



# **Agenda Report**

## **Fullerton City Council**

**MEETING DATE:** JUNE 2, 2020

**TO:** CITY COUNCIL / SUCCESSOR AGENCY

**FROM:** KENNETH A. DOMER, CITY MANAGER

**PREPARED BY:** ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES  
STEVEN AVALOS, BUDGET ANALYST

**SUBJECT:** PROPOSED ANNUAL BUDGET, PROPOSED FEES AND ANNUAL APPROPRIATIONS LIMIT FOR FISCAL YEAR 2020-21

---

### **SUMMARY**

A public hearing to consider approval and adoption of the Proposed Annual Operating Budget, proposed changes to City's Schedule of Fees and Appropriations Limit for Fiscal Year 2020-21.

### **RECOMMENDATION**

1. Adopt Resolution No. 2020-XX.

RESOLUTION 2020-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, APPROVING AND ADOPTING THE PROPOSED OPERATING BUDGET FOR FISCAL YEAR 2020-21 AND APPROPRIATING THE FUNDS NECESSARY TO MEET THE EXPENDITURES SET FORTH THEREIN

2. Adopt Resolution No. 2020-XX.

RESOLUTION 2020-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, ADOPTING THE ANNUAL APPROPRIATIONS LIMIT FOR FISCAL YEAR 2020-21 PURSUANT TO ARTICLE XIII B OF THE CALIFORNIA STATE CONSTITUTION

3. Adopt Resolution No. 2020-XX.

RESOLUTION 2020-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, AMENDING OR ESTABLISHING NEW FEES AND

CHARGES FOR MUNICIPAL SERVICES FOR FISCAL YEAR 2020-21 AND  
REPEALING RESOLUTION NO. 2019-25

4. Approve creation of a new special restricted fund, entitled Franchise Fee Cable TV – Public, Educational, Governmental (PEG) Access Fund (Fund 27), to properly account and record restricted telecommunications franchise revenues.
5. Approve transfer of all budgeted PEG revenues and expenditures and fund balances from the General Fund to PEG Fund in FY 2019-20, in which the planned revenues and expenditures for FY 2020-21 will be included with budget adoption.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability.

FISCAL IMPACT

The Proposed Operating Budget for all City Funds, including the Enterprise Funds and all other funds and the Capital Improvement Program for Fiscal Year 2020-21 will total \$240,357,800. The Proposed General Fund Budget for FY 2020-21 will total \$106,087,083 in expenditures and will be supported by a revenue budget of \$98,163,272 and \$7,923,811 in proposed budget reduction measures, as specified and approved by the City Council hereto attached as Exhibit A of Attachment 1.

DISCUSSION

The preliminary Proposed Operating Budget for all City Funds for FY 2020-21 was first presented to City Council at a regular meeting held on May 5, 2020; which gave City Council the first opportunity to review the budget, discuss amongst City Council and provide input and comments to Staff. In addition, further discussion was warranted and needed to present the impacts that the current health crisis, COVID-19, has had on the City's overall fiscal condition and to discuss potential budget reduction strategies needed as a result of projected losses in revenues. In order to formally adopt the City's operating budget, a public hearing is scheduled for June 2, 2020 for City Council to approve and formally adopt the FY 2020-21 Operating Budget for all City Funds, including the General Fund and Capital Improvement Projects (CIP) budgets.

In addition, the Appropriations Limit that the City is legally mandated to adopt annually, and the proposed changes to the City's Schedule of Fees and fund accounting to properly account and record special restricted cable franchise funds are also presented for City Council approval.

All City Funds

For all City Funds, the FY 2020-21 Proposed Operating Budget totals \$240.4 million in expenditures and are supported by \$240.4 million in citywide revenues, proposed cost reduction measures and available fund balance across all funds. This includes the City's Enterprise Funds, Special Revenue Funds (such as Gas Tax, SB1 and Measure M), and all other operating funds, including the General Fund and CIP Fund. An overview of the

all funds budgets are provided in the Schedule of Changes to Fund Balances included in Attachment 1 - Draft Resolution No. 2020-XX Adopting FY 2020-21 Operating Budget.

