



Agenda Report

Fullerton City Council

MEETING DATE: JUNE 6, 2023

TO: CITY COUNCIL / SUCCESSOR AGENCY

SUBMITTED BY: ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES

PREPARED BY: STEVEN AVALOS, BUDGET AND PURCHASING MANAGER
CINNDY BARRIOS, BUDGET ANALYST II

SUBJECT: ANNUAL OPERATING BUDGET, SCHEDULE OF FEES AND CHARGES AND ANNUAL APPROPRIATIONS LIMIT FOR FISCAL YEAR 2023-24

SUMMARY

Consideration of the City of Fullerton Annual Operating Budget for Fiscal Year (FY) 2023-24, including the General Fund, the Capital Improvement Program and all other City Funds, approval of the City's Schedule of Fees and Charges and Annual Appropriations Limit for FY 2023-24.

RECOMMENDATION

Adopt the following resolutions:

RESOLUTION NO. 2023-XXX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, APPROVING AND ADOPTING THE CITY OF FULLERTON OPERATING BUDGET FOR FISCAL YEAR 2023-24 AND APPROPRIATING THE FUNDS NECESSARY TO MEET THE EXPENDITURES SET FORTH THEREIN

RESOLUTION NO. 2023-XXX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, ADOPTING THE ANNUAL APPROPRIATIONS LIMIT FOR FISCAL YEAR 2023-24 PURSUANT TO ARTICLE XIII B OF THE CALIFORNIA STATE CONSTITUTION

RESOLUTION NO. 2023-XXX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, ADOPTING THE CITY OF FULLERTON'S MASTER SCHEDULE OF FEES AND CHARGES FOR FISCAL YEAR 2023-24

CITY MANAGER RECOMMENDATIONS

The proposed budget meets the City Council established goal for the proposed Fiscal Year of a 17% contingency reserves level. Revenues have increased by 19% in the General Fund since FY 2020-21. The Proposed Budget recommends service levels that will maintain current service levels and, in some cases, increase service levels in a variety of areas including public safety, community programs and parks maintenance, and provides organizational stability. Lastly, the Proposed Budget sets aside \$1.5 million in funding for local streets coming from the General Fund and an additional \$1.3 million towards streets from the Infrastructure Fund.

In addition, to the Proposed Budget, the City Manager and Administrative Services Department have incorporated City Council direction and proposed enhancements to the Proposed Budget provided at the Budget Study Session. The Revised Proposed Budget also factors in adjustments to sales tax revenues, the recently approved user fee increases and new fees for Fire Department, which had not been increased in over 10 years, Public Works Water user fees operations and Airport leases and hangar rentals fees, and minor fee revisions to Community & Economic Development fees in the City's efforts towards achieving full cost recovery. This has resulted in an additional \$0.9 million in revenue to the General Fund. The City is in the most stable Fiscal shape it has been in recent years, but we continue to face challenges in retaining and recruiting staff, as well as funding of key Capital Infrastructure such as Streets. In addition, the City Manager and Administrative Services Director share concerns that the City will not have sufficient funding to meet its annual MOE matching requirements for Measure M2 County funds beginning in FY 2025-26. This Proposed Budget sets aside \$5.5 million over 3 fiscal years to help address this. While the City continues to face these issues, this Proposed Budget takes a huge step forward in helping address these fiscal and organization challenges and presents a balanced budget with much improved service levels.

In conclusion, the Proposed Budget has been amended from the previous City Manager's proposed budget at the April 18th Study Session, by adding the City Council requested items and adjusting the revenue projections.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability.

FISCAL IMPACT

The Proposed FY 2023-24 Citywide Budget for all City Funds, including the General Fund, Enterprise Funds, Special Revenue Funds and the Capital Improvement Program for FY 2023-24 will total \$257,855,874 in citywide expenditures, supported by citywide revenues, transfers in and available fund balances (including designated funds for capital projects).

