Agenda Report

Fullerton City Council

MEETING DATE: JULY 14, 2026

TO: CITY COUNCIL / SUCCESSOR AGENCY

SUBMITTED BY: STEVEN AVALOS, INTERIM DIRECTOR OF ADMINISTRATIVE SERVICES

PREPARED BY: CINNDY BARRIOS, SENIOR BUDGET ANALYST
EDGAR ROSALES, SENIOR ADMINISTRATIVE ANALYST
NOAH HYUN, ADMINISTRATIVE ANALYST

SUBJECT: FISCAL YEAR 2026-27 BUDGET STUDY SESSION ON PROPOSED OPERATING BUDGET

SUMMARY

The Budget Study Session (Study Session) provides an in-depth review of the Fiscal Year (FY) 2026-27 Proposed General Fund Budget and Capital Improvement Program (CIP) Projects Budget and seeks City Council direction in advance of budget adoption at the July 21, 2026 City Council meeting.

PROPOSED MOTION

1. Provide direction on the Proposed FY 2026-27 General Fund Budget.
2. Provide direction on the Proposed FY 2026-27 All Funds and Capital Improvements Program Budget and Projects Plan.

ALTERNATIVE OPTIONS

- Approve the proposed motion
- Provide direction on the Proposed Budget Alternative Options
- Other options brought by City Council.

STAFF RECOMMENDATION

Staff recommends the Proposed Motion.

CITY MANAGER REMARKS

None.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statements:

- Fiscal and Organizational Stability
- Public Safety
- Infrastructure and City Assets.

FISCAL IMPACT

The current FY 2026-27 All Funds Proposed Budget totals $290.4 million across all funds supported by ongoing Citywide revenues, transfers in and available fund balances (including designated set aside funds for capital projects). The All Funds Budget includes the Proposed $28.9 million CIP Budget, which represents the City FY 2026-27 capital projects plan.

The FY 2026-27 Proposed General Fund Expenditure budget totals $150.0 million, including $145.0 million in operating expenditures and $5.0 million in transfers out. Proposed revenues total $146.3 million, including $143.9 million in operating revenues and $2.4 million of transfers in. The proposed General Fund Budget presented at the July 21, 2026 City Council meeting for adoption may increase or decrease based on the direction provided by the City Council during the budget study session.

DISCUSSION

The annual operating budget provides the City financial plan for the upcoming fiscal year and identifies resources available to provide municipal services, maintain public infrastructure and meet ongoing operational obligations. This Budget Study Session provides a comprehensive overview of the FY 2026-27 Proposed Budget and requests City Council provide policy direction for the General Fund operating budget and Capital Improvement Program (CIP). Staff will incorporate that direction into the final budget presented for adoption at the July 21, 2026 City Council meeting.

This Study Session focuses primarily on the General Fund which supports the broadest range of municipal services provided to the community and is most directly impacted by the structural budget deficit. Staff will also review the City All Funds Budget, the proposed Capital Improvement Program, recent Budget Community Meetings results and three proposed budget scenarios for City Council consideration.

Understanding the City Budget

The FY 2026-27 Proposed Budget totals approximately $290.4 million across all City funds. This represents the total annual budget but does not represent one pool of funding the City may use for any purpose. Staff organizes the municipal budget into multiple legally separate funds, each with dedicated revenue sources and allowable uses established by law, grant requirements, voter initiatives or City policy.

The General Fund is the primary City operating fund and finances the day-to-day municipal services residents rely upon, including police, fire, parks, libraries, planning, code enforcement, public works, recreation programs and general government administration. This Budget Study Session will primarily focus on the General Fund which supports most City services.

The City maintains several other fund types serving different purposes. Special Revenue Funds account for legally restricted revenues for specific programs or activities, such as transportation funding, grants and other dedicated revenues. Enterprise Funds operate similarly to a business, supported primarily through user fees rather than taxes, including City water, sewer and refuse operations. Internal Service Funds provide centralized support services to City departments, including fleet replacement, equipment maintenance, information technology and facility maintenance, with costs allocated to the departments receiving those services.

The FY 2026-27 Proposed Capital Improvement Program accompanies the operating budget to establish the annual plan for maintaining and improving public infrastructure. The proposed CIP includes investments in streets, parks, public buildings, water infrastructure and other capital assets that preserve and enhance City facilities. Unlike the General Fund operating budget, restricted funding sources generally finance capital projects including grants, development impact fees, enterprise fund revenues and other dedicated revenues. Staff cannot redirect these funds to support ongoing operating expenditures or reduce the General Fund deficit.

Table 1 – Proposed All Funds Citywide Budget

Fund Type	FY 26-27 Expenditures
General Funds	$150,462,773
Special Revenue Funds	$39,878,224
Water Fund (Operating Only)	$45,973,797
Other Enterprise Funds (Operating only)	$13,623,759
Capital Improvements (CIP)	$28,883,342
Successor Agency	$11,603,925
All Funds Totals	**$290,425,820**

General Fund Financial Outlook

The General Fund continues to face a structural budget deficit with ongoing expenditures exceeding ongoing revenues. Unlike a one-time budget shortfall, a structural deficit occurs when the recurring cost of providing municipal services grows faster than the recurring revenues available to support those services.

Several factors contributed to the current financial condition, including previously approved labor agreements, increasing pension obligations, inflationary cost increases to provide municipal services and revenue growth that has not kept pace with expenditure growth.

