



STAFF REPORT

1/23/2024

AGENDA ITEM

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

**FROM: CARLO TOMAINO
CITY MANAGER**

**BY: SHARON DEL ROSARIO
ADMINISTRATIVE SERVICES OFFICER/FINANCE DIRECTOR**

SUBJECT: ADOPT A RESOLUTION AUTHORIZING APPROPRIATIONS FOR THE FISCAL YEAR 2022-23 GENERAL FUND OPERATING SURPLUS; CURRENT YEAR APPROPRIATION ADJUSTMENTS AND CAPITAL IMPROVEMENT PLAN BUDGET AND RELATED FUNDING; TRANSFERS FOR CAPITAL IMPROVEMENT PLAN PROJECTS, AND RELATED FUNDING TRANSFERS FOR PHASE 1 OF THE CIVIC CENTER MASTER PLAN BUDGET; AMENDING THE FISCAL YEAR 2023-2024 BUDGET; AND APPROVAL OF THE CIVIC CENTER MASTER PLAN PHASE I BUDGET

Summary:

Staff presented the Annual Comprehensive Financial Report (ACFR) findings for Fiscal Year 2022-23 at the December 12, 2023, City Council meeting. The ACFR highlighted a General Fund operating surplus of approximately \$8 million, which is a combination of revenues and operational savings. Staff recommends a proportional share distribution of the surplus 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 76% of the current year FY 23-24 adopted budget expenditures after netting out all proposed appropriations.

As discussed at the Special Council Meeting of December 5, 2023, there is a need to finalize the amphitheater construction phase of the Civic Center Master Plan. Staff recommends allocating a portion of the surplus fund balance in the amount of \$4.4 million, to the Civic Center Master Plan Reserve Fund. This recommendation will enable the City to begin pre-development activity associated with the proposed amphitheater project.

This report will provide an overview of the financial results and a detailed list of proposed surplus appropriations towards reserve allocations and other critical program, operational, and project needs.

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In conjunction with and related to the reserve allocations, staff is also seeking approval to utilize the surplus to fund Phase 1 of the Civic Center Master Plan Project.

Strategic Plan Goal(s):

Goal No. 1 Financial Stability: Ensure the City's long-term financial stability and resilience.

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 2022-23 to FY 2023-24 operating budget and reserve balances, utilizing the current FY 2022-23 General Fund operating surplus of \$7,996,701.
2. Approve the Civic Center Master Plan Phase I budget.
3. Adopt a resolution, entitled:

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SIGNAL HILL, CALIFORNIA, AUTHORIZING APPROPRIATIONS FROM THE FISCAL YEAR 2022-23 GENERAL FUND OPERATING SURPLUS, CURRENT YEAR APPROPRIATION ADJUSTMENTS, AND CAPITAL IMPROVEMENT PLAN BUDGET AND RELATED FUNDING TRANSFERS FOR PHASE 1 OF THE CIVIC CENTER MASTER PLAN PROJECT, AMENDING THE FISCAL YEAR 2023-24 BUDGET

Fiscal Impact:

FY 2022-23 closed with General Fund revenues exceeding expenditures, including net transfers, in the amount of \$7,996,701. Staff has proposed a list of surplus requests that include 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:

The City operates within a two-year budget format since 2014, reinforcing its commitment to long-term fiscal health and strategic planning. The year-end operating surplus occurs when there is an excess of revenues over expenditures in a particular year; generally a result of higher than budgeted revenues, and/or lower than budgeted expenditures. The City concluded Fiscal Year 2022-23 with a surplus of approximately \$8 million. The City's financial practice is to allocate year-end operating surplus in a manner that is in line with strategic goals and objectives. The following General Fund

Analysis provides a detailed overview of the ACFR financial results and summary of staff recommended allocation of surplus funds towards 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 2022-23 with revenues exceeding expenditures, including transfers, by \$7,996,701.

As reported in the ACFR, the FY 2022-23 General Fund Operating and Non-Operating Revenues were \$36.7 million, or \$7.0 million, above the FY 2022-23 final budget of \$29.7 million and \$4.2 million over the prior year's FY 2021-22 actuals of \$32.5 million. As the year progressed, and during the budget preparation for Year 2, the City increased the current year's revenue projections to reflect \$33.1 million. The increase over the FY 2021-22 Operating Budget was due to an overall increase in most revenue line items, with the largest increases in sales tax revenues of \$1.7 million and investment income of \$1.4 million. The sales tax increase reflects the second full-year collection of Measure SHR, the City's add-on sales tax. Even with rising interest rates, the investment portfolio and net investment income remained positive and provided overall interest income was higher compared to the prior year.

