



CITY OF SIGNAL HILL

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STAFF REPORT

6/10/2025

AGENDA ITEM

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

**FROM: CARLO TOMAINO
CITY MANAGER**

**BY: SIAMLU COX
DEPUTY ADMINISTRATIVE SERVICES OFFICER/FINANCE DIRECTOR**

**SUBJECT: RESOLUTION ADOPTING THE ANNUAL OPERATING AND CAPITAL BUDGET FOR
FISCAL YEAR 2025-26 (YEAR 2) AND RESOLUTION ESTABLISHING THE ANNUAL
APPROPRIATIONS LIMIT FOR FISCAL YEAR 2025-26**

Summary:

The City Council will consider adopting the second year of a biennial budget for Fiscal Year 2025-26. The City Council reviewed the proposed FY 2025-26 (Year 2) Operating and Capital Budget (Operating Budget) at the budget workshop held on May 13, 2025. The Operating Budget, as presented, is structurally balanced per City policy. In addition, the City Council will also consider a resolution adopting the annual appropriations limit for the next fiscal year.

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 & 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. Adopt a Resolution, entitled:

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SIGNAL HILL, CALIFORNIA, ADOPTING THE ANNUAL OPERATING AND CAPITAL BUDGET FOR FISCAL YEAR 2025-26.

2. Adopt a Resolution, entitled:

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SIGNAL HILL, CALIFORNIA, APPROVING AND ADOPTING THE ANNUAL APPROPRIATIONS LIMIT FOR FISCAL YEAR 2025-26.

Fiscal Impact:

The City's Operating Budget provides program expenditure budgets for the General Fund in addition to the Water Fund, the Vehicle Replacement Fund, and Special Revenue Funds. The Operating Budget reflects Year 2 General Fund estimated revenues and transfers-in totaling \$39,668,578, comprised of \$38,418,038 in operating revenues and \$1,250,540 in non-operating revenues; and total appropriations and operational transfers-out in the amount of \$39,668,578 in operating expenses (Attachment C).

The total revenues and proposed expenditures result in a projected balanced General Fund Operating budget. Staff projects the estimated General Fund unassigned fund balance will complete Year 2 at \$27,461,774, and the Economic Uncertainties Fund balance will be \$5,895,864, with an estimated total of \$33,357,638. This amount represents approximately 88% of the General Fund budgeted operating expenses for Year 2.

At the close of each fiscal year, the City returns any unused appropriations or revenues exceeding expenses to the fund balance. This residual fund balance can then be allocated for one-time, non-operating expenses or held as a reserve for future needs. Staff recommends that the City Council consider these one-time uses or reserve allocations for any unused appropriations when staff presents the final audited financial results for Year 2 in January 2026.

Background:

A community's quality of life is rooted in the effective delivery of essential municipal services to residents and businesses. Cities are the frontline in providing leadership and governance; establishing local laws; providing public safety and emergency services; delivering safe, clean, affordable water; providing recreational, social, and learning opportunities; overseeing development activities; building and maintaining public infrastructure; and identifying opportunities for reinvesting in the community. Therefore, how a city is funded and how well it is funded is vital to the delivery of these services and, ultimately, the quality of life.

Cities are constantly dealing with the challenges associated with balancing limited resources against ongoing costs and demands of delivering essential services. Each year, the City establishes priorities and makes decisions to balance the needs of the community compared to available resources. A city's budget memorializes and documents those priorities and decisions, serving as a framework

throughout the fiscal year. The budget is a guide and financial plan developed to implement community priorities and goals, build upon past experience and performance, while anticipating new opportunities, and support continuous improvement.

Analysis:

Beginning in 2014, the City transitioned to utilizing a two-year budget format to reinforce the City's commitment to long-term fiscal health. This approach provides a broader overview of the City's capacity to continue meeting the costs and demands of delivering essential services and promoting long-term strategic planning, while retaining the fiscal control provided by annual budgets. Preparation of the two-year budget is an extensive process that involves a collaborative effort beginning with the City's documented strategic goals and objectives. The budget is then drafted and reviewed in depth at a public budget workshop. The City Council adopts the first year of the budget by resolution and approves the budget for the second year.

