



CITY OF SIGNAL

2175 Cherry Avenue • Signal
Hill, California 90755-3799

STAFF

12/9/2025

AGENDA ITEM

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

**FROM: CARLO TOMAINO
CITY MANAGER**

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

**DEBBIE PACHECO
ACCOUNTING MANAGER**

SUBJECT: ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEAR 2024-25

Summary:

The Annual Comprehensive Financial Report (ACFR) is an independently audited summary report of the City's financial transactions for Fiscal Year (FY) 2024-25. The ACFR provides relevant financial information to the City Council, residents, current and future employees, grant entities, creditors, bond investors, rating agencies, and other interested parties. The audit is performed in compliance with the requirements of the City Charter, and the results are presented to the City Council for review.

The audit was completed by the City's independent auditor, Rogers, Anderson, Malody & Scott, LLP, Certified Public Accountants (RAMS), which issued an unqualified opinion audit report, otherwise known as a "clean opinion" finding nothing of material concern in the City's internal controls, financial, and bookkeeping practices. The independent auditor's unmodified report provides assurance that the ACFR, and audited information within, present fairly the City's financial position for the Fiscal Year ending June 30, 2025.

As part of the ACFR, staff provides detailed information and recommendations on the General Fund Operating balance. For FY 2024-25, the General Fund has a positive fund balance of \$7 million. Staff will present recommendations for fund balance appropriations to the City Council in the first part of the 2026 calendar year. This timeline allows for a detailed analysis of the fund balance, including revenue updates, requests to re-appropriate unutilized budget appropriations, one-time expenditure requests for department operations, programs, or special projects, and reserve allocations. The proposed steps above will result in budget adjustments for the current fiscal year.

Strategic Plan Goal(s):

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

Recommendations:

1. Receive and file the City's ACFR for FY 2024-25.
2. Direct staff to return the first part of the 2026 calendar year with proposed appropriations for the FY 2024-25 General Fund positive fund balance.
3. Direct staff to distribute copies of the ACFR for FY 2024-25 as required, as well as to the Office of the City Clerk to be placed on file for the general public and posted on the City's website.

Fiscal Impact:

FY 2024-25 closed with General Fund revenues exceeding expenditures, including net transfers, in the amount of about \$7 million.

Background and Analysis:

The City's Charter requires that an annual audit be performed relating to the City's financial transactions, records, inventories, and reports. Accordingly, the City retains an independent external auditor. The auditor's responsibility is to express opinions on the financial statements, and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The results of these efforts are incorporated in the ACFR, which is a set of financial statements that present the City's financial results at the end of the fiscal year (Attachment A).

The ACFR was prepared in accordance with Generally Accepted Accounting Principles (GAAP) as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB), an organization that regulates governmental accounting as the source of generally accepted accounting principles. In addition to standards of reporting, GASB issues statements, interpretations, bulletins, and other guidelines for financial reporting.

Local Economy and Financial Landscape

As 2025 draws to a close, the US economy offers a nuanced picture: growth is slowing, inflation is stabilizing, and the labor market is cooling slightly. Recent rate cuts signal a shift towards easing monetary policy, though tariffs are putting upward pressure on prices, the housing market, car sales, and other parts of the economy, impacting GDP growth. The outlook for 2026 is expected to decelerate to 1.4%, down from an anticipated 1.8% projected in 2025. Success hinges on whether the economy can absorb the price shock from tariffs without causing a significant rise in inflation, allowing the Federal Reserve to proceed with its planned rate cuts; growth is not expected to rebound above 2% until 2027.

The State of California's economy shows pockets of significant strength driven by AI-related investment, while consumer retail activity is slowing. Despite the projected 1.4% growth in 2026, increases are not expected to restore revenues to the peak levels seen in FY 2022-2023, indicating revenue growth is not keeping pace with the rising cost of doing business for local governments. Deloitte Global Economics Research Center (Deloitte) forecasts that core inflation will rise to 3.3% in 2026, while overall CPI growth is expected to average 3.2% in 2026. This persistent inflation is largely attributed to the pass-through of tariffs related costs to consumers, which outweighs the moderating effects of slowing demand. Work stoppages from major labor strikes may also impact domestic budget spending. The Federal Reserve continues a rate-cutting cycle to achieve a soft landing; however, Deloitte projects that the recent 25 basis point reduction is not expected to create a

surge in consumer spending but rather aims to bring the federal funds target rate to 3.125% by the fourth quarter of 2026.

