



CITY COUNCIL

STAFF REPORT

November 20, 2024

**ITEM TITLE: REVIEW OF FISCAL YEAR 2023-24 AUDITED FINANCIAL STATEMENTS AND RELATED DOCUMENTS AND RESOLUTION NO. 2024-085 AUTHORIZING THE ALLOCATION OF FUND BALANCE AND AUTHORIZING NECESSARY ASSIGNMENTS, TRANSFERS, AND BUDGET AMENDMENTS. (0412-50 & 0310-90)**

**ORIGINATING DEPARTMENT:**

Finance

**EXECUTIVE SUMMARY:**

The independent audit of the Financial Statements of City of Imperial Beach for the Fiscal Year Ended June 30, 2024, has been completed and prepared for consideration by the City Council. The audit reports on government-wide fiscal activities, as well as on the fund level activity in the General Fund, Other Governmental Funds, the Sewer Enterprise Fund and the Internal Services Funds from July 1, 2023 to June 30, 2024. The annual Housing Authority reports are also included in the audit.

**RECOMMENDATION:**

1. City Council and Board(s) receive and file the Fiscal Year 2023-24 City of Imperial Beach Audited Financial Statements and related documents.
2. Adopt Resolution No. 2024-085 Authorizing the allocation of fund balance and authorizing necessary assignments, transfers, and budget amendments.

**OPTIONS:**

- Receive and file the Fiscal Year 2023-24 City of Imperial Beach audited financial statements and related documents and approve Resolution No. 2024-085 Authorizing the allocation of fund balance and authorizing necessary assignments, transfers, and budget amendments
- Receive and file the Fiscal Year 2023-24 City of Imperial Beach audited financial statements and related documents and do not approve Resolution No. 2024-085 Authorizing the allocation of fund balance and authorizing necessary assignments, transfers, and budget amendments
- Direct staff to provide additional information

**BACKGROUND/ANALYSIS:**

The City of Imperial Beach's fiscal year ends on June 30, followed by a two-month period during which payments related to the prior fiscal year are both issued and collected. In September, the Finance Department processes the remaining year-end closing entries, and the year-end audit is typically conducted at the end of the month. During this time, auditors collect data and perform

various procedures over several weeks. Once these procedures are complete, the final financial statements, along with the overall audit opinion, are issued in November.

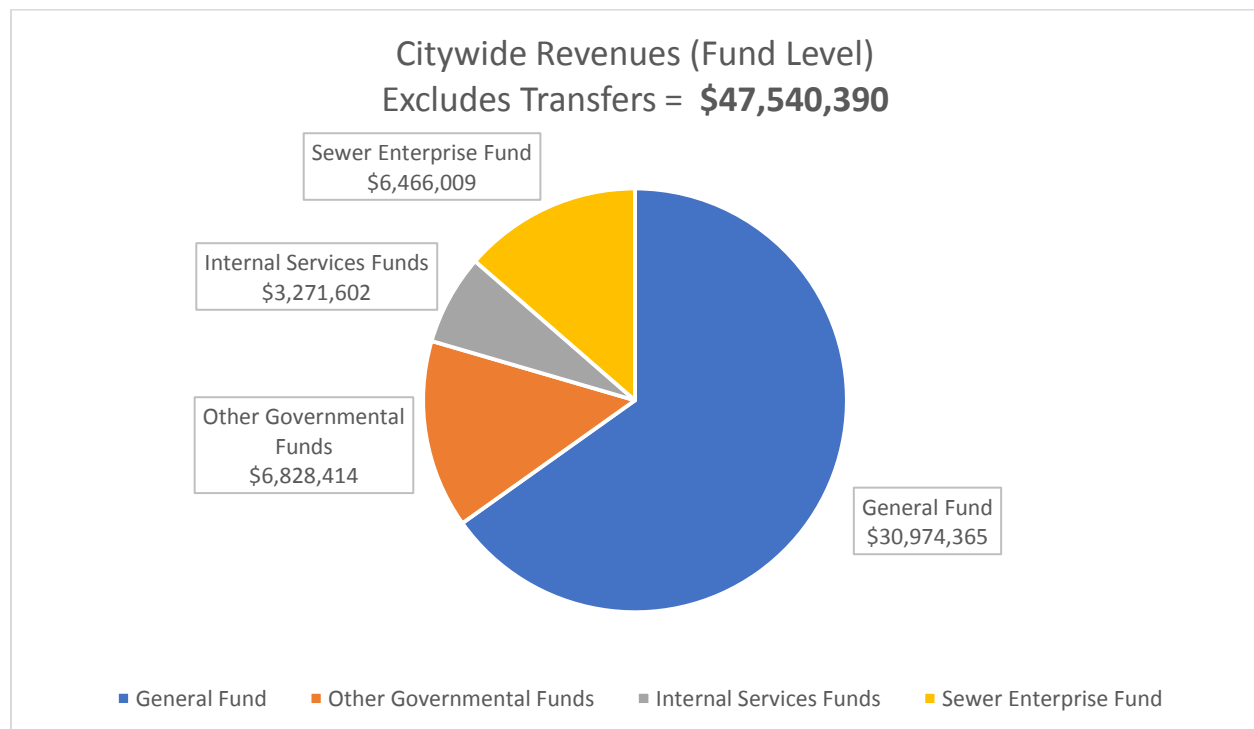
The Financial Statements for the City of Imperial Beach for the Fiscal Year Ended June 30, 2024 have now been finalized and are included as attachments to this report. Also included is a letter from the independent third-party audit firm that issued an opinion on the financial statements.