Staff presented the initial FY 2026-27 financial outlook projection in March 2026 with an approximately $13.7 million General Fund operating deficit. The Administrative Services Department and Executive Team have comprehensively reviewed departmental budgets and operations since that meeting and identified opportunities to reduce expenditures while maintaining essential City services. These efforts included updating revenue projections, identifying operational efficiencies, reducing discretionary spending, recommending unfunding vacant positions, reallocating costs where appropriate and identifying limited one-time funding opportunities. Collectively, these actions reduced the projected budget gap from $13.7 million to approximately $3.8 million, significantly reducing the level of reductions ultimately presented for City Council consideration.

FY 2026-27 Proposed General Fund Budget

The FY 2026-27 Proposed General Fund Budget includes approximately $146.3 million in revenues and transfers in and $150.0 million in expenditures and transfers out, resulting in an approximately $3.8 million remaining budget gap.

The proposed budget incorporates numerous cost containment measures identified during the budget development process. These include ongoing operational efficiencies, discretionary operating expenditure reductions, unfunding vacant positions, updated revenue projections and limited one-time funding sources. These actions significantly reduced the projected deficit, however, staff requires additional policy decisions to fully balance the budget.

Staff requests City Council consider the remaining policy question to address the unresolved budget gap while balancing community service expectations, long-term fiscal sustainability and the appropriate use of available reserves.

FY 2026-27 Proposed Budget Scenarios: Scenarios A, B and C

Staff reduced the projected General Fund budget deficit by nearly $10 million through operational efficiencies, expenditure reductions, updated revenue projections and one-time funding strategies, however, approximately $3.8 million remains unresolved. Staff developed three budget scenarios to address the remaining gap for City Council consideration. Each scenario builds upon the previous option by incorporating additional ongoing reductions and reducing reliance on one-time funding sources.

- *Budget Scenario A: Baseline Services and Use of Reserves* – Scenario A includes $4.6 million ongoing budget reductions, including unfunding 11 vacant positions, and utilizes approximately $3.8 million available reserves to balance the FY 2026-27 budget. These reductions lower baseline service levels through targeted operational efficiencies and service reductions, including special events programming modifications, reduced graffiti removal, reduced library services and resources, contract reductions and unfunding vacant positions. This option minimizes service impacts compared to the other scenarios but relies on one-time reserves and does not provide a long-term solution to the structural City budget deficit.
- *Budget Scenario B: Balanced Budget for FY 2026-27 (Year 1 only) and Service Reductions and Deferrals* – Scenario B includes all reductions proposed in Scenario A, plus an additional $1.6 million ongoing reductions and unfunding 16 additional vacant positions, bringing the total to $6.2 million ongoing reductions and 27 vacant positions. These additional reductions further reduce staffing and service levels across

multiple departments, allowing the City to balance the FY 2026-27 budget without using reserves. This option eliminates the need to draw on reserves in the first year but only provides a one-year solution and does not fully address the projected structural deficit in future years.

- Budget Scenario C: Balanced Budget for FY 2026-27 through FY 28-29 *(3 Years*) and Structural Deficit Reductions – Scenario C includes all reductions proposed in Scenarios A and B, plus an additional $832,000 ongoing reductions and unfunding 8 additional vacant positions, bringing the total to approximately $7.0 million ongoing reductions and 35 vacant positions. These additional reductions provide the only option that achieves a structurally balanced General Fund over the next three fiscal years. This scenariopresents the greatest service and staffing reductions but also provides the most sustainable approach to eliminating the structural budget deficit without relying on reserves.

Attachment 1 - FY 2026-27 Budget Scenarios' Reductions Detail provides details for all budget scenarios.

Budget Community Meetings

City Council directed staff on June 17, 2026 to conduct two Budget Community Meetings prior to considering the FY 2026-27 Proposed Budget. The City hosted the first meeting at the Fullerton Main Library on July 7, 2026 and the second meeting at the Hunt Library on July 9, 2026. Both meetings included the same presentation and interactive workshop to provide residents multiple opportunities to participate. Staff also offered an online version of the workshop for residents who could attend in person.

Each meeting reviewed the City financial condition, the municipal budget process and the proposed FY 2026-27 budget. Participants then completed a series of interactive exercises to identify service priorities, evaluate potential revenue enhancement strategies and provide feedback on the three proposed budget scenarios.

Overall, participants consistently emphasized preserving core municipal services, particularly public safety, infrastructure maintenance, code enforcement and parks. Participants generally expressed greater willingness to reduce discretionary programs and special events before reducing essential City services. Many participants expressed interest in revenue enhancement strategies with limited direct impact on residents and requested additional information about user fee increases and potential tax measures before determining their level of support.

Feedback on the proposed budget scenarios reflected the difficult tradeoffs facing the City. No single option emerged as a clear preference but participants generally recognized the balance between minimizing service reductions, reducing reliance on reserves and improving long-term financial sustainability. Written comments also emphasized the importance of fiscal transparency, operational efficiencies and continued efforts to restore long-term financial stability.

Next Steps

Staff will incorporate City Council direction from this Budget Study Session into the Proposed FY 2026-27 Operating Budget and Capital Improvement Program and present the final proposed budget with the Master Schedule of Fees and Charges and related budget resolutions for consideration at the July 21, 2026 City Council meeting.

Attachments:

- Attachment 1 – FY 2026-27 Budget Scenarios' Reductions Detail

cc: City Manager Eddie Manfro