The Proposed FY 2023-24 General Fund Operating Budget will total \$120,884,437 in operating expenditures and \$4,174,587 in transfers out for a total General Fund Budget of \$125,059,024. The FY 2023-24 Proposed Budget will total \$120,671,857 in operating

revenues and \$7,150,000 of transfers in, which includes the use of ARPA revenue replacement funds, for a total General Fund revenue budget of \$127,821,857.

The General Fund is structurally balanced after factoring in the net transfers ins and outs and budgeted to achieve the recommended 17% contingency reserve level for FY 2023-24. The FY 2023-24 Proposed Budget sets aside and assigns \$5,500,000 of General Fund balance over three fiscal years from FY 2022-23 to FY 2024-25, to support future Measure M2 matching requirements for vital funding for capital street projects.

DISCUSSION

Introduction

Staff first presented the initial FY 2023-24 Proposed Operating Budget to City Council at a special Budget Study Session on April 18, 2023, with a primary focus on the General Fund as the City's chief operating fund that supports traditional municipal services and the City's Capital Improvement Program (CIP) to outline the City's capital projects plan for FY 2023-24.

Staff provided an overview of the key budget highlights for FY 2023-24, which included proposed service level enhancements to improve community service levels, public events and programs and organizational efficiencies to support public safety, infrastructure, economic development and community service efforts. In addition, staff identified additional 'Budget Options' for City Council consideration for inclusion in the FY 2023-24 Proposed Operating Budget. Staff also presented the General Fund Five-Year Financial Forecast to show the current financial outlook over a multi-year period for financial planning and decision-making efforts to support financial and organizational stability.

City Council provided direction and additional budget recommendations to staff. The Proposed FY 2023-24 Operating Budget presented for City Council consideration includes all recommended enhancements to service levels. The Proposed Budget also includes adjustments to sales tax projections, the recently approved user fee increases and new fees to Fire Department fees, various fee increases to Public Works-Water user fees and Airport fees and Community and Economic user fees approved at subsequent City Council meetings. The FY 2023-24 Operating Budget submitted includes the General Fund, all Enterprise and Special Revenue Funds and the Capital Improvement Program (CIP) budgets for formal adoption.

The budget resolution also includes City Council authorization to assign \$5.5 million over three years to support future Measure M2 Maintenance of Effort requirements, authorizes City Manager, or designee, to purchase vehicles scheduled for replacement in FY 2023-24 and to carry forward and appropriate funds. Staff also requests City Council adopt the annual resolution amending the Schedule of Fees and Charges for FY 2023-24, to incorporate new user fee changes per City Council direction received at meetings after the study session and the FY 2023-24 Annual Appropriations Limit (or GANN Limit) as required of all local agencies by California state law.

All City Funds

The Citywide FY 2023-24 All Funds' Proposed Budget totals \$257.9 million in expenditures supported by \$257.9 million in citywide revenues and in citywide revenues,

transfers in and available fund balances (which include funds set aside or designated for capital projects). The Proposed FY 2023-24 All Funds Budget includes:

- General Fund ~ City’s Chief Operating Fund
- Enterprise Funds such as Water and Sewer funds
- Special Revenue Funds such as Gas Tax and Measure M transportation funds
- Internal Services Funds such as Vehicle Replacement and Information Technology funds
- Capital Improvement Program (CIP) ~ City’s Capital Projects Plan
- Successor Agency.

Table 1 presents a high-level overview of the City’s All Funds Budget for FY 2023-24 (by major fund area). It does not list the City Internal Services funds, as these internal funds provide services and goods citywide, funded through allocated costs from all departments. These funds generally self-support and have a cost neutral budget impact on Citywide budget.

Table 1 - All Funds’ Proposed FY 2023-24 Budget by Major Funds	FY 23-24 Proposed Budget
General Funds	120,884,437
Special Revenue Funds	36,150,094
Water Fund <i>(excluding capital projects)</i>	37,853,377
Other Enterprise Funds <i>(excluding capital projects)</i>	12,300,226
CIP Budget	41,419,550
Successor Agency	9,248,190
All Funds Expenditures Total	\$257,855,874
All Funds Revenues	\$245,960,621
Designated Funds for Capital Projects	21,070,440
All Funds Revenues and Designated Capital Total	\$267,031,061

Ongoing Citywide revenues across all funds will total \$246 million, combined with \$21.1 million of set aside or designated funds of available fund balance from funds (i.e. Measure M2 or SB1 gas tax) that support capital projects, will balance and support the All City Funds Budget for FY 2023-24. The FY 2023-24 All Funds revenue budget also includes the recent Public Works water user fee adjustments and increases to Airport hangar and lease revenues.