The General Fund's Operating and Non-Operating Expenditures (net of subscription acquisition sources) were \$28.5 million, which is \$5.2 million below the FY 2022-23 Current Operating Budget of \$33.7 million and \$3.6 million above the prior year FY 2021-22 actuals of \$24.9 million. All departments ended the year with expenditures below budget, primarily due to vacant positions across multiple departments, delayed projects, and lower use of planned contract services.

Net transfers-out were \$0.2 million, which is \$0.02 million lower than the FY 2022-23 Current Operating Budget. The net transfers are mainly made up of transfers-in to fund operating activities of \$615K, transfers-out to fund capital improvements of \$470K, and the annual transfer out to the Housing Authority for approximately \$348K, representing 20% of the annual loan repayment between the City and the Successor Agency.

The General Fund Operating Results are summarized in Table 1 and 2. The Beginning Fund Balance in the FY 2022-23 Operating Budget was \$56.6 million. Revenues and transfers-in less operating expenditures and transfers-out resulted in a year-end surplus of \$7,996,701. After reflecting revenues, expenditures, and net transfers, the actual Ending Fund Balance, as of June 30, 2023, was \$64.6 million.

Table 1. General Fund Operating Results compared to Budget

OPERATING RESULTS (millions)	2022-23 FINAL BUDGET	2022-23 FINAL RESULTS	DIFF BUD vs RES
Beginning Fund Balance	\$ 56.58	\$ 56.58	\$ -
Revenues	\$ 29.69	\$ 36.75	\$ 7.06
Expenditures (net of subscription acquisition sources)	\$ 33.79	\$ 28.55	\$ 5.24
Excess Revenues over Expenditures	\$ (4.10)	\$ 8.20	\$ 12.30
Net Transfers In/(Out)-Other Financing Sources (Uses)	\$ (0.22)	\$ (0.20)	\$ 0.02
Net Change in Fund Balance	\$ (4.32)	\$ 8.00	\$ 12.32
Ending Fund Balance at June 30, 2023	\$ 52.26	\$ 64.58	\$ 12.32

Table 2. General Fund Operating Results compared to Projections

OPERATING RESULTS (millions)	2022-23 PRO- JECTIONS	2022-23 FINAL RESULTS	DIFF PRO vs RES
Beginning Fund Balance	\$ 56.58	\$ 56.58	\$ -
Revenues	\$ 33.07	\$ 36.75	\$ 3.68
Expenditures (net of subscription acquisition sources)	\$ 29.74	\$ 28.55	\$ 1.19
Excess Revenues over Expenditures	\$ 3.33	\$ 8.20	\$ 4.87
Net Transfers In/(Out)-Other Financing Sources (Uses)	\$ (0.57)	\$ (0.20)	\$ 0.37
Net Change in Fund Balance	\$ 2.76	\$ 8.00	\$ 5.24
Ending Fund Balance at June 30, 2023	\$ 59.34	\$ 64.58	\$ 5.24

General Fund Reserves

As reported in the ACFR the General Fund Unassigned Reserve is \$27.1 million, and the Economic Uncertainties Reserve is \$5.2 million, for a total of \$32.3 million as of June 30, 2023. Based on the original FY 2022-23 General Fund budgeted expenditures, not including net transfers of \$32.3 million, the General Fund Unassigned Reserve and Economic Uncertainties Reserve together represent a reserve level of 100%, meeting and exceeding the City’s target of maintaining 50% in reserves.

The grand total of the General Fund Committed Reserves and the Unassigned General Fund Balance was \$54.1 million on June 30, 2023. 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. The FY 2022-23 ACFR split the fund balance presentation of the Successor Agency (SA) loan receivable balance to the non-spendable classification. The committed reserve portion now represents the cumulative surplus balance between the SA loan repayments, over the debt payments related to the 2018 Library Lease Revenue Bond issuance. The cumulative surplus balance is designated to redeem the callable Lease Revenue Bonds in 2028 prior to the original maturity date in 2033.

Committed Reserves balances and changes are summarized in Table 3.