An independent audit serves as a vital tool to verify fiscal data and to ensure that the financial results presented are accurate. It provides reassurance to constituents that the City's finances and internal processes are in good order. Additionally, an outside review is essential for maintaining adherence to best financial practices and offers valuable opportunities for staff to receive recommendations on how to enhance financial management through the implementation of new procedures. It is important to note that the auditors independently determine which areas and transactions to test based on their professional judgment and risk assessment. They evaluate the financial statements for potential risks, material misstatements, or areas of concern, and use this assessment to guide their audit procedures.

This report will provide an overview of the key aspects of the financial statements, while the full audited document is available for public review and will be published on the City's website.

### REVENUES

In Fiscal Year 2023-24, the Citywide fund-level revenue, excluding transfers, totaled \$47,540,390. Of this amount, the General Fund generated \$30,974,365, representing approximately 65% of the total Citywide revenue. The Sewer Enterprise Fund generated \$6,466,009, which accounts for about 14% of the Citywide revenue. The remaining revenue is distributed between the Internal Service Funds, with total revenues of \$3,271,602, and the Other Government Funds, which totaled \$6,828,414. A breakdown of these revenue sources is provided in the chart below.



Revenues in Fiscal Year 2023-24 saw an increase compared to the previous year, though the growth was less pronounced than in prior years, which were marked by post-pandemic recovery. The General Fund revenue for FY 2023-24 was approximately \$1.8 million higher than in FY 2022-23.

The City remains heavily reliant on tax revenues, which exhibited mixed results during this period. The primary contributors to the year-over-year increase were:

- Property Tax (\$0.7 million increase),
- Franchise Taxes (\$0.2 million increase),
- Transient Occupancy Tax (TOT) (\$0.2 million increase)

Together, these three sources accounted for most of the revenue growth. Property Tax revenues exceeded expectations despite the prevailing high-interest rate environment, reflecting the stability and paramount importance of this revenue stream to the City. Transient Occupancy Tax (TOT) rose primarily due to adjustments in assessed rates, contributing positively to the overall revenue picture. Franchise Taxes experienced overall growth, although some categories within this tax type saw strong increases, others declined year-over-year.

There were also some notable decreases in revenue streams that were projected to increase. The decline in Sales Tax received by the General Fund while relatively small at \$37,000, is a cause for concern given that Sales Tax is the City's second largest tax revenue source. Even minor fluctuations in this area can have a significant impact on the overall budget. As such, it is essential for staff to monitor this trend closely. This decline also presents an opportunity to focus on economic development initiatives aimed at boosting sales tax revenue. By encouraging the growth of businesses and industries that generate sales tax, the City can help stabilize and potentially increase this vital financial resource.

On the non-tax revenue side, investment earnings showed a strong performance, exceeding last year's by \$0.5 million. This increase is largely due to the higher interest rate environment, which allowed the City to achieve strong returns on its reserves. Additionally, the City saw a \$0.5 million increase in revenues from service fee adjustments, reflecting a cost assessment study that led to higher fees for certain City provided services as well as an increase in fees collected from the Port District. On the downside, intergovernmental revenues and fines and forfeitures both declined, by \$0.3 million and \$0.1 million, respectively.