In the second year, staff reviews the previously approved budget and presents it with recommended updates based on projected revenues and operational needs. This process is similar in concept to a mid-year budget review and affords the opportunity to adjust the second year as needed. Inasmuch as the City Council approves the second-year budget in conjunction with the two-year budget, it is not intended to be a complete re-evaluation of the City's major goals and plans. Staff presented the proposed Year 2 Operating Budget for review and discussion at a duly noticed budget workshop on May 13, 2025, and it is now being presented for adoption.

Fiscal Year 2024-25 (Year 1) Review:

While the budget continued to reflect tempered optimism with the global and local economies facing challenges related to stubborn inflation, high interest rates, and geopolitical pressures, the City maintained a strong fiscal position with its long tradition of fiscal prudence and conservative budgetary management. The City's FY 2024-25 Operating Budget focused on the continued delivery of quality core municipal services while proactively addressing public safety, deferred maintenance, and operational needs. The City also advanced efforts to create and maintain a work environment conducive to retaining, promoting, and attracting a successful workforce. In developing the budget for the major general fund revenues, the City relied on an analysis of historical performance and trends, as well as industry, economist, and news reports.

Staff developed the City's expenditures as a conservative spending plan addressing City Council and community priorities. The City's continued operations at full capacity include the expansion of current community programs, increased public engagement through communications, committees, leadership academies, and other city events, and plans for future economic development. The budget also reflects the utilization of special revenues and grant programs in the City's capital plan and operational expenditures.

As mentioned, changing economic conditions have impacts on the City's budget and lead to reevaluating spending strategies; the City's future economic health will be dependent on maintaining healthy reserves through fiscally conservative budgets and policies, planning for economic development opportunities, and maintaining its strong financial position through prudent, long-range policy decisions and sound fiscal management. The City will continue to monitor key economic indicators, sources of revenue, and spending levels as part of its sound, conservative fiscal

approach.

In Fiscal Year 2024-25, staff continued delivering many programs, projects, and services that contribute to the high quality of life enjoyed by residents and businesses. This year, the City began placing a greater emphasis on addressing quality-of-life issues such as code enforcement, enhancing maintenance of public parks and facilities, and ongoing efforts related to homelessness. In addition, the main highlight for 2024 included the City's Centennial Celebration as well as many other accomplishments in FY2024-25 highlighted in Attachment A.

Outlook

As we look forward to Year 2 of the Biennial Budget, staff will continue delivering the quality core municipal services that our residents and businesses have come to expect and deserve. These services include the continued expansion of recreation programs, communications, city-wide economic development, Civic Center campus improvements, public safety, code enforcement, and addressing deferred maintenance. The proposed efforts also focus on building and maintaining a work environment that is conducive to retaining and promoting a successful workforce.

In keeping with the City's fiscal sustainability strategy, staff relied on industry forecasts and historical and current data and applied these principles during the budget development process for the FY 2024-26 Biennial Budget. While the economy is still experiencing headwinds that include uncertainty about tariff policies, stubborn inflation and high interest rates, most economists still believe a recession is unlikely as the labor market remains strong with low unemployment. However, as the Federal Reserve considers delaying softening interest rates, consumer spending could likely stagnate having a negative impact on the City's revenue outlook. Much remains to be seen regarding how these factors could affect the long-term overall economy; therefore, a conservative approach to budgeting remains highly advisable.

Signal Hill Measure R (SHR) and the City's diversified sales tax base have been major contributors to the City's strong financial position. However, sales tax accounts for 68% of total City revenues, and the longer these economic headwinds persist, the more likely they are to have an impact on overall sales tax revenues. Based on the City's sales tax expert, HdL, sales tax business sectors will experience a reduction, slightly offset by an increase in Auto & Transportation and revenues received from State & County Pools. For Year 2, the net Sales and Use Tax proposed budget shows a reduction from the Approved budget of \$1,004,495. Interest Income received from higher interest rates was estimated to remain for the short term in Year 1. In contrast to the initial projection, the Federal Reserve has maintained a low target range strategy, which means the City's investment portfolio will continue to benefit from high investment returns in Year 2. As a result, the projected Interest Income has increased \$750,000. Staff will continue to provide periodic budget updates to re-evaluate budgetary assumptions and make necessary adjustments.