Local government's fiscal exposure during the economic shifts is best observed when analyzing the elasticity of general fund revenue. The City of Signal Hill's general fund revenue portfolio's strength lies in its diverse revenue sources. As a "low property" tax city, the City's most significant revenue source for General Fund operating revenues is sales tax. Signal Hill's revenue mix has proven resilient, with overall sales tax revenue remaining strong and total point-of-sale tax revenues increasing by 1% from the previous year. The City's transaction and use tax, Measure SHR (MSHR), declined by 3% from the prior year; however, the addition of MSHR remains a significant contributor to increases in overall sales tax revenue. Measure SHR generated 26% of the Bradley Burns amount, with general consumer goods continuing to produce the most sales tax revenue.

The City's major sales tax industry groups include Autos and Transportation, Business and Industry, County Pool Allocations and General Consumer Goods. The City's Autos and Transportation industry sector experienced another robust year-over-year growth of 9%, a portion of which can be attributed to the addition of new car dealerships in the City. County Pool Allocations continue to grow, with 4% year-over-year growth, as projected by HdL. Business and Industry experienced a 9% loss over the prior year, while General Consumer Goods experienced a 4% loss over the preceding year. Building and Construction remains flat compared to the previous year, with conditions expected to persist. Although interest rates have fallen in the short term, consumers continue to suspend big-ticket purchases; as a result, this sector is not likely to grow until FY 2026-27.

The City's second most significant source of revenue is derived from the Use of Money, which is predominantly driven by Investment Income. While this income stream remains robust, staff has observed a modest decrease, moving from \$4.9 million in the previous fiscal year to \$4.6 million in FY 2024-25. The City has successfully leveraged the unusually high, volatile interest rate market environment to maximize investment returns while still prioritizing safety and liquidity. The City anticipates a moderation and subsequent decline in this specific revenue source over the next few years as prevailing market interest rates are projected to normalize. Staff is continuously working to increase and diversify the City's investment portfolio to maintain investment income amid adverse market conditions.

Property tax revenues are driven by the value of residential and commercial property, and since property tax revenue typically reflects the value of a property anywhere from 18 months to many years prior, these are less immediately responsive to economic changes than other types of taxes. High mortgage rates continue to test California's housing market, as sales decline and buyers face challenges amid rising median sale prices. In comparison, California's median home price increased by 4.6% as of April 2024, with Southern California's median home prices increasing by 1.9% based on HdL's property tax division. The City's overall net taxable property value changed by 4.4%. Staff would note that a large portion of Signal Hill properties are highly affected by the oil and gas assets within the City. As oil prices change, the related property values also fluctuate in the same direction, and a portion of the change in property values is likely related to current oil prices. Property tax rolls are set before the commencement of the fiscal year, and therefore, property tax revenue was conservatively projected for FY 2024-25.

The City's annual obligated costs, such as contract costs, insurance, pension obligations, and unfunded mandates, continue to rise and compete against other budget priorities. The highest obligated costs include pension costs related to the CalPERS Unfunded Accrued Liability (UAL). The UAL mainly fluctuates as a result of investment returns and changes in the discount rate. CalPERS

recently announced a preliminary net return of 11.6% for FY 2024-25. When factoring in CalPERS' discount rate of 6.8% and the FY 2024-25 preliminary return of 11.6%, the estimated funded status now stands at 78.1% as of June 30, 2025, for the Public Employees Retirement Fund (PERF). The recent gains and losses, changes in the discount rate, and assumption changes have led to variable funding status, which directly impacts the City's pension costs and overall budget strategies; the City will continue to monitor this issue closely.

The City completed a comprehensive fee study in FY 2023-24 that reviewed the City's overall user and regulatory fee structure, fee bases, and cost recovery. The projected positive fiscal impact has been incorporated into the current biennial budget. In addition, the City conducted a water rate study and a water master plan to review the Water Utility fund, ensuring overall fiscal sustainability and prioritizing water infrastructure needs and future capital improvement planning. The water rate study was completed in 2025 and went into effect in July 2025. The City has also embarked on a comprehensive economic and land use study for three areas of the community. Broadly defined, the purpose of an Opportunity Study Area is to assess future land use opportunities that will allow the City to grow economically, create jobs, encourage new development, and diversify the City's tax base for several years.