Table 3. Changes to Committed Reserves

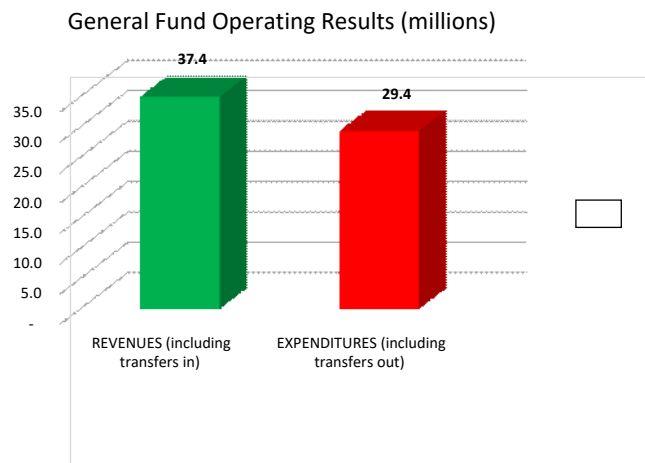
General Fund Balance Classifications	FY 2021-22	FY 2022- 23	Change
Debt Service*	\$8.24	\$1.58	-6.66
Economic Uncertainties Reserve	4.45	5.17	\$0.72
Library Reserve Fund	3.67	2.63	-1.04
PERS Reserve	3.24	3.24	0.00
OPEB future costs	1.52	1.52	0.00
Building and Land Acquisition	2.13	2.96	0.83
Capital Improvements Reserves	2.29	4.53	2.24
Economic Development	1.21	1.21	0.00
Equipment & Furniture Reserve	0.52	0.04	-0.48
Insurance Premium Increases	0.83	0.83	0.00
Police Radio/System Reserve	1.02	1.31	0.29
General Plan	0.34	0.34	0.00
100 th Anniversary	0.09	0.10	0.01
Park Expansion	0.74	0.74	0.00
Workforce Innovation	0.00	0.68	0.68
NPDES issues	0.001	0.001	0.000
General Fund Capital Outlay (incl Police-General Reserve)	0.06	0.06	0.00
Total Committed	\$30.35	\$26.95	(3.41)
Unassigned Fund balance**	23.10	27.17	4.07
Total Committed and Unassigned Fund Balance	\$53.45	\$54.12	\$0.66
Total Non-Spendable *	3.13	10.46	7.33
Total Committed, Unassigned & Non-spendable	\$56.58	\$64.58	\$7.99

* - FY 22-23 only includes surplus of Successor Agency (SA) repayments vs Library Lease bond payments committed, remaining receivable SA loan balance reclassified to non-spendable
 ** - reduced by capital outlay that is included in committed fund balance

Reserve Appropriations and Reallocations of FY 2022-23 Surplus

For FY 2022-23, the General Fund closed with revenues exceeding expenditures in the amount of \$7,996,701 (including net transfers), as shown in Graph 1.

Graph 1. General Fund FY 2022-23 Operating Results



This surplus, available for a one-time allocation, provides the City Council an opportunity to direct funds towards projects, programs, or reserves, further reinforcing the City's commitment to prudent

fiscal management.

Staff proposes to allocate approximately 91% of the operating surplus to the City’s reserve funds; the summary of proposed allocations is listed below for the City Council’s consideration:

Reserve Civic Center Master Plan Phase 1 – Amphitheater	\$4,400,000
Reserve Fund Allocations	\$2,883,489
Carryover Appropriations	\$ 201,753
New Appropriations - Operating	\$ 511,459
TOTAL	\$7,996,701

Use of Existing Reserve-New Appropriations	\$ 445,700
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Civic Center Master Plan - Phase 1 - Amphitheater Budget and Fund Sources Approval

- As discussed at the Special Council Meeting on December 5, 2023, the build out of the amphitheater along with grant funds will utilize a portion of the surplus (unassigned) fund balance (\$4,400,000) and Repurposed Civic Center Master Plan Reserve Fund (\$2,600,000) to finalize the construction phase of the project. Staff is recommending transferring funds to the Civic Center Master Plan Reserve Fund for this project.
- Staff is also seeking formal approval of the Phase 1 - Civic Center Master Plan budget and funding sources as follows:

Amphitheater Project Budget (based on projected estimates)	
Design, Environmental & Project Admin (15%)	\$1,333,200
Construction Cost	\$8,889,000
Construction Management (10%)	\$888,900
Contingency (10%)	\$888,900
Total	\$12,000,000

Civic Center Master Plan Budget Funding Sources:

Phase I - Civic Center Master Plan	Budget/Funding	Funding %
California Arts Council	5,000,000	62.5%
Unassigned Surplus fund balance - CIP Reserve	4,400,000	55.0%
Library/Civic Center Master Plan Reserve	2,600,000	32.5%
Total Budget	12,000,000	150%

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

- Economic Uncertainties Reserve (\$240,000)
 - Total Reserve represents approximately two months of budgeted expenditures (based on current budget).
- New Facility Reserve Fund (\$400,000)
 - A new reserve fund to plan for on-going and future City-Wide facility maintenance of public facilities.
- New Art Reserve Fund (\$150,000)
 - A new reserve fund to provide funding for future public art installations.
- Capital Improvement Reserve (\$450,000)
 - \$100,000 to fund additional City-Wide Median improvement projects as part of phase 1 project CIP Budget in FY 2023-24.
 - \$350,000 to fund future CIP for the City-Wide Alley Improvement project to be formally adopted in the next biennial budget cycle.