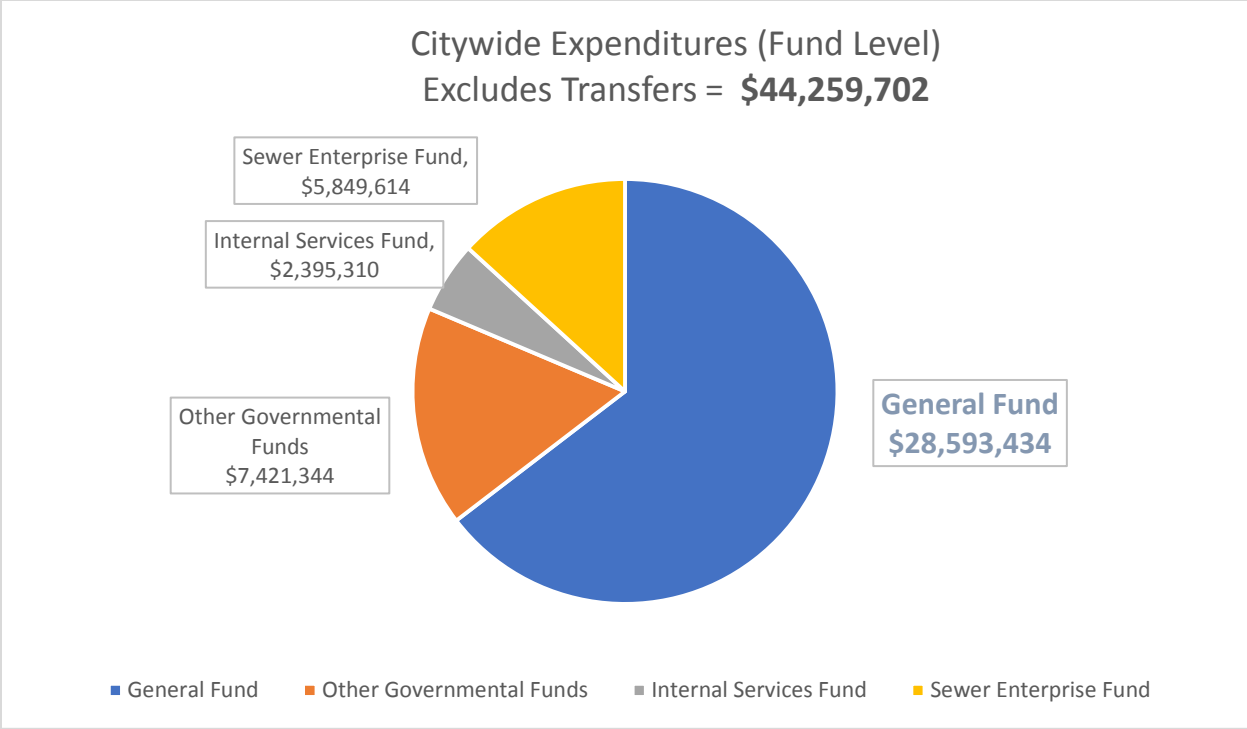
In addition to these revenues, the General Fund also received approximately \$0.9 million in interfund transfers and other financing sources, bringing total actual revenues for the General Fund to \$31,907,505. This amount exceeded the final amended budget by \$1 million.

## EXPENDITURES

In Fiscal Year 2023-24, Citywide expenditures, excluding transfers, totaled \$44,259,702. The distribution of these expenditures across various funds is as follows:

- General Fund: \$28,593,434 (approximately 65% of total expenditures)
- Other Government Funds: \$7,421,344 (approximately 17%)
- Sewer Enterprise Fund: \$5,849,614 (approximately 13%)
- Internal Services Funds: \$2,395,310 (approximately 5%)

The following chart provides a visual overview of the Citywide expenditures.



For the fiscal year 2023-24, the General Fund's actual expenditures, including transfers of approximately \$2.8 million, totaled \$31,409,189, which was about \$0.7 million below the final amended budgeted expenditures. This variance primarily resulted from projects that were budgeted for the current year but deferred to future periods. Additionally, some of the variance was due to required fiscal year-end accounting adjustments related to Other Post-Employment Benefits (OPEB) valuation, as well as accounting changes regarding leases and software agreements—items that the City does not typically budget for.

Compared to the previous fiscal year, actual General Fund expenditures increased by \$2.7 million, with transfers rising by an additional \$1.2 million.

