



STAFF REPORT

2/25/2025

AGENDA ITEM

**TO: HONORABLE MAYOR
AND MEMBERS OF THE CITY COUNCIL**

**FROM: CARLO TOMAINO
CITY MANAGER**

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ACCOUNTING MANAGER**

SUBJECT: RESOLUTION AUTHORIZING APPROPRIATIONS FROM THE FISCAL YEAR 2023-24 GENERAL FUND OPERATING POSITIVE FUND BALANCE; CURRENT YEAR APPROPRIATION ADJUSTMENTS AND CAPITAL IMPROVEMENT PLAN BUDGET AND RELATED FUNDING; TRANSFERS FOR CAPITAL IMPROVEMENT PLAN PROJECTS; AMENDING THE FISCAL YEAR 2024-2025 BUDGET

Summary:

Staff presented the Annual Comprehensive Financial Report (ACFR) findings for Fiscal Year 2023-24 at the December 10, 2024, City Council meeting. The ACFR highlighted a General Fund operating positive fund balance of approximately \$11 million, which is a combination of revenues which came in higher than projected and operational savings. Staff recommends a proportional share distribution of the positive fund balance towards projects, programs, and reserves, further reinforcing the City's commitment to prudent fiscal management. The City's General Fund reserve target is estimated to be at approximately 81% of the current year FY 2024-25 adopted budget expenditures after netting out all proposed appropriations. This report will provide an overview of the financial results and a detailed list of proposed positive fund balance appropriations towards reserve allocations and other critical program, operational, and project needs.

Strategic Plan Goal(s):

- Goal No. 1 Financial Stability: Ensure the City's long-term financial stability and resilience.
- Goal No. 2 Community Safety: Maintain Community Safety by supporting public safety services

and increasing emergency preparedness.

- Goal No. 3 Economic and Downtown Development: Improve the local economy, support local businesses, and create a vibrant downtown core.
- Goal No. 4 Infrastructure: Maintain and improve the City's physical infrastructure, water system, and recreational spaces.
- Goal No. 5 High-Functioning Government: Strengthen internal communication, recruitment, retention, systems, and processes to increase the effectiveness and efficiency of City services.

Recommendations:

1. Approve the proposed appropriations and reserve transfers from FY 2023-24 to FY 2024-25 operating budget and reserve balances, utilizing the current FY 2023-24 General Fund operating positive fund balance of \$11,092,416.
2. Adopt a resolution, entitled:

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SIGNAL HILL, CALIFORNIA, AUTHORIZING APPROPRIATIONS FROM THE FISCAL YEAR 2023-24 GENERAL FUND OPERATING POSITIVE FUND BALANCE, CURRENT YEAR APPROPRIATION ADJUSTMENTS, AND CAPITAL IMPROVEMENT PLAN BUDGET AND RELATED FUNDING TRANSFERS, AND AMENDING THE FISCAL YEAR 2024-25 BUDGET

Fiscal Impact:

FY 2023-24 closed with General Fund revenues exceeding expenditures, including net transfers, in the amount of \$11,092,416. The proposed list of positive fund balance requests includes reserve fund increases, carryovers and one-time operating and capital improvement expenditures. The recommended action would establish and/or increase several Capital Improvement Project budgets as detailed within the General Fund Analysis section of the staff report.

Background:

Since 2014, the City has operated on a two-year budget cycle to support long-term fiscal health and strategic planning. A positive year-end fund balance, such as the approximately \$11 million positive fund balance from FY 2023-24, occurs when revenues exceed expenditures generally, as a result of higher-than-expected revenues, and/or lower than budgeted expenditures, or both. The City's financial practice directs the allocation of year-end positive fund balance in alignment with its strategic goals and objectives. The General Fund Analysis provides a detailed overview of the ACFR financial results and outlines staff recommendations to allocate the positive fund balance toward various critical needs.

General Fund Analysis

The General Fund is the City's primary operating fund, comprised of local tax revenues and fees for services to fund core municipal services such as public works, police, planning, and recreation. The General Fund ended FY 2023-24 with revenues exceeding expenditures, including transfers, by \$11,092,416.