While the budget continues to reflect tempered optimism, the ongoing economic challenges may lead to reevaluating spending strategies. The City's future economic health will be dependent on maintaining healthy reserves and planning for long-term fiscal sustainability through fiscally conservative budgets and policies, planning for economic development opportunities, and maintaining its strong financial position through prudent, long-range policy decisions and sound fiscal management.

As noted, the City relies on various funding sources that make up the entirety of its Operating and Capital Budget. The City was a recipient of the following available funding and actively seeks additional outside funding sources for many of the future planned programs and capital improvement projects. The following section provides a summary of revenues, expenditures, reserves, and projects.

Signal Hill Measure R (Measure SHR)

Measure SHR, is a three-quarter cent per dollar (0.75%) general transactions and use (sales) tax that helps provide a reliable, locally controlled funding stream, ensuring revenue is not subject to state redirection. For Fiscal Year 2025-26, this tax is estimated to generate approximately \$6.3 million in annual revenues. Measure SHR funding is vital to support programs such as street and pothole repairs, infrastructure maintenance, public area upkeep, 9-1-1 emergency response, and crime prevention.

Federal and State Appropriations

CalTrans Active Transportation Program (ATP) Grant to fund the East Burnett Street Historical District Pedestrian and Bike Enhancement Project. This project is designed to enhance active transportation, offering safe, popular, and healthier modes of travel through improvements such as the installation of sidewalks between Gaviota Avenue and Cherry Avenue, a Class 2 Bike Lane between Walnut Avenue and Dawson Avenue, and related roadway amenities. Caltrans has approved the grant amount of \$2,785,000 for this project as part of the ATP program. In May 2024, the City Council executed all necessary documents to receive and expend these ATP Cycle 6 grant funds.

The City has successfully secured significant federal and state appropriations for projects. Through the Consolidated Appropriations Act (CAA), passed by Congress on March 15, 2022, the City obtained \$1.8 million via Congressman Alan Lowenthal's office for the Civic Center Parking Lot Improvement Project; this project is slated for completion in Fiscal Year 2026-27.

Additionally, the City received \$5 million in funding through Assembly Bill 178 (Budget Act of 2022), through Senator Lena Gonzalez's office, to build a new amphitheater. This amphitheater comprises the First Phase of the Civic Center Master Plan. The adopted Civic Center Master Plan will continue prioritizing the development of future infrastructure improvements including the Amphitheater, Community Center, and City Hall as a multi-phased project that will continue to develop based on funding availability.

Competitive Grant Awards

The City has successfully secured several competitive grants. The City was among 385 grant proposals selected as a recipient of a \$1 million USDA Urban and Community Forestry Grant (2023 Grant Awards), which was approved in August 2024. This funding, made possible by the Inflation Reduction Act, will facilitate the planting of 1,000 new trees within City limits. This project will increase the City's urban forest coverage, enhancing shade equity, reducing urban heat island effects, and promoting improved overall air quality, aesthetics, and walkability. Furthermore, through the Los Angeles County Flood Control District's Safe, Clean Water Program (Measure W) Competitive Grant, the City was awarded \$6.8 million in April 2025. These funds will be used to rehabilitate the existing park and install a new underground infiltration (water treatment) system at

Reservoir Park; a program designed to clean and conserve stormwater; grant funds are planned for distribution in October 2025.

Long-Term Financial Forecast

Long-term financial forecasts are crucial for sound fiscal management, enhancing transparency, encouraging fiscal discipline, identifying adverse trends, and promoting fiscal sustainability. Financial forecasts help the City Council consider the long-term costs of today's commitments. The Year 2 Operating Budget is part of a greater whole, setting the foundation for future fiscal health. Using the FY 2024-25 actuals, and the proposed FY 2025-26 Year 2 budget as a base, staff developed a high-level five-year forecast to provide a generalized outlook toward future revenues, expenditures, and potential changes to the General Fund balance.