General Fund (including Parks & Recreation and Library)

The FY 2020-21 Proposed General Fund budget will total \$106.1 million in expenditures and will be supported by \$98.2 million in revenues and \$7.9 million in proposed budget reduction measures for City Council consideration. At the first budget review meeting on May 5, 2020, it was initially reported that the City projected a \$9.0 million operating deficit, as the preliminary budgeted figures were based on best available information as of mid-April 2020. Staff has continually monitored revenues and expenditures to determine if there is a need to update and revise its initial projections and assumptions. As updated information has become available, the following revenue adjustments are now included in the FY 2020-21 Proposed General Fund Budget, and shown below.

**Table 1 – Overview of General Fund Revenues**

<b>General Fund (GF) Revenue</b>	<b>Preliminary FY2020-21 Projections</b>	<b>Adjustments</b>	<b>Revised FY2020-21 Projections</b>
Property Tax	\$45,706,060	\$1,256,170	\$46,962,230
Sales Tax	\$21,338,510	-	\$21,338,510
Transient Occupancy Tax	\$2,637,332	\$(200,000)	\$2,437,332
Other	\$27,425,200	-	\$27,425,200
<b>Total GF Revenue</b>	<b>\$97,107,102</b>	<b>\$1,056,170</b>	<b>\$98,163,272</b>

**Notes:**

- (a) Property Tax: projected increase changed from 1% to 3%
- (b) Sales Tax: no change despite HDL reduced forecast
- (c) Transient Occupancy Tax: decreased an additional \$200,000

*Revenues*

The following factors and assumptions were utilized in developing revised FY 2020-21 revenue projections:

- Property Tax – At the May 5, 2020 meeting, Staff initially projected a conservative 1% increase in property tax revenues due to concerns at the state and county levels with regard to potential deferrals and remittance issues. Assessing property tax revenues received in April and May would be key in revising any property tax projections for both FY 2019-20 and FY 2020-21, which were not available at time the Budget Review agenda report was submitted for May 5.

The City received its April and May installments of secured property tax revenues and with these receipts of property tax revenues, we are expected to meet our year-end revenue projections for property taxes in FY 2019-20. As a result, for FY 2020-21, we are recommending to increase property tax revenue projections from 1% to 3%, which will result in a revenue increase of \$1.2 million.

- Transient Occupancy Taxes (TOT) – As reported at the May 5, 2020 meeting, TOT revenues were expected to be negatively impacted. Thus, we initially projected a

\$600,000 revenue loss (a 20% decrease) from FY 2019-20 budget levels. As a result of continued uncertainties with regard to the Governor’s 4-Stage State re-opening plan and the impact COVID-19 will have in hotel occupancy rates, we are projecting an even further negative impact to our hotel occupancies and have reduced TOT revenues by an additional \$200,000 for FY 2020-21.

- Sales Tax – While the City received recent information with regard to our sales tax projections, in which our consultant lowered projections further than was originally presented on May 5, we are recommending to keep (and not reduce) sales tax revenues at their current projected levels of \$21.3 million. While this is cautiously optimistic, we are supportive of holding the sales tax revenue projection as is because the City has been benefitting from an uptick in online sales resulting from a new State law and has been receiving additional sales tax revenues from the countywide online sales pool allocations. We will know more by August 2020 if our sales tax projections will warrant an adjustment and will update City Council at the First Quarter Financial Update Report in FY 2020-21.

All other revenues are projected to make slight increases or decreases or remain relatively flat for FY 2020-21. The net result of the revenue adjustments presented is an increase of \$1.0 million for FY 2020-21. Overall, the projected deficit will reduce from \$9.0 million to \$7.9 million as presented below.

**Table 2 – Revised General Fund Projected Surplus / (Deficit)**

	<b>Projected FY19-20</b>	<b>Preliminary Projected FY20-21</b>	<b>Revised Projected FY20-21</b>
Contingency Reserve			
Available Unassigned Fund Balance			
<b>Available Beginning Fund Balance</b>	<b>\$10,169,821</b>	<b>\$6,964,420</b>	<b>\$7,110,533</b>
Revenues	95,026,578	97,107,102	97,107,102
Adjustment – Property Taxes			1,256,170
Adjustment – TOT			(200,000)
Expenditures	(98,231,979)	(106,087,083)	(106,087,083)
<b>Operating Surplus / Deficit</b>	<b>\$(3,205,401)</b>	<b>\$(8,979,981)</b>	<b>\$(7,923,811)</b>