The largest operational increase in the General Fund was in the parks, recreation, and senior center areas, which saw a rise of approximately \$1.1 million. This increase was driven by expanded program offerings, aquatic program at Mar Vista High School, and the addition of new personnel. Public safety expenditures also rose by about \$0.7 million, primarily due to increased costs in the fire protection department primarily due to personnel and overtime expenses. Additionally, the City made a change in how financial data is presented, now separately categorizing \$0.7 million of planning, housing, and economic development costs under a new “community development” category. This change improves the visual presentation of these costs, as they were previously included under the broader “general government” category. The remaining \$0.2 million in increased expenditures was spread across other departments and capital outlays.

Capital outlays accounted for a significant portion of the increase in transfers, as funds were directed toward supporting various parks and facility improvement projects, as well as the acquisition of large equipment for the public works department.

Throughout FY 2024, the City made substantial progress in enhancing community infrastructure and amenities, while prudently managing revenues and actively pursuing grant opportunities. A key priority was the maintenance and improvement of capital projects, with particular emphasis on expanding the parks and recreation department to better serve the community.

Key initiatives included the construction phase of several major projects funded by the federal American Rescue Plan Act (ARPA), which introduced valuable new features for residents of all ages. Notable accomplishments included the opening of a new multi-use field at Veterans Park, ongoing improvements at the Senior Center, and the initiation of a remodel of the Sports Park complex. Additionally, construction moved forward on the 10th Street streetscape improvements and the replacement of restrooms at Sports Park, further enhancing public facilities and services for the community.

In total, over \$6 million was expended on capital outlay from various governmental funds, with approximately half of this amount funded through grants, which provided crucial external resources to benefit the community. Grants also supported other essential initiatives, such as the purchase of a new fire engine, efforts to assist the unsheltered population, and plans for coastal hazards mitigation. While this represents an accelerated pace of project implementation, it also places a significant burden on resources, as grant application, management, billing, reporting, and compliance are much more time-consuming than utilizing local resources. Moreover, the City will need to create a sustainable maintenance and staffing plan to ensure the long-term viability of added facilities.

Overall, the General Fund ended FY 2023-24 with a slight increase in its net balance of \$498,316, indicating that revenues exceeded expenditures for the year.

Additionally, it's important to highlight a substantial increase in expenditures within other governmental funds. These funds, which include grants and other specific purpose allocations, saw a year-over-year expenditure increase of \$4.7 million, or 175%. This spike is primarily attributed to ongoing capital improvements and substantial investments in the City's infrastructure.

Furthermore, the City was once again impacted by a significant increase in the required annual payment on its unfunded actuarial pension liability during FY 2024-25. This, combined with the rapid growth in overall pension liabilities, is putting increasing pressure on the City's financial resources. The escalating pension obligations are becoming increasingly difficult to manage and are raising serious concerns about the City's long-term fiscal well-being. More details are included within the Government-wide section of this report below.

In response to these rising pension and retiree costs, the City began making contributions to a Section 115 Trust, a dedicated fund designed to help manage and mitigate future pension-related liabilities. The City will continue to prioritize these costs, as pension obligations will be a critical financial consideration both in the near term and moving forward.

To address these challenges, staff will request an additional contribution to the Trust fund in FY 2024-25, as detailed further in this report. This additional contribution is part of the City's ongoing strategy to better manage pension obligations and secure long-term fiscal stability.

## FUND BALANCE

Fund Balance represents the difference between assets and liabilities in a given fund within the City. In essence, it reflects the City's unrestricted net position within the fund, which can be used to meet the government's ongoing obligations or achieve its goals. These funds can be assigned, committed, or allocated to various projects through a formal approval process by the City Council.

The largest and most significant fund balance in the City is the General Fund Unassigned Fund Balance. The assets within this balance allow the City Council to appropriate funds for unforeseen expenses or emergency expenditures, and they also provide essential support for effective cash management. The City Council has adopted a policy that the General Fund Unassigned Fund Balance should be maintained at 30% to 40% of General Fund expenditures. As of June 30, 2024, the General Fund Unassigned Fund Balance stood at \$12,623,886, or about 40.2% of the FY

2023-24 General Fund expenditures. This represents an increase of approximately \$469,000 compared to the previous fiscal year.

The City Council has also established a policy to create an Economic Uncertainty Fund Balance, intended for use in fiscal emergency situations. The policy requires this fund to be 10% of the General Fund expenditures. As of June 30, 2024, the Economic Uncertainty Fund Balance was \$2,900,000, in compliance with this policy.