The General Fund forecast includes the following assumptions:

- Averaged historical annual trends, industry expert estimates, and Consumer Price Index (CPI) data
- Consideration of only General Fund revenues and expenditures
- Revenues and expenditures providing services at full-capacity including approved decision packages
- Consideration of one-time expenditures
- Measure SHR revenue
- Increases to obligated costs
 - CalPERS Unfunded Accrued Liability
 - Based on the CalPERS July 2024 valuation reports and Fresh Start program
 - California Joint Powers Insurance Authority insurance
 - Based on historical trends
 - Retiree medical costs
 - Based on historical trends
- Other financing sources used to pay debt service expenditures, including the early payoff of the 2018 Library Revenue Bonds in 2028 which also includes the potential for Civic Center Master Plan future funding
- Reserve transfers for Capital Outlay based on long-range Capital Improvement Program model

Using the General Fund balance as a measure of financial resources, the outlook continues to be positive and is predicted to remain healthy over the long-term. However, it is notable that the rising obligated costs could impact future long-term financial strategies. Each year, staff will review and refine the forecast, identifying the impact of one-time costs, analyzing economic changes and re-examining fund balance targets to ensure adequate reserves are maintained. Please see Attachment B Table 1 General Fund Revenue & Expenditures Projections.

General Fund Overview of Year 2 Operating Budget

The General Fund is the general operating fund of the City. All general tax revenues and other receipts not allocated by law or contractual agreement to restricted or special funds are accounted for in the General Fund. Expenditures of this fund include the general operating expenses and capital improvement costs which are not paid through other funds. The Year 2 Budget is balanced and

reflects estimated revenues and transfers-in totaling \$39.7 million comprised of \$ 38,418,038 in operating revenues, and \$ 1,250,540 in non-operating revenues. Total appropriations and transfers-out in the amount of \$39,128,578 are included in operating expenditures. Staff would note that during the budget workshop presentation, the City Council approved several decision packages for additional expenditures and transfers-out that are reflected in the budget.

General Fund Revenues

Total Year 2 General Fund revenues, as shown in Attachment B Table 2 General Fund Operating & Non-Operating Revenues FY 2025-26, equal \$39,163,633 including transfers in from outside the General Fund only. This analysis incorporates the economic outlook, predicting that most of the revenue categories remain stable. As noted in the Economic Outlook, sales and Use Tax is projected to decline, driven by anticipated loss of consumer confidence caused by the uncertainty of federal tariff policies, which could potentially raise prices of goods and reduce spending in Fiscal Year 2025-26. Projections for Interest Income, included in the Use of Money and Property, are predicated on expectations of the Federal Reserve and anticipated interest rate adjustments. For Year 2, the General Fund received a total of \$745,595 in transfers. This total includes \$5,000 from Prop C, \$250,000 from Gas Tax, \$35,100 from Measure R, \$84,000 from Measure W, \$61,044 from Pipeline Removal, and \$310,451 from Planning Grants.

Sales Tax

For Year 2, sales tax makes up approximately 68% of the City's General Fund revenues. In preparing the revenue projections, staff relied on an analysis of actual performance and trends, as well as industry and economic reports. The following chart highlights Signal Hill sales tax performance projections for the various business segments that contribute to the City's sales tax revenues, as provided by the City's sales tax consultant. See Attachment B Table 3 Sales Tax Revenue.

In line with the City's philosophy of fiscal prudence and conservative budgeting practices, the overall slowdown in the economy due to the potential implication of Federal tariff policies, inflation, and higher interest rates were factored into the Year 2 estimates. To the extent that these negative economic externalities do not materialize or become mitigated through trade agreements, lowered inflation, and the Federal reserve lowering interest rates over time, it is possible the City's economic outlook could improve beyond these projections. Nonetheless, staff takes the most conservative approach to revenue forecasting to ensure that decisions regarding future one-time and ongoing expenditures are sufficiently tempered to weather possible economic fluctuations.

Property Tax

Property taxes make up approximately 7% of the City's revenues and are projected to remain stable. The City is considered a no/low property tax city, receiving a significantly smaller portion of the property tax dollar, approximately 6 cents, compared to the average city allocation of 11 to 13 cents. Property tax revenues are predominately a percentage of secured and unsecured taxable assessed values on the current property tax rolls. A second source of property tax revenue is from Vehicle License in Lieu of Fees (VLF) Adjustment Amount which is based on a percentage of City-wide taxable assessed values. Both increase annually in proportion to the growth in assessed valuation. Signal Hill also receives residual property tax revenues from the Successor Agency (SA) that vary from year to year and are expected to decline as the SA annual loan payments to the General Fund

escalate going forward. See Attachment B Table 4 Property Tax Trends.