As reported in the ACFR, the FY 2023-24 General Fund Operating and Non-Operating Revenues were \$41.9 million, or \$8.8 million, above the FY 2023-24 final budget of \$33.1 million and \$5.2 million over the prior year's FY 2022-23 actuals of \$36.7 million. As the year progressed, and during the budget preparation for Year 2, the City increased the current year's revenue projections to \$33.1 million. The increase over the FY 2023-24 Operating Budget was due to an overall increase in most revenue line items, with the largest increase in sales tax revenues of \$2.9 million and investment income of \$3.5 million. The sales tax increase reflects the collection of Measure SHR, the City's add-on sales tax. With rising interest rates, the investment portfolio and net investment income remained positive and provided overall interest income that was higher compared to the prior year.

The General Fund's Operating and Non-Operating Expenditures (net of subscription acquisition sources) were \$29.2 million, which is \$4.6 million below the FY 2022-23 Current Operating Budget of \$33.8 million and \$0.7 million above the prior year FY 2022-23 actuals of \$28.5 million. All departments ended the year with expenditures below budget, primarily due to vacancies, delayed projects, and lower use of planned contract services.

Net transfers-out were \$1.58 million, which is \$2.52 million lower than the FY 2023-24 Current Operating Budget. The net transfers are mainly made up of transfers-in to fund operating activities of approximately \$243,000, transfers-out to fund capital improvements of \$1.4 million, and the annual transfer-out to the Housing Authority for approximately \$376,000, representing 20% of the annual loan repayment between the City and the Successor Agency.

Staff has summarized the General Fund Operating Results in Table 1 and 2. The Beginning Fund Balance in the FY 2023-24 Operating Budget was \$64.6 million. Revenues and transfers-in less operating expenditures and transfers-out resulted in a year-end positive fund balance of \$11,092,420. After reflecting revenues, expenditures, and net transfers, the actual Ending Fund Balance, as of June 30, 2024, was \$75.7 million.

Table 1. General Fund Operating Results Compared to Budget

OPERATING RESULTS (millions)	2023-24 FINAL BUDGET	2023-24 FINAL RESULTS	DIFF BUD VS R
Beginning Fund Balance	\$ 64.58	\$ 64.58	\$ -
Revenues	\$ 33.10	\$ 41.89	\$ 8.79
Expenditures (net of subscription acquisition sources)	\$ 34.61	\$ 29.22	\$ 5.39
Excess Revenues over Expenditures	\$ (1.51)	\$ 12.67	\$ 14.18
Net Transfers In/(Out)-Other Financing Sources (Uses)	\$ (4.10)	\$ (1.58)	\$ 2.52
Net change in Fund Balance	\$ (5.61)	\$ 11.09	\$ 16.70
Ending Fund Balance at June 30, 2024	\$ 58.97	\$ 75.67	\$ 16.70

Table 2. General Fund Operating Results Compared to Projections

OPERATING RESULTS (millions)	2023-24 PROJECTIONS	2023-24 FINAL RESULTS	DIFF PROJ VS RES
Beginning Fund Balance	\$ 64.58	\$ 64.58	\$ -
Revenues	\$ 38.44	\$ 41.89	\$ 3.45
Expenditures (net of subscription acquisition sources)	\$ 30.85	\$ 29.22	\$ 1.63
Excess Revenues over Expenditures	\$ 7.59	\$ 12.67	\$ 5.08
Net Transfers In/(Out)-Other Financing Sources (Uses)	\$ (2.31)	\$ (1.58)	\$ 0.73
Net change in Fund Balance	\$ 5.28	\$ 11.09	\$ 5.81
Ending Fund Balance at June 30, 2024	\$ 69.86	\$ 75.67	\$ 5.81

General Fund Reserves

As reported in the ACFR, the General Fund Unassigned Reserve is \$31.6 million, and the Economic Uncertainties Reserve is \$5.4 million, for a total of \$37 million as of June 30, 2024. Based on the original FY 2023-24 General Fund budgeted expenditures of \$33 million which does not include net transfers, the General Fund Unassigned Reserve and Economic Uncertainties Reserve together represent a reserve level of 109%, which exceed the City’s target minimum reserve level.

The grand total of the General Fund Committed Reserves, and the Unassigned General Fund Balance was \$66.7 million on June 30, 2024. The Committed Reserves are classified fund balances that may only be used for the specific purposes determined by the City Council through the adoption of a resolution prior to the end of the fiscal year; staff has summarized Committed Reserves balances and changes in Table 3 on the following page.

