



# ***Agenda Report***

## ***Fullerton City Council***

**MEETING DATE:** JANUARY 21, 2025

**TO:** CITY COUNCIL / SUCCESSOR AGENCY

**SUBMITTED BY:** ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES

**PREPARED BY:** TONI SMART, DEPUTY DIRECTOR OF ADMINISTRATIVE SERVICES

**SUBJECT:** ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2024

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### **SUMMARY**

This item submits the City of Fullerton Annual Comprehensive Financial Report (ACFR) for Fiscal Year ended June 30, 2024.

### **PROPOSED MOTION**

Receive and file.

### **CITY MANAGER RECOMMENDATION**

Concur with the proposed motion to receive and file.

### **ALTERNATIVE OPTIONS**

- Approve the Proposed Motion
- Do not receive and file
- Other options brought by City Council.

### **PRIORITY POLICY STATEMENT**

This item matches the following Priority Policy Statement:

- Fiscal and Organizational Stability.

### **FISCAL IMPACT**

No fiscal impact.

## DISCUSSION

Staff annually prepares and publishes the City ACFR (previously referred to as the Comprehensive Annual Financial Report or CAFR) following an independent audit. The City's auditors, Lance, Soll & Lunghard, LLP (LSL), completed the Fiscal Year ended June 30, 2024 audit. The ACFR has been issued and incorporated as part of the agenda packet and available on the City website. The annual budget and associated quarterly reporting primarily focus on annual revenue and expenditures and spendable fund balances while the ACFR provides a more exhaustive and comprehensive report of the City's overall financial condition.

The ACFR is prepared in compliance with Governmental Accounting Standards Board (GASB) standards. The City ACFR has three sections pursuant to GASB guidelines: Introductory, Financial and Statistical. The Introductory section contains a Letter of Transmittal, which includes a brief overview of the City's economic outlook, operational controls and major initiatives. It also includes the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting, which the City received for Fiscal Year ended June 30, 2023. The City submitted this year's ACFR on December 23, 2024 with the expectation of receiving the award again.

The Financial section contains the independent auditor opinion letter, Management Discussion and Analysis (MD&A) and Basic Financial Statements. The LSL audit firm issued an unmodified audit opinion, meaning the financial statements present fairly, in all material respects, the financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2024. The MD&A provides a narrative of the financial report presentation, key highlights of some financial position changes and tables showing comparative information from Fiscal Year ended June 30, 2023 to Fiscal Year ended June 30, 2024.

The final section, the Statistical section, presents data useful in analyzing the City financial and operational history for comparative purposes. Statistics tracked include financial trends, revenue capacity and debt capacity which are useful for evaluating the City's financial stability.

### ACFR Highlights:

- The Government-Wide Financial Statement of Net Position (ACFR Page 15) indicates the City's overall financial condition. The net position totaled \$626.1 million at June 30, 2024 representing a \$34.6 million increase over the previous fiscal year, primarily due to income from water sales, property tax revenue growth and investment earnings offset by increases in labor and pension plan expenses. \$682.8 million of total net position is invested in capital assets net of related debt ("net investment in capital assets"), while \$43.8 million is restricted for specific governmental operations, leaving a \$100.6 million negative unrestricted balance.
- The Governmental Funds (General, Special Revenue, Debt Service and Capital Projects) reported \$67.3 million combined ending fund balances (ACFR Page 19), a \$2.6 million decrease in comparison with the prior year, primarily attributable to increases in salaries and benefits and the cost of goods and services.

- The General Fund reflects \$23.0 million assigned fund balance (ACFR Page 18), which compares to \$19.8 million assigned fund balance the previous year. The \$3.2 million increase in assigned fund balance is primarily due to City Council designation to maintain contingency reserves to the City's 17% reserve levels goal. This designation resulted in \$10.1 million of unassigned fund balance in the General Fund.
- The General Fund ended the fiscal year with a \$38.7 million (ACFR Page 18) total fund balance. General Fund revenues totaled \$123.6 million (ACFR Page 22), a \$3.0 million increase over the prior year. The increase in revenues attributed to property tax revenue growth due to 7.28% property values increases and 2% property base year value increase. General Fund expenditures totaled \$124.0 million, a \$9.7 million increase from the previous fiscal year, primarily due to increases in negotiated labor bargaining agreements, PERS liability costs and maintenance and support costs due to high inflation for the cost of goods and services.
- The American Rescue Plan Act (ARPA) Special Revenue Fund (ACFR Page 18) ended the fiscal year with a \$1.4 million fund balance. The City received a \$32.7 million award and received the first \$16.3 million in FY 2020-21 and the remaining \$16.4 million in May 2022. \$10.2 million is recorded as unearned revenue on the balance sheet pending use for eligible expenditures. The City has fully obligated ARPA funds and ARPA projects and related expenditures will continue through December 2026. The City will report eligible administrative expenses through December 2026 per US Treasury guidelines. This special revenue fund will closeout after fully expending all ARPA funded projects and costs.
- The City Enterprise Funds account for operations when the City intends to recover the cost of providing goods or services primarily through user charges. These funds include water, sewer, airport, Brea Dam recreational facilities, parking facilities and CNG station. The funds ended the year with a \$216.9 million net position at June 30, 2024 (ACFR Page 15), representing a \$20.5 million increase over the previous fiscal year. Changes in net position include \$19.1 million increase in the Water Fund, \$1.3 million increase in the Sewer Fund, \$2.0 million decrease in the Airport Fund, \$0.1 million decrease in Other Enterprise Funds and a \$11.6 million adjustment for the internal services funds operating gain allocated to the enterprise funds (ACFR Page 27).
- City Internal Service Funds account for activity that provides goods and services to other funds or departments on a cost-reimbursement basis, such as liability insurance, vehicle replacement, worker's compensation, group insurance, equipment maintenance, information technology, building maintenance and facility capital repair. The City's net position in the Internal Services Funds (ACFR Page 118) increased by \$11.6 million to \$52.9 million at June 30, 2024, primarily attributed to a \$6.2 million increase in the Liability Insurance Fund, \$1.9 million increase in the Vehicle Replacement Fund and a \$1.7 million increase in the Worker's Compensation Fund. The \$11.6 million increase in net position was attributed to an increase in cost allocation (operating expenses) across all city funds to cover internal service fund costs and operations.