Oil Production Barrel Tax

Oil production taxes make up approximately 1% of the City's revenues. The rate per barrel is based on the Producers Price Index. Year 2 includes a conservative estimate as projected revenues are dependent on fuel prices and supply and demand.

Use of Property and Money

Interest Income and the net investment results, included in the Use of Money and Property category, is expected to see a boost as near-term interest rates remain high, but the long-term outlook predicts a decrease with anticipation of the Federal Reserve softening interest rates. The City's diversified investment portfolio, which is strategically positioned to navigate market fluctuations, includes holdings in California Asset Management Program, California CLASS, Local Agency Investment Fund, Bonds such as Government Securities & Municipal Bonds, Money Market Funds, and Certificates of Deposit.

General Fund Expenditures

Total Year 2 General Fund expenditures (excluding transfers out) as shown in Attachment B Table 5 General Fund Expenditures equals \$38,045,087. This amount represents continued operations providing full municipal services while also including funding to address deferred maintenance, staffing, and operational and infrastructure needs. Year 2 reflects the collective bargaining agreement adjustments for both labor groups, Signal Hill Employees Association (SHEA) and the Police Officers Association (POA), as well as Police Management and Management/Administrative classifications. Year 2 also includes increasing obligated costs related to contract services, insurance, pension obligations, and unfunded mandates. Based on anticipated revenues, the Year 2 expenditures are proposed to be 5.7% higher than the prior year's current budgeted expenditures of \$35,987,702 largely due to the increase in salary and benefits as the result of the new labor agreements offset by differences in one-time annual expenditures year to year.

Staff would also note that the City's conservative budget estimates account for staffing at full capacity, which assumes all positions are fully staffed during the entire fiscal year. Budgeting at full capacity is a best practice that allows the City to provide a true accounting of its ongoing annual personnel costs. Actual personnel expenditures accounted for at the end of the fiscal year will be based on actual staffing levels experienced during the fiscal year. The difference between budgeted personnel costs and actual costs may contribute to an operating positive fund balance in that fiscal year.

Budget Uncertainties

As in any given year, a degree of uncertainty surrounds the actual performance of the economy. Staff has identified the following factors for ongoing monitoring in Year 2.

- Global and local economies continue to face ongoing challenges, including tariffs, inflation and rising interest rates. These Federal policies have increased the cost of goods for capital

projects. Locally, cities also continue to be challenged by unfunded mandates and legislative directives.

- Pension Cost fluctuations caused by CalPERS' continual challenges to meet demographic and discount rate actuarial assumptions, as well as shortened amortization schedules for reducing unfunded liabilities. In Fiscal Year 2024, the City took action to mitigate the pension costs by entering a Fresh Start program and making an additional discretionary payment (ADP) to address the CalPERS the City's Unfunded Accrued Liability (UAL) costs. The Fresh Start program and ADP helped stabilize the existing UAL annual payment plan and provided several benefits for the City, including a level dollar annual payment for increased budget flexibility, a three-year reduction in the UAL amortization schedule, and the potential to save the City \$800,000 in interest costs.

Reserves

As noted, unused appropriations and/or revenues exceeding expenses at the end of every fiscal year revert back to fund balance. Each Funds' balance can then be used for one-time, non-operating expenditures or set aside as a reserve for future purposes. All Committed Reserve funds are represented in Attachment B Table 6 Reserves.

The proposed Year 2 Budget achieves a balanced operating budget and utilized reserve transfers to fund capital improvement projects, public art installations, and other projects outlined below:

- \$3,322,291 from the Civic Center Master Plan (CCMP) Reserve for the City Hall renovation capital improvement project and Civic Center Master Plan - Phase I (Amphitheater).
- \$2,230,542 from the Capital Improvement Reserve for various capital projects across the City.
- \$1,214,901 from the Land & Building Reserve for the completion of the City Hall Interior Renovation.
- \$540,000 from the General Fund to the Housing Authority as part of the Loan Repayment schedule from the Successor Agency to the City.
- \$355,000 from the Art Reserve for Public Artwork Installations at Heritage Point Park, Hilltop Park, Hillbrook Park, and the Amphitheater.
- \$200,000 from the Facilities Reserve for the Facilities Master Plan - Phase II.