Table 3. Changes to Committed Reserves

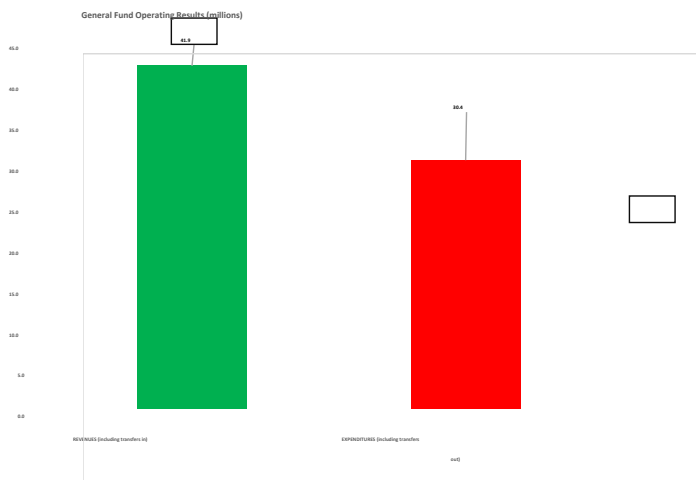
General Fund Balance Classifications (millions)	FY 2022-23	FY 2023-24	CHANGE
Debt Service	\$ 1.58	\$ 2.21	\$ 0.63
Economic uncertainties Reserve	5.17	5.41	0.24
Building and Land Acquisition	2.96	2.65	(0.31)
Equipment and Furniture Reserve	0.04	0.04	-
Capital Improvements	4.53	5.20	0.67
Insurance Premium Increases	0.83	0.83	-
Cal PERS Rate Increases	3.24	3.28	0.04
OPEB Future Costs	1.52	1.52	-
Park Expansion	0.74	0.74	-
Police Radio/System Reserve	1.31	1.43	0.12
Library Reserve	2.63	8.45	5.82
100th Anniversary	0.10	0.05	(0.05)
General Plan	0.34	0.34	-
Economic Development	1.21	1.21	-
Workforce Innovation	0.68	1.23	0.55
Facility Reserve	-	0.37	0.37
Art Reserve	-	0.15	0.15
NPDES Issues	0.001	0.001	-
General Fund Capital Outlay (incl. Police-General Reserve)	0.07	-	(0.07)
Total Committed	\$ 26.95	\$ 35.11	\$ 8.16
Unassigned Fund Balance *	27.17	31.64	4.47
Total Committed and Unassigned Fund Balance	\$ 54.12	\$ 66.75	\$ 12.63
Total Non-Spendable	10.46	8.92	(1.54)
Total Committed and Unassigned Fund Balance	\$ 64.58	\$ 75.67	\$ 11.09

* Reduced by capital outlay that is included in committed fund balance

Reserve Appropriations and Reallocations of FY 2023-24 Positive Fund Balance

For FY 2023-24, the General Fund closed with revenues exceeding expenditures in the amount of \$11,092,420 (including net transfers), as shown in Graph 1.

Graph 1. General Fund FY 2023-24 Operating Results



This positive fund balance, available for a one-time allocation, provides the City Council with an opportunity to direct funds towards projects, programs, or reserves, further reinforcing the City's commitment to prudent fiscal management. Staff proposes allocating approximately 57% of the positive fund balance to the City's reserve funds; the summary of proposed allocations is listed below for the City Council's consideration:

Civic Center Master Plan Reserve	\$ 5,000,000
Economic Development Reserve	375,000
Land and Building Reserve	305,000
Facility Reserve	211,245
Insurance Reserve	171,628
CalPERS Reserve	139,043
Equipment & Furniture Replacement	50,000
Art Reserve	<u>25,000</u>
TOTAL RESERVES	\$ 6,276,916
Loan to Water Fund	3,000,000
Carry-over Appropriation	170,000
New Appropriation – Capital Projects	1,170,000
New Appropriation – Operating	394,500
Transfer to Vehicle Replacement (Fleet) Fund	<u>81,000</u>
TOTAL ALLOCATION	\$11,092,416

Replenishment and augmentation of reserve funds (See Attachment B - Table 4)