Civic Center Master Plan Reserve Fund (\$1,150,000)

- Repurpose the Library Reserve Fund to fully commit funds towards the Civic Center Master Plan to allow for a broader redevelopment focus on all facilities within the Civic Center campus location. Funding for maintenance activities for City-wide facilities will be reserved in the New Facility Reserve Fund. (Balance as of June 30, 2023, \$2,624,322).
- \$1,150,000 to increase the City Hall remodel project budget adopted in the FY 2023-24 budget for renovations to accommodate long-term use of the facility and utilize a portion of the additional FY 2023-24 adopted budgeted reserves in the amount of \$400,000 for a total project budget of \$2,400,000.
- Police Radio/System/Equipment Reserve (\$493,489)
 - \$333,489 - Year 2 annual maintenance for new Motorola Police radio system.
 - \$160,000 - Replacement of Police Taser.

Carryover appropriations for items budgeted in FY 2022-23 (See Attachment B - Table 5)

- City Council - Council Development (\$6,801)
 - Unused amounts will be applied to the increase in cost and additional/new opportunities not available in the prior year.

- City replacement of damage light pole (\$79,951.96)
 - Claim reimbursement was received in FY 2022-23 but replacement took place in FY 2023-24 due to scheduling delays.

- City-Wide Median Improvement annual unused CIP budget (\$115,000)
 - Carryover unused annual CIP budget to FY 2023-24 to complete planned project expenditures; funded by CIP Reserve fund. The proposed transfer would increase total project budget to \$315,000 for Fiscal Year 2023-24.

Operating New appropriations for FY 2021-22 (See Attachment B - Table 6)

- IT/Finance (\$192,000)
 - Contract tracking software: \$20,000
 - PD Redundancy Network Infrastructure to prevent system failures: \$172,000

- Community Development (\$6,000)
 - Three large wall-mounted computer screens: \$6,000

- Police Department (\$96,500)
 - Supplies/Small equipment:
 - New Gym equipment: \$8,000
 - New flashlights: \$5,000
 - Emergency Management Center Office equipment: \$7,500
 - Records equipment update (monitors & scanner): \$6,000
 - Station security system for Jail visiting system: \$40,000
 - Consolidate legacy databases to Axon: \$30,000

- Parks, Recreation, and Library (\$208,500)
 - Multilanguage and Cultural Children books: \$3,000
 - Supplies/Small equipment:
 - 3D printer: \$4,500
 - Colibri book covering system & supplies: \$5,000
 - Plotter and Accessories (buy or lease): \$2,500
 - Laminator (buy or lease): \$2,500
 - Event/Program costs:
 - Replacement of Special Event equipment: \$40,000
 - Storage bins: \$1,000
 - Centennial Celebration - increase budget by \$150,000 includes anticipated sponsorship offset approximately \$100,000.

- Public Works (\$8,459)

- Gym Equipment replacement: \$8,459.

Workforce Innovation Fund Reserve

Last year, the City approved the creation of the Workforce Innovation Fund Reserve to address operational staffing needs. Staff utilized the past year to work with departments to evaluate current staffing levels and workload capacities. Staff proposes utilizing a portion of the Workforce Innovation Fund Reserve to address acute staffing needs, including positions reduced during the Great Recession. Therefore, separate from the proposed appropriations corresponding to the operating budget surplus, staff proposes a limited number of re-allocations from existing reserve funds to address staffing needs in the Public Works, Administration, and Finance Departments. Proposed appropriations utilizing the Workforce Innovation Fund Reserve for FY 2023-24 (Attachment B - Table 7) are listed below:

Public Works	(2) Maintenance Workers: \$180,700 annual cost.
Administration	(1) Senior Management Analyst - HR: \$145,000 annual cost.
Finance	Deputy Finance Director: \$120,000 one-time, six-month estimated cost, including recruitment contract services.

Next Steps

Staff recommendations utilize a proportional share distribution of the surplus 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 maintenance and improvement of the City's physical infrastructure is prioritized with the distribution of funding towards capital improvement projects, addressing City Hall deferred maintenance, and creating a reserve fund to evaluate ongoing City infrastructure needs. Lastly, to increase the effectiveness and efficiency of City services, a significant allocation is proposed toward increasing staff levels, and support of employee retention programs.

The recommended allocation levels are consistent with the City's conservative financial principles and meet several key strategic plan goals. Staff will present the mid-year FY 2023-24 financial results at the February 27, 2024, 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 2023-24.

Attachment:

- A. Budget Surplus Resolution
- B. Tables 4 through 7