In addition, \$1,082,771 was transferred to reserves, allocated as follows:

- \$500,000 to the Park Reserve for future development.
- \$150,000 to the Facility Reserve to proactively address ongoing and future maintenance needs of public facilities citywide.
- \$100,000 each to the Equipment & Furniture, Police Radio, and Art Reserves to fund the City's future needs (\$300,000 total).
- \$82,771 to the Economic Uncertainties Reserve, bolstering the city's reserves.
- \$50,000 to the General Plan Update, an annual allocation to build this reserve for future uses.

Reserve Policy

In September 2024, the City adopted a Fund Balance Reserves Policy. The policy establishes three reserve types (i.e., Type I, Type II, and Type III). For Type I Reserves, the General Fund Unassigned

Balance target is 55-80% of adopted General Fund expenditures, and the Economic Uncertainties Reserve target is 15-20% of the same. The combined threshold for Type I Reserves is 75% to 100% of adopted General Fund Expenditures.

Type I Reserves serve as the primary safeguard against unpredictable adverse events such as economic downturns. This category includes the General Fund Unassigned and Economic Uncertainties Reserves (highlighted in yellow in the attached chart). For Year 2, the proposed General Fund Unassigned Balance is \$27.5 million (72% of operating expenditures), and the Economic Uncertainty Reserve is \$5.9 million (16% of operating expenditures). The combined total of these reserves is 88% of Year 2 Operating Expenditures which means the reserves meet the established target threshold for Type I reserves. Type II Reserves, highlighted in orange, include the CalPERS Reserve, OPEB Reserve, and Insurance Reserve; these are specifically designated for their identified purposes. Type III Reserves, highlighted in green, function as savings for larger future expenses. The Capital Improvement Project (CIP) Reserve is a prime example, supporting our multi-year strategy for significant infrastructure projects.

Capital Improvement Plan (CIP)

The CIP Fund is used to account for financial resources segregated for the development, construction and improvement of City facilities, streets and roads, parks, and water infrastructure. The Year 2 Capital Improvement Plan includes new and existing projects, or project phases, representing an investment of \$20.6 million. The City's CIP plan maximizes the use of one-time and special revenue funds for each project, as detailed in the CIP Schedule. CIP projects for Water use funding from the Water Fund, and do not use the General Fund. See Attachment B Table 7 CIP Funding Sources for a summary of funding sources for the proposed capital schedule. In Year 2, grant funding accounts for 18% of total CIP funding.

Water Fund

The Water Fund is an enterprise fund and is used to account for operations financed and operated in a manner similar to a private business enterprise. Costs (expenses, including depreciation) of providing water utility services to the public should be financed or recovered primarily through user charges. After completing the water rate study and Proposition 218 Hearing, the City implemented new water rates in 2025. The sale of water for Year 2 is estimated at \$7,361,861 and the fund balance includes the new General Fund loan proceeds to fund the Gundry Reservoir Roof Replacement & Coating capital improvement project which will commence in FY 25-26. Capital outlay projects for the Water Fund are detailed in the CIP schedule in Attachment C. A summary of the Water Fund budget can be found in Attachment B Table 8 Water Fund Summary.

Special Revenue Funds

Special Revenue Funds are used to account for the revenues derived from specific revenue sources, which are legally restricted and usually required by law or administrative regulation to be accounted for in separate funds. Special Revenue Funds are distinguished from enterprise funds in that the services delivered are financed by a Special Revenue Fund (such as streets) and the user does not pay for the service based on actual use. Special revenues are estimated and included in the annual budget and the City makes every effort to maximize the use of these funds as allowed. These funds are accounted for in Year 2 as a transfer-in to the recipient fund, as detailed in the Transfer and Special Revenue sections and the CIP schedule in Attachment C.

Community Development Block Grant (CDBG)

CDBG, enacted through the Housing and Community Development Act of 1974, receives and disburses CDBG monies for administration, social service programs and capital projects. The Los Angeles Community Development Commission estimates the City will receive approximately \$71,001 in Year 2, of which \$10,650 in CDBG funds for Senior Food Distribution, and \$60,351 will be used for the ADA Street and Sidewalk Improvements Capital Improvement Project.

