bond financing, etc.), one-time operating revenues or fund balances.
- EX-7** Other Post-Employment Benefits (OPEB) are funded on a pay-as-you-go basis.