*Expenditures*

For FY 2020-21, the General Fund expenditure budget will total \$106.1 million and was developed under the context of a “Maintenance of Effort” budget, which allows the budget to only be increased by obligated Memorandum of Agreement salary increases (i.e. step increases or negotiated salary increases), utility rate increases as well as built-in contract increases for its contracted services. This also includes California Public Employees Retirement System (CalPERS) pension increases, as well as any increases to employee health benefit plans. In addition, departments were allowed to submit additional budget requests and those approved by the City Manager are incorporated herein. A summary of significant budget changes are as follows:

- Negotiated Salary Increases (\$420,000) – This represents previously negotiated and approved salary increases effective July 2020 for the Fullerton Police Officers' Association Public Safety and Dispatcher Units (FPOA) and the Fullerton Firefighters' Association (FFA) employees.
- CalPERS Retirement Costs (\$2.9 million) – CalPERS pension costs will increase by \$2.9 million (or 16%) in the General Fund for FY 2020-21.
- Health Premium Increases (\$400,000) – Health premium costs for all employees and retirees are projected to increase by approximately 7%. This is in line with the average premium increases over the last five years.
- FY 2019-20 Budget Augmentations (\$1.1 million) – The FY 2020-21 budget will increase by \$1.1 million as a result of various budget augmentations approved in FY 2019-20. This includes the Parking Enforcement services contract, Jailer services contract and the Cost Allocation Plan financial study to name a few. Some of the augmentations, such as the contract for Parking Enforcement, will have a revenue offset. The Jailer services contract is a re-allocation of funding from personnel to contract services due to the changing how the jail is staffed.
- One-Time Budget Enhancements (\$400,000) – This includes one-time budget increases for the upcoming general election in November 2020 (occurs every other year), miscellaneous election related costs and continued economic development projects in the pipeline.

The CalPERS cost increase of \$2.9 million (or 16% increase) in FY 2020-21 is largely attributed to shortening the amortization period and reducing the CalPERS discount rate over the last few years. This ramp up period has caused short-term increases in the interim, but based on current information CalPERS costs are projected to level off starting in FY 2021-22. However, due to the current economic climate, this is not a foregone conclusion as CalPERS begins its experience study and review of actuarial assumptions. CalPERS pension costs represents a significant cost to the City, as the City has both miscellaneous and public safety plans.

#### Proposed Budget Balancing Options – General Fund

In order to balance the projected \$7.9 million General Fund operating deficit for FY 2020-21, Staff has previously identified and presented a number of different budget balancing options for City Council consideration. A few of these options include: Vacancy Savings, Temporary Closure of the Museum, Reducing the Library's Hours open to the public from 61 to 34 Hours, Negotiated Labor Savings and Executive Team Salary Reduction of 10%. Since the May 5, 2020 budget review meeting, there are few changes to note that are now included for City Council's consideration.

- Vacancy Savings (Hiring Freeze) – After discussions with each Department Head, Staff revised its initial Vacancy Rate savings projection to \$2.9 million. A portion of the increase is due to the inclusion of vacant police positions. The Vacancy Rate savings now incorporates seven sworn public safety vacancies, comprised of two high ranking police captain positions anticipated to be vacant at least half the year and a rolling average of five entry-level police officer vacancies per year. Overall,

there were 68.5 full-time equivalent (FTE) vacant positions identified, of which 39.5 FTE are projected to be vacant at least half to the full year.

- On-Going Discussions with the Employee Bargaining Units – Staff has initiated discussions with all employee bargaining groups to seek input on cost reduction measures and will have begun making formal proposals to the bargaining units.
- Review of Citywide Professional Services & Contracts – Staff is compiling a list of citywide contracts and professional services agreements for its major services providers to identify if there are any deferrals of annual increases or contract re-negotiation savings opportunities. Any such cost reductions will be brought forth in a future Financial Update with requests for budget adjustments as certain contracts and agreements may need to be formally amended and savings may not be realized right away.
- Discretionary Training and Travel Reductions – Staff has identified an additional \$57,000 in reductions related to citywide training and corresponding travel costs.
- Continued discussions with all departments to identify operational cost saving opportunities.