In 2023, the City Council authorized staff to issue a Notice of Funding Availability for up to \$10 million in affordable housing funding to develop the Orange and Walnut Bluff affordable housing sites. The City initiated a competitive process and selected National Community Renaissance (National CORE) as the City's preferred development partner. National CORE proposed a 380-unit affordable housing project that includes a Boys and Girls Club, representing a \$200 million investment in the community. Since embarking on the due diligence process, National CORE experienced delays due to new State legislation regulating oil and gas operations. In addition, due to its budget deficit, the State temporarily suspended the Infill Infrastructure Grant program, which National CORE proposed as a primary funding source for these projects. Despite these temporary setbacks, National CORE and the City have negotiated the terms of an Affordable Housing Agreement for the Walnut Bluff property that specifies the terms, conditions, and timing of the City's funding contribution.

Analysis:

The ACFR includes three main sections: 1) Introductory; 2) Financial; and 3) Statistical. The following sections of this report provide an overall summary of the main sections to facilitate understanding of the ACFR for the general public.

Introductory Section (pages i through x)

This section includes the guide to the report and one of two key narratives, the Transmittal Letter, which provides a broad financial outlook of the City and legal requirements for financial reporting.

Financial Section (pages 1 through 117)

This section includes the second key narrative, the Management's Discussion and Analysis (MD&A) section. The MD&A is audited information and is similar to financial reports in the private sector. The MD&A section of the ACFR provides a narrative overview of the City's previous year's activity and financial performance. This information should be read in conjunction with the basic financial statements and the extended footnotes to get an accurate overall representation of the City's financial health. The Notes to the Basic Financial Statements provide narrative information about the City's significant accounting policies and detailed disclosures on key financial matters. In addition, the

MD&A includes a discussion of factors affecting the current year's budget.

Also included in this section are the Independent Auditor's Report, the Basic Financial Statements, the Fund Financials, Notes to the Basic Financial Statements, and other required supplementary information (RSI). The Government-Wide Financial Statements report information on all activities of the City, with the exception of where the City acts as a trustee for another agency, such as the Successor Agency; in addition, transfers of funds between City entities and reserves have been removed from these statements, and the statements only reflect events that resulted from activities between the City and non-City associations. Governmental activities, which normally are supported by taxes and grant revenues, are reported separately from business-type activities, such as the Water Department, which instead rely on user fees and charges that come from receiving a service.

The reporting includes the auditing standards of GASB Statement No. 68 (GASB 68), which requires that a governmental entity recognize its net pension liability (UAL) in the statement of net position (balance sheet). Under GASB Statement No. 75 (GASB 75), the City's net Other Post-Employment Benefits Liability (OPEB) is recorded and extended discussions and disclosures are provided as part of the supplementary information in the footnotes. Under the reporting standards of GASB 68 and 75, City-wide financial statements present the net pension and OPEB liabilities.

Statistical Section (pages 118 through 139)

This section consists of information pertaining to the City, including financial trends, revenue and debt capacity, demographics and economic information, and other operating information.

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 2024-25 with revenues exceeding expenditures (including transfers) by \$7,039,019.

The independent auditor reported that the FY 2024-25 General Fund Operating and Non-Operating Revenues were \$42.8 million, which is \$5.4 million above the FY 2024-25 final budget of \$37.3 million and \$0.9 million over the prior year's FY 2023-24 actuals of \$41.9 million. As the year progressed and during the budget preparation for Year 2, no significant changes were made to the revenue projections and they remained at \$37.3 million. The increase over the prior FY 2023-24 Operating results was mainly due to an increase in the City's significant revenue sources. Sales tax exceeded the prior year by \$0.3 million mainly driven by the Autos and Transportation business sector out-performing expectations. However, looking forward, sales tax revenue is expected to remain relatively flat for FY 2025-26 with signs of slowing growth in certain business sectors. Overall, sales tax revenue is budgeted conservatively using updated industry expert information.

The General Fund's Operating and Non-Operating Expenditures (net of subscription and lease acquisition sources) were \$31.5 million, which is \$4.3 million below the FY 2024-25 Current Operating Budget of \$36.9 million and \$2.3 million above the prior year FY 2023-24 actuals of \$29.2 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 \$4.3 million, which is \$4.0 million less than the FY 2024-25 Current Operating Budget of \$8.3 million. The net transfers are mainly made up of transfers-in to fund operating

activities of \$0.2 million, transfers-out to fund capital improvements of \$4.0, and the annual transfer out to the Housing Authority for approximately \$414K 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. Revenues and transfers-in less operating expenditures and transfers-out resulted in a net year-end positive fund balance of \$7,039,019. The Beginning Fund Balance in the FY 2024-25 Operating Budget was \$75.8 million. After reflecting revenues, expenditures, and net transfers, the actual Ending Fund Balance is \$82.9 million.