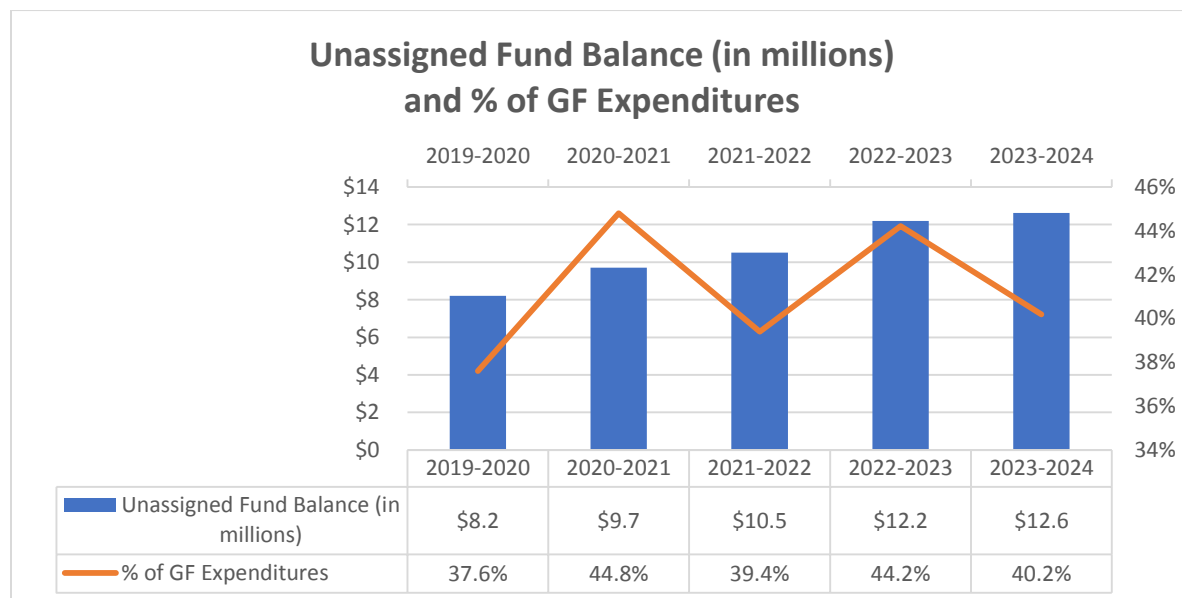
Furthermore, the City Council has established a Public Works Reserve Fund, which is designated for use only in the event of emergencies that require funds to ensure public safety, maintain minimum levels of circulation, or address other authorized emergency situations. The Fund Balance Policy requires a minimum of \$1,000,000 in this reserve, and as of June 30, 2024, the Public Works Reserve balance was \$1,300,000, in line with the policy.

Other fund balances as of June 30, 2024, include:

- Public Works Strategic Capital Reserve: \$504,482
- Community Benefit Funding: \$583,992
- Public Access Use (PEG): \$46,276
- Section 115 Trust for Pension Liability: \$862,244
- Projects in Progress (assigned): \$233,473

As previously mentioned, the General Fund Unassigned Fund Balance represents approximately 40.2% of FY 2023-24 General Fund expenditures, which is near the upper limit of the range set by City Council policy. A historical trend in this indicator is presented below.

This presents an opportunity for the City to further strengthen its financial position and address potential vulnerabilities.



As such, Staff is requesting the reallocation/transfer of \$300,000 from the General Fund Unassigned Fund Balance, to be allocated as detailed in “Proposed Fund Balance Re-Allocation” section further in this report. This would leave the reserve at approximately 39.2%.

## OTHER FUNDS

The City has several other funds that are included in the annual audit. In summary, the key funds are as follows:

- **Sewer Enterprise Fund:** The Sewer Enterprise Fund is the City's only business-type activity. As of June 30, 2024, the net position of the Sewer Enterprise Fund was \$15,760,040, of which \$6,601,544 is unrestricted. However, there has been a decline in sewer fees collected through the San Diego County property tax roll year-over-year, raising potential concerns. These fees, which fluctuate with water consumption, had seen a notable increase during the pandemic as more residents worked from home. Since reaching a peak in FY2022, collections have gradually decreased. This trend may significantly affect the City's future ability to fund essential sewer infrastructure rehabilitation projects. Management will continue to closely monitor this trend and explore alternative funding strategies to ensure sustainable financing for wastewater infrastructure needs.
- **Miscellaneous Grant Fund:** This fund is used to report various types of grants awarded to the City, including but not limited to COVID-19 relief grants. As of June 30, 2024, the balance in this fund was \$306,727, which is restricted for Parks and Recreation purposes.
- **Gas Taxes Fund Balance:** The City receives revenue from various gas taxes (Gas Tax, RMRA, and Proposition A/Transnet) that are restricted in use. On June 30, 2023, the combined balance in these funds was \$1,479,699. However, gas tax revenues have fallen short of projections due to changes in consumer behavior and the growing trend of vehicle electrification, which reduces fuel consumption. This decline is a critical area for monitoring, as it may impact the City's ability to maintain streets and fund road improvement projects.
- **Supplemental Law Enforcement Fund (SLEF):** This fund receives state funding to supplement existing resources for front-line law enforcement services. As of June 30, 2022, the balance in this fund was \$0.
- **Capital Project Funds (CIP and Park Maintenance CIP Fund):** These funds are restricted for the maintenance and improvement of the City's capital infrastructure. As of June 30, 2024, the combined balance in these funds was \$2,277,938. This balance supports the ongoing key City projects, including parks and infrastructure improvements.
- **Internal Services Funds:** There are four funds established to provide internal services to the City. The balances in these funds as of June 30, 2024, are as follows:
  - **Vehicle Replacement and Maintenance Fund:** \$908,216 (unrestricted balance). This fund supports the replacement and maintenance of the City's vehicle fleet.
  - **Risk Management Fund:** \$1,648,933. This fund covers the City's liability for claims, insurance, and other risk management-related expenses.
  - **Technology and Communication Fund:** \$569,731. This fund is used to manage and maintain the City's technology infrastructure, including communication systems and IT support.
  - **Facilities Repair and Maintenance Fund:** \$322,396. This fund is designated for the repair and maintenance of City facilities.
- **Housing Authority Fund:** The balance as of June 30, 2024, was \$925,451. This fund is used to support the City's affordable housing programs and related services.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City's year-end financial report also includes Government-wide financial statements, which consolidate the majority of individual funds to provide a broad overview of the City's financial position. These statements are prepared using accounting methods similar to those used by private-sector companies. They include the reporting of long-term assets, such as equipment and infrastructure, as well as long-term liabilities, such as debt instruments or pension obligations. These long-term obligations are not included in the individual fund statements but are important for understanding the City's overall financial health.

It is important to note that the inclusion of long-term liabilities, particularly the unfunded pension obligations, can result in negative unrestricted fund balances (or "net position") in government-wide financial statements, even if individual funds report positive unrestricted balances. This situation is common for many government agencies.

However, this is not the case for the City of Imperial Beach, where management has proactively targeted the growing pension liabilities through strategies such as pre-funding, strategic outsourcing of certain services, and other financial management practices. Thanks to these efforts, the City is able to report a positive unrestricted balance in the Statement of Net Position for both governmental and business-type (sewer) activities.

That said, the unrestricted net position has declined by \$0.2 million compared to last year, which signals potential emerging challenges. While the City remains in a positive financial position overall, this decrease highlights the need for continued vigilance and strategic planning to ensure that the City's financial health remains strong in the face of rising liabilities and other fiscal pressures.

As of June 30, 2024, the City's unfunded pension actuarial liability (UAL) stood at \$13.5 million, with an additional \$1.4 million owed in other post-retirement benefits (OPEB). The increase in the overall pension liability last year also led to a corresponding rise in interest expenses assessed by CalPERS. The UAL grew by approximately \$1.4 million compared to the previous year, marking an unsustainable rate of growth. This trend underscores the need for a comprehensive, systematic approach to managing these liabilities. Some available strategies to address the situation include funding the pension trust fund, exploring cost-sharing arrangements, and making additional payments to CalPERS to help reduce the unfunded liability.

The City's funded ratio is currently around 70%, which is mid-range compared to other San Diego agencies, but still falls short of what is needed to avoid steep increases in pension costs due to interest accrual. Additionally, the City's contribution rates are below the county median, signaling a need for improvement. To ensure long-term fiscal sustainability, it will be essential to evaluate and potentially adjust the cost-sharing ratios to prevent further strain on the City's budget.