All Proposed Budget Balancing Cost Saving measures are presented and herein attached to the adopting budget resolution as Exhibit A of Attachment 1 for your consideration for approval. On this exhibit, there will be a “City Manager Recommended” column and a “Council Approved” column should the City Council have any changes to the recommended cost savings’ measures. Please note that the City has begun making formal proposals to the bargaining units to achieve additional cost savings and, other than tentatively agreed upon reductions to executive pay, the other labor cost saving measures have not been agreed upon. With the legal need to adopt the budget prior to July, the FY 2020-21 budget includes approving and adopting budget contingencies’ as they pertain to other labor savings.

#### Capital Improvement Program

The FY 2020-21 Proposed CIP Budget totals \$50.1 million and will largely be supported by grant funding in the amount of \$23.8 million, \$7.6 million in private developer fees and loans and by \$18.7 million of City funding by way of transportation revenues (Gas Tax and Measure M) and Water and Sewer Funds. No General Fund expenditures are included in the CIP Budget.

#### Appropriations Limit

California Government Code requires the annual appropriations limit be adjusted annually for changes in population and consumer price index as provided by the State. The Appropriations Limit for Fiscal Year 2020-21 is \$222,917,901. The appropriations subject to the limitation are \$73,541,857 – an amount \$149,376,044 under the current limit.

#### Proposed Fee Revisions

The FY 2020-21 Proposed Budget includes a limited number of proposed fee revisions to its Schedule of Fees. Fee revisions include: the last year of previously approved fee increases to Animal Control fees, bringing the majority of our animal licenses and animal

business licenses' fees to a 100% cost recovery of performing such services per our agreement with the County and the recent approval of a Civil Penalties schedule for Parking Violations and Late Payments which will now be incorporated into the City Fee Schedule. In addition, there is a proposed change to our Fireworks Permit fee to assist the City's recovery efforts associated with policing and deterring illegal firework activity. Lastly, the Library Board of Trustees approved the temporary suspension of certain Library fines and penalties for the first six months of the fiscal year through December 2020 to preserve the community's continued interest and access to barrier-free and equitable information and library services. Attached are the amended fees (redline version) and a final draft included in the resolution for City Council consideration.

#### Public, Educational, Governmental (PEG) Access Fund

Staff requests establishment of a separate PEG Fund to support tracking restricted cable franchise fees. Available PEG Funds are currently reported in the City's General Fund as restricted fund balance and revenues and expenses will need to be transferred and recorded to this new fund in FY 2019-20.

#### Moving Forward

While the goal is to adopt a balanced budget, which will rely on successfully negotiating labor concessions and potential use of contingency reserves, these are simply one-time solutions to addressing the City's structural deficit. While some optimistic economists are projecting a "V-shaped" recovery, revenues will need time to rebound, and thus City revenues will still need to keep pace with rising expenditures. The City's fiscal issues existed prior to the national pandemic. The loss of revenue due to the health crisis highlights that service and programming levels the City has historically provided is no longer sustainable, even in a post-COVID era. While carrying forward cost saving measures through the end of FY 2020-21 is feasible, it demonstrates that the City needs to evaluate how it will deliver services in the future and what new revenue sources or service and programming level reduction measures will be necessary for the City to continue to operate.

The City's precarious financial position is highlighted by its General Fund contingency reserve which is normally at a minimal 10% of General Fund expenditures. Based on the need to exit the current 2019-20 Fiscal Year by drawing down our reserves by over \$3 million, the available contingency reserve to start FY 2020-21 is now approximately 6.09% of expenditures. While the desired range of "two months" of expenditures, or approximately 17% of General Fund expenditures is the goal of the City Council, the City does not have the recurring revenue ability to achieve that level. This inability to have a best practice contingency reserve policies to weather economic uncertainties is the primary reason that the City will see continued service reductions, loss of programs and staffing fluctuations for the foreseeable future.

The Proposed Operating Budget for FY 2020-21 submitted for City Council adoption represents the City's "Spending Plan" heading into the new fiscal year. As we now live in a new reality and way of doing business as a result of COVID-19, and as the national and local climate continue to change throughout the year, it is likely Staff will bring forth amended budget projections and corresponding budget adjustments regularly as needed and through its quarterly Financial Updates during the new fiscal year.

Attachments:

- Attachment 1 – Draft Resolution No. 2020-XX - Proposed Operating Budget
- Attachment 2 – Draft Resolution No. 2020-XX Annual Appropriations Limit
- Attachment 3 – Fee Schedule (redline version)
- Attachment 4 – Draft Resolution No. 2020-XX Amending Fees and Charges