- The City had \$25.8 million bonds, notes, leases and subscription debt outstanding at June 30, 2024, a \$5.2 million increase from the prior fiscal year, primarily due to full utility billing and cashiering system go-live increasing the subscription liability and a loan from Caltrans for Airport infrastructure projects. (ACFR Page 12 and 27).
- PERS Miscellaneous Plan net pension liability increased by \$7.5 million with a resulting 74.5% funding ratio (ACFR Page 84). PERS Safety Plan net pension liability increased by \$19.2 million with a resulting 62.6% funded ratio (ACFR Page 86). The PERS Miscellaneous and Safety Plan net pension liability increases at June 30, 2024 are due to a decrease in earnings on pension plan investments. The net change in pension liability is a \$11.9 million increase.

OPEB liability decreased by \$0.3 million and the OPEB funded ratio as of June 30, 2024 equals 0.3% (ACFR Page 88) due to a discount rate change from 3.69% on June 30, 2023 to 3.86% on June 30, 2024 as well as changes in mortality rate assumptions.

#### *General Fund Ending Fund Balance*

<b>Fund Balance</b>	<b>General Fund FY 2023-24</b>	<b>General Fund FY 2022-23</b>
<i>Nonspendable:</i>		
Inventories	6,528	6,528
Prepays	396,115	306,182
<b>Total Nonspendable</b>	<b>402,643</b>	<b>312,710</b>
<i>Restricted:</i>		
Opioid Settlement	-	64,081
Library – Foundation and Friends	881,092	607,275
115 Pension Trust Fund	637,739	555,438
Donations	373,494	291,918
<b>Total Restricted</b>	<b>1,892,325</b>	<b>1,518,712</b>
<i>Committed:</i>		
Capital Projects	3,277,873	1,535,971
<b>Total Committed</b>	<b>3,277,873</b>	<b>1,535,971</b>
<i>Assigned:</i>		
Contingency Reserve	21,075,598	19,406,405
Building Permit Software	70,041	130,662
Street Projects	1,627,126	271,737
Police Department Retention	189,785	-
<b>Total Assigned</b>	<b>22,962,550</b>	<b>19,808,804</b>
<b>Unassigned</b>	<b>10,121,144</b>	<b>10,311,002</b>

<b>Ending Fund Balance</b>	<b>38,656,835</b>	<b>33,487,199</b>
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The General Fund reflects a \$402,643 non-spendable fund balance compared to a \$312,710 non-spendable fund balance the previous year, a \$1.9 million restricted fund balance compared to \$1.5 million restricted fund balance the previous year, \$23.0 million assigned fund balance compared to \$19.8 million assigned fund balance the previous year and a \$10.1 unassigned fund balance compared to \$10.3 million the previous fiscal year. The combined fund balance totals \$38.7 million, representing a \$5.2 million increase over the previous fiscal year.

Committed Fund Balances include amounts that can only be used for specific purposes pursuant to City Council action. City Council adopted Ordinance No. 3284 which created a dedicated Infrastructure Fund and set a method to deposit revenues above a designated baseline for secured property and sales tax revenues for infrastructure improvements. The City had \$3.3 million committed for these purposes as of June 30, 2024.

Assigned fund balances are designated through City Council action. City Council authorized any unassigned balances designated as contingency reserves to maintain the 17% reserve level goal, resulting in a \$1.7 million increase over the previous fiscal year. The contingency reserve totaled \$21.1 million as of June 30, 2024, which is 17% of General Fund expenditures. Remaining projects such as building permit software, street projects and Police Department retention fluctuate based on project costs incurred in the fiscal year.

*Air Quality Improvement Trust Fund Audit Report*

Staff has attached the independent auditors' report on the Air Quality Improvement Trust Fund.

Attachments:

- Attachment 1 – Annual Comprehensive Financial Report
- Attachment 2 – Air Quality Improvement Trust Fund Audit Report

cc: City Manager Eric J Levitt