Table 1. General Fund Operating Results compared to Budget

OPERATING RESULTS (millions)	2024-25 FINAL BUDGET	2024-25 FINAL RESULTS	DIFF BUDG vs RES
Beginning Fund Balance	\$ 75.81	\$ 75.81	\$ -
Revenues	\$ 37.34	\$ 42.77	\$ 5.43
Expenditures (net of subscription acquisition sources)	\$ 35.74	\$ 31.46	\$ (4.29)
Excess Revenues over Expenditures	\$ 1.60	\$ 11.31	\$ 9.71
Net Transfers In/(Out)-Other Financing Sources	\$ (8.25)	\$ (4.27)	\$ 3.98
Net Change in Fund Balance	\$ (6.65)	\$ 7.04	\$ 13.69
Ending Fund Balance at June 30, 2025	\$ 69.16	\$ 82.85	\$ 13.69

Table 2. General Fund Operating Results compared to Projections

OPERATING RESULTS (millions)	2024-25 PRO- JECTIONS	2024-25 FINAL RESULTS	DIFF PRO vs RES
Beginning Fund Balance	\$ 75.81	\$ 75.81	\$ -
Revenues	\$ 40.73	\$ 42.77	\$ 2.04
Expenditures (net of subscription acquisition sources)	\$ 31.82	\$ 31.46	\$ (0.36)
Excess Revenues over Expenditures	\$ 8.91	\$ 11.31	\$ 2.40
Net Transfers In/(Out)-Other Financing Sources	\$ (4.51)	\$ (4.27)	\$ 0.24
Net Change in Fund Balance	\$ 4.41	\$ 7.04	\$ 2.63
Ending Fund Balance at June 30, 2025	\$ 80.22	\$ 82.85	\$ 2.63

General Fund Reserves

The General Fund Unassigned Reserve is \$30.7 million, and the Economic Uncertainties Reserve is \$5.8 million, for a total of \$36.5 million as of June 30, 2025. Based on the original FY 2024-25 General Fund budgeted expenditures, not including net transfers of \$35.9 million, the General Fund Unassigned Reserve and Economic Uncertainties Reserve together represent a reserve level of 101%, meeting and exceeding the City's practice of maintaining the minimum target reserve level of 75% to 100% of budgeted expenditures.

The grand total of the General Fund Committed Reserves and the Unassigned General Fund Balance was \$72.9 million on June 30, 2025. The Committed Reserves are classified fund balances that can 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.

Committed Reserves balances and changes are summarized in Table 3.

Table 3. Changes to Committed Reserves

General Fund Balance Classifications (in millions)				
	FY 2023-24	FY 2024-25	Change	
Debt Service	\$ 2.21	\$ 2.99	\$	0.78
Economic uncertainty	5.41	5.81		0.40
Civic center master plan	8.45	14.02		5.57
CalPERS rate increases	3.28	3.42		0.14
OPEB future costs	1.52	1.52		-
Building and land acquisition	2.64	1.42		(1.22)
Capital Improvements	5.20	5.53		0.33
Economic development	1.21	1.18		(0.03)
Equipment replacement	0.04	0.19		0.15
Insurance premium increases	0.83	1.00		0.17
Police radio/system reserve	1.43	1.48		0.05
General Plan update	0.35	0.22		(0.13)
100th Anniversary	0.05	-		(0.05)
Park expansion	0.74	1.14		0.40
Workforce Innovation	1.23	1.23		-
NPDES issues	0.001	0.00		-
Facility reserve	0.37	0.65		0.28
Art reserve	0.15	0.35		0.20
Total Committed	\$ 35.12	\$ 42.16	\$	7.04
Unassigned Fund Balance	31.64	30.71		(0.93)
Total Committed and Unassigned Fund Balance	\$ 66.76	\$ 72.87	\$	6.11
Total Non-Spendable	8.92	9.99		1.07
Total Committed, Unassigned & Non-Spendable	\$ 75.67	\$ 82.85	\$	7.18
* FY 23-24 The majority of non-spendable is made up of advances to the Water Fund, and the Successor Agency (SA) loan receivable balance				

GASB 68 and GASB 75

The City's net pension liability is \$38.7 million and the OPEB liability is \$6.3 million. Net pension liability is the present value of projected benefit payments to current employees and retirees, less pension assets that are invested and maintained by CalPERS. Net pension liability associated with pensions for safety personnel is \$21.5 million and for non-safety personnel is \$17.2 million. The liability will fluctuate because of investment returns and changes in the discount rate. The weighted average funding status of the City's two pension plans is approximately 78.1% based on the most recent GASB 68 actuarial valuation, which is above the average funded status of approximately 72%. The City has established committed reserve funds to address pension and OPEB costs, and also begun the CalPERS Fresh Start strategy to address future CalPERS rate increases and stabilize annual pension costs.