- Civic Center Master Plan Reserve (\$5,000,000)
 - Increase the Civic Center Master Plan Reserve to augment the amount available for future development.
- Economic Development Reserve (\$375,000)
 - Total Reserve represents an increase in anticipation of Phase 2 of the Opportunities Study Area Project to begin in FY 25/26.
- Land and Building Reserve Fund (\$305,000)
 - Increase this reserve fund to plan for future purchases of land and buildings.
- Facility Maintenance Reserve Fund (\$211,245)
 - Increase this reserve fund to plan for on-going and future City-Wide facility maintenance of public facilities.
- Insurance Reserve Fund (\$171,628)
 - Increase this reserve fund to provide funding for future insurance needs.
- CalPERS Reserve Fund (\$139,043)
 - Increase this reserve fund to provide funding for future retirement funding.
- Equipment and Furniture Replacement Reserve Fund (\$50,000)
 - Increase this reserve fund to provide funding for future equipment and furniture funding.
- Art Reserve Fund (\$25,000)
 - Increase this reserve fund to provide funding for future public art installations.

Loan to Water Fund (See Attachment B - Table 5)

- Gundry Water Reservoir (\$3,000,000)
 - Bridge Loan to Water Fund in order to begin work on Gundry Reservoir Roof Replacement and Rehabilitation Project.

Carryover appropriations for items budgeted in FY 2023-24 (See Attachment B - Table 6)

- Community Development - Contract Services (\$170,000)
 - Unused amounts will be applied to contract services costs.

Capital Projects New appropriations for FY 2024-25 (See Attachment B - Table 7)

- Youth Center Roof Replacement (\$200,000)
 - Full replacement of Youth Center roof with warranty.
- City Hall Remodel (\$650,000)
 - Increase the City Hall remodel project budget adopted in the FY 2024-25 budget for renovations to accommodate long-term use of the facility.
- Police HVAC system upgrade (\$70,000)
 - Update outdated HVAC system control software in order to be more efficient.
- Library Windows Replacement (\$250,000)
 - Replace leaking windows in the Library.

Operating New appropriations for FY 2024-25 (See Attachment B - Table 8)

- Community Development (\$22,000)
 - Administrative Citation Processing System: \$15,000
 - Portable car radios: \$7,000
- Public Works (\$115,000)
 - Hilltop Park telescopes: \$30,000
 - City Yard furniture: 85,000
- Administration (\$147,000)
 - Video production services: \$15,000
 - DCC diversity breakfast: \$6,000
 - Citywide scanning project: \$50,000
 - Employee health and wellness programs: \$10,000
 - Economic development branding for ICSC: \$20,000
 - ICSC opportunity booth: \$12,000
 - DCC outreach supplies: \$2,000
 - Homeless prevention pilot program: \$32,000
- Parks, Recreation, and Library (\$110,500)
 - Facility chairs and storage racks: \$20,000
 - VOX reader multi: \$5,000
 - Leaders in Training program: \$8,000
 - Outdoor sign display: \$10,000

- Volunteer supplies: \$2,500
- Portable stage and storage cart: \$20,000
- Additional workstations in conference room: \$25,000
- Youth Center replacement items/games: \$3,000
- Portable room divider: \$5,000
- Nook system: \$12,000

Transfer to Vehicle Replacement Fund for FY 2024-25 (See Attachment B - Table 9)

- Property insurance for fleet vehicles (\$16,000)
- For future purchase of vehicles (\$65,000)

Next Steps

Staff recommendations utilizing a proportionate share distribution of the positive fund balance towards projects, programs, and reserves, further reinforcing the City's commitment to prudent fiscal management. To ensure the City's long term financial stability and resilience, the transfers to reserve funds represent the largest single share of allocations. The proposed appropriations continue prioritizing maintenance and improvement of the City's physical infrastructure for capital improvement projects as well as addressing City Hall deferred maintenance. The recommended allocation levels are consistent with the City's conservative financial principles and meet several key strategic plan goals. Staff will also present the mid-year FY 2024-25 financial results at this City Council meeting. Presentation of the mid-year budget will be followed by the Biennial budget reporting for FY 2024-26 which will include year-end projections for FY 2024-25.

Attachments:

- A. Positive Fund Balance Appropriations Resolution
- B. Reserve Transfers, Current Year Appropriations, and CIP Adjustments (Tables 4-9)