Capital Grant Funds

The Capital Grant fund houses initial grant awards from external agencies to be used toward capital projects. Capital grants provide contribution funding to cover all or part of the cost of the City's capital improvement projects, such as streets, parks and infrastructure, and it is the City's priority to pursue and maximize the use of grants on an annual basis.

Vehicle Replacement (Fleet Fund)

The Fleet Fund is an internal service fund intended to fund the replacement of City vehicles and maintenance and repair services. Proposed fleet purchases, based on the City's Vehicle Replacement Policy, are detailed in Attachment B Table 9 Vehicle Replacement Schedule.

Vehicles are replaced based on an annual assessment, specifically when they've reached the end of their service life or are experiencing mechanical issues that necessitate a repair beyond the value of the vehicle. The typical replacement schedule varies by vehicle type: police vehicles are generally replaced after four years or 80,000 miles, while city light-duty vehicles are replaced when they are 10 to 12 years old. When feasible and practical, alternative fuel vehicles will be used as replacements.

The fund is structured on a break-even basis where costs are allocated back to each department's overhead budget. The Fleet Fund's cash balance is estimated at \$1,030,102 at the end of Year 2.

Budget Workshop

The following decision package items for Year 2 were discussed and approved during the Budget Workshop summarized and detailed in Attachment B Table 10 Year 2 FY 2025-26 Decision Packages. The proposed budget includes one-time expenditures totaling \$687,000, \$150,000 in ongoing, non-personnel related expenditures, and \$100,000 from the Art Reserve which will be allocated for the Amphitheatre Artwork Capital Improvement Project (CIP).

Post-Workshop Budget Updates

Following the workshop, additional items were identified and incorporated into the Year 2 operating budgets and Capital Improvement Project (CIP) fund:

- Water Fund: Year 2 now includes revenue and expenditures aligned with the Water Master Plan, which the City Council adopted on May 27, 2025.

- Special Revenue (CDBG): The Community Development Block Grant (CDBG) fund in Year 2 now reflects an estimated revenue and expenditure of \$71,001. This funding is allocated for the Senior Meals Program and the ADA Street and Sidewalk Improvements Capital Improvement Project.

FY 2025-26 (Year 2) Appropriations Limit

In November 1979, the voters of the State of California approved Proposition 4. The Proposition created Article XIIIB of the State Constitution placing limits on the amount of revenue that can be appropriated each year. Proposition 111 amended Proposition 4 in 1990 by allowing cities to choose their annual adjustment factors for inflation and population growth.

The Appropriations Limit is computed annually by applying the greater of two change factors to the limit from the previous year. The adjustment factor for population is determined by either the change in percentage for the City or the County of Los Angeles. For inflation, the factor consists of the percentage change in California Per Capital Income (supplied by the State Department of Finance), or the percentage change in the local assessment roll due to the addition of local non-residential new construction.

The factors used in this year's calculation were the change in California Per Capita Personal Income and the County's change in population. The City reserves the right to adjust the Appropriations Limit later in the year. The impact of applying these factors is to increase the City's appropriations limit to \$103,503,101. The City's tax proceeds are substantially under the established Appropriations Limit for Year 2.

Conclusion

The City's fiscal practices, which include consideration of future needs and strategic long-term planning, have enabled our City to achieve and maintain a positive, stable financial condition. Staff approached the creation of the budget in conjunction with the discussion surrounding the implementation of the Strategic Plan. Staff prepared the City's budget in a very conservative and prudent manner, incorporating current and future economic indicators regarding revenue estimates and expenditures. The City's long-standing tradition of fiscal prudence and careful stewardship of financial resources has allowed the City to grow and thrive over the years.

As always, the entire Executive Management Team will continue seeking opportunities to improve efficiencies, reduce costs, and respond effectively to external economic forces that impact available resources. Staff will continue building on the accomplishments that have created fiscal stability for the City of Signal Hill and continue to focus on preserving a high quality of life for residents and the business community. Signal Hill has maximized opportunities while meeting challenges and continued to deliver valuable municipal services and important capital projects. The City will continue to embrace the ideals of conservative fiscal policy, forward thinking, and strategic planning as we face the future.

Attachments:

- A. Accomplishments
- B. Charts and Tables

6/10/2025

- C. Draft Budget Book
- D. Annual Operating Budget Resolution
- E. Appropriations Limit Resolution
- F. Exhibit A to Appropriations Limit Resolution