Beginning in 2009, the City and its employees recognized the need to take proactive measures to address the rising costs of the pension and OPEB plans. All employees began contributing a portion of their compensation toward their pension plan costs, reducing the City's employer-paid costs. In 2010, the City established new pension plans for employees hired after June 2010 (Tier II) that offered reduced retirement benefits in order to lower long-term pension liability. In 2013, the State

passed the Public Employees' Pension Reform Act (PEPRA) that affects employees hired on or after January 1, 2013. PEPRA capped the annual pension benefit that can be received, established a lower-cost pension formula for safety and non-safety employees with requirements to work longer in order to reach full retirement age, and capped the amount used to calculate a pension.

FY 2024-25 contribution rates for Classic Tier I, Classic Tier II, and Public Employees' Pension Reform Act (PEPRA) employees are as follows:

- Classic Safety employees contribute 12%
- Classic Safety management contribute 9%
- PEPRA Safety employees contribute 13.75%
- Classic Tier I/Tier II miscellaneous and management employees contribute 7%
- PEPRA miscellaneous and management employees contribute 6.75%.

Additionally, non-safety employees contribute 1% of their compensation, and safety employees contribute \$625 annually to offset the cost of OPEB obligations.

Water Fund

The City's business-type activities consisted solely of the Water Utility Enterprise Fund (Water Fund). The Water Fund is used to account for financial activity related to the purchase, production, storage, and distribution of water used by the community, as well as the maintenance, repair, and replacement of related equipment and pipelines. The intent of the Water Fund is to meet all operational costs through regular revenue from rate payers while also putting monies aside for future infrastructure replacement and repairs.

Water Fund revenues consist of charges for services and investment income which totaled \$7.8 million. Operating revenues continue to grow year-over-year due to annual rate increases, in accordance with the approved Prop 218 rate schedule (the fifth of five rate increases). The City conducted a water rate study and a water master plan to review the Water Utility fund to ensure overall fiscal sustainability and prioritize water infrastructure needs and future capital improvement planning. The water rate study was completed in FY2024-25. Non-operating revenues include net investment income of \$457,050. Operating expenses totaled \$6.9 million, reflecting costs for supplies and repairs, and maintenance. Interest expenses related to debt service totaled \$107,532.

GASB 68 requires that the year-over-year change to unfunded pension liability be reflected within the Statement of Revenues, Expenses, and Changes in Net Position. A change in the pension allocation reduced pension expense reported in the personnel services line-item by \$1.42 million for FY 2024-25. After non-operating results, transfers, and financial consolidation entries, the change in net position increased by \$815,131, and other factors resulting in a reduction of water supply costs by \$478,971 compared to Fiscal Year 2023-24; a one-time increase in interest income of \$143,872, driven by higher interest rates, a \$622,499 increase in sales as a result of the approved Prop 218 rate schedule; and increased expenditures mainly related to salary and benefits.

The Water Fund's operating results are summarized in Table 4.

Table 4 Water Fund Operating Results

OPERATING RESULTS AND NET POSITION (in millions)		2024-25 FINAL RESULTS
Beginning Net Position at July 1, 2024	\$	28.198
Operating Income (Loss)	\$	0.423
Total Non-Operating Revenues (Expenses)	\$	0.350
Transfers	\$	0.042
Net Change in Position	\$	0.815
Ending Net Position at June 30, 2025	\$	29.014
Adjusted Change in Net Position	\$	-
Adjusted Ending Net Position at June 30, 2025	\$	29.014

Reserve Appropriations and Reallocations of FY 2024-25 Positive Fund Balance

For FY 2024-25, the General Fund closed with revenues exceeding expenditures in the amount of \$7,039,019 (including net transfers). The annual positive fund balance is available for a one-time allocation to projects, programs, or reserves as directed by the City Council. Staff proposes to return to the City Council the first part of the 2026 calendar year, to allow sufficient time to conduct a detailed analysis and propose the recommended allocations.

Attachment:

- A. FY 2024-25 Annual Comprehensive Financial Report