The City's long-term pension obligations are also reflected in the required annual payments on the unfunded actuarial liability (UAL). For the fiscal year FY 2025-26, the required payment is projected to be nearly \$1.4 million, up from \$1.1 million in FY 2024-25 and \$0.9 million in FY 2023-24. This escalating cost represents a growing budgetary and cash flow burden on the City's finances.

Given the scale of this challenge, management and staff will need to take continuous and proactive measures to mitigate the negative impact of rising pension obligations on the City's overall financial health. Effective long-term management of these liabilities is critical to ensuring the City's financial sustainability.



**PROPOSED FUND BALANCE RE-ALLOCATIONS:**

To address two of the pressing challenges the City is currently facing—escalating pension costs and deferred facilities maintenance —staff is requesting the reallocation/transfer of \$300,000 from the General Fund Unassigned Fund Balance, to be allocated as follows:

- Contribute an additional \$200,000 to the Section 115 Trust Fund, earmarked for future pension obligations. These funds will be invested in an instrument with higher return potential than typical City investments, helping to address long-term pension liabilities.
- Transfer \$100,000 from the unassigned fund balance to the Facilities Repair & Maintenance Fund (Fund 504). And appropriate to miscellaneous repairs to City facilities in account 504-1924-519.2006 of the FY 2024-25 budget. No expenditure has been budgeted for this fund this year. However, emergency repairs to aging City facilities are anticipated, similar to prior year when approximately \$100,000 was used for urgent needs such as the Veterans Park canopy removal and Dempsey Center leak repairs.

**AUDIT FINDINGS**

Staff is pleased to announce there were no findings for FY 2023-24. Additionally, the independent auditors found no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**OTHER CITY RELATED FUNDS**

The Citywide Audited Financial Statements is inclusive of the separate agencies of the Imperial Beach Redevelopment Successor Agency and the Housing Authority of the City of Imperial Beach. The required Housing Authority Specified Activity report will be posted on the City's website in accordance with the California Health and Safety Code 34176.1 et. seq.

**ENVIRONMENTAL DETERMINATION:**

Not a project as defined by CEQA.

**FISCAL IMPACT:**

Reallocate/transfer \$300,000 of the General Fund Unassigned Fund Balance as follows:

- a) Contribute \$200,000 to Section 115 trust fund (GL 101-0000-103.0010)
- b) Transfer \$100,000 the Facilities Repair & Maintenance Fund (Fund 504) appropriate in FY2024-25 budget for account 504-1924-519.2006 for miscellaneous repairs to facilities

<b>FISCAL YEAR:</b>	FY 2024-25	
<b>BUDGETED:</b>	N	
<b>BUDGET AMENDMENT</b>	Y	
<b>ACCOUNT NO(S):</b>	101-1920-419.9003 – Transfer Out	\$ 100,000
	504-0000-391.9001 – Transfer In – GF	\$ 100,000
	504-1924-519.2006 – Professional Services	\$ 100,000
<b>PROJECT NO(S):</b>	N/A	
<b>FISCAL ANALYSIS:</b>	Transfer \$100,000 to the Facilities Repair & Maintenance Fund (Fund 504) to cover emergency repairs at City facilities in the FY 2024-25 budget. While no expenditures were initially budgeted	

for emergency repairs this year, staff is proposing to set aside the same amount used for necessary repairs last year.

Allocate an additional \$200,000 to the Section 115 Trust Fund to help offset the City's unfunded pension actuarial liability (UAL), which currently stands at \$13.5 million, reflecting an increase of \$1.4 million year-over-year. The City's Section 115 Trust currently holds \$860,000 to help address this liability. The additional allocation will help strengthen the City's ability to manage long-term pension obligations.

**CURRENT BUDGET:**

Facilities Repair & Maintenance Fund (Fund 504)

504-1924-519.2006 – Professional Services           \$ 0

Section 115 Trust Fund contribution is not budgeted but is set by the City's policy to be funded from the interest savings realized by paying the required annual UAL payment in a lump sum rather than in monthly installments. For FY 2024-25, this savings is estimated to be about \$37,000.

**ANTICIPATED  
EXPENDITURE:**

\$300,000

**ATTACHMENTS:**

ATT 1 – FY24 Audited Financial Statements

ATT 2 – FY24 Housing Asset Audit Report

ATT 3 – FY24 Annual Housing Successor Specified Activity Report

ATT 4 – Resolution No. 2024-085