Overall, the City’s major operating and enterprise funds have positive and stable fiscal conditions, with no major funds in a fiscal negative position. The “Fund Balances” section of the FY 2023-24 Proposed Budget Document (Attachment 3) provides detailed City funds’ budgetary information.

General Fund (including Parks and Recreation and Library)

The FY 2023-24 Proposed General Fund Budget totals \$120.9 million in operating expenditures and \$4.2 million in transfers out for a total \$125.1 million General Fund

Budget. The General Fund Proposed Budget balances with \$120.7 million in operating revenues and \$7.2 million of transfers in for a total General Fund revenue budget of \$127.8 million, which includes application of the remaining \$6.95 million of ARPA Revenue Replacement funds for stabilization of government finances in accordance with US Treasury guidelines.

The following outlines the underlying revenue and expenditure assumptions for the FY 2023-24 Proposed General Fund Budget.

Revenues

Staff project the FY 2023-24 General Fund operating revenues (excluding transfers in to total \$120.7 million, which reflects a \$7.1 million increase (or 6.2%) from FY 2022-23 \$113.6 million budgeted revenues. The City's continued economic growth post-pandemic, as illustrated by continued property tax growth, projected sales tax revenue increases and planning and development related fees drives this revenue growth.

Property Tax – Property Tax is the City's largest General Fund revenue at 45% of General Fund revenues. Staff projects property tax to total \$54.6 million in FY 2023-24, a \$2.5 million increase (or 4.8%) over FY 2022-23 budgeted levels, primarily due to an increase of property tax in lieu revenues, secured assessed property valuation growth and uptick in former redevelopment agency residual property tax receipts. Overall, the City's diverse and stable property tax base (mixture of commercial, industrial, and residential) continues to pace consistent revenue growth due to the strong assessed property valuations in Fullerton.

Sales Tax – Staff projects sales tax, the second largest General Fund revenue, to total \$30.4 million in FY 2023-24, an increase of \$1 million (or 3.3%) from FY 2022-23 budgeted levels. Since Study Session, staff adjusted sales tax revenues upward based on recently available information from latest quarterly returns by \$0.2 million.

Many factors have contributed to drive the City's sales tax growth, including:

- the City's diverse economic base
- continued economic recovery
- current inflationary environment
- increases to the City's County Pool allocation from a State law enacted in 2019
- new business retailers coming to the City in recent years.

Sales Tax revenues projected for FY 2023-24 highlights the City's continued economic post-pandemic recovery and overall strong revenue growth.

Transient Occupancy Tax - Transient Occupancy Tax, or TOT, revenue has recovered to pre-pandemic levels in FY 2023-24. Staff projects TOT to total \$3.5 million in FY 2023-24, as travel and places of tourism have rebounded. TOT revenues have recovered with increased occupancy, aided by the City's Short-Term Rental (STR) program, despite a hotel closure in FY 2022-23.

Planning and Development Fees - Development activity and projects, such as Goodman Logistics and Fox Block, resulted in increases in planning and development-related permit

and fee revenues in FY 2022-23. Increased permit and fee revenue also supported planning revenue, bringing the City closer to full cost recovery for these services. Development volume trends expect a 54% increase in activity. Staff projects this to generate an additional \$1.6 million in FY 2023-24.

Staff expects all other revenues in the General Fund to either increase in line with market trends or remain flat in FY 2023-24.

New Increases to User Fees and New Fees

The Fire and Community and Economic Development departments presented proposed fee changes to various user fees in efforts to achieve full cost recovery for providing these user services on May, 2, 2023. City Council directed staff to incorporate a three-year “phase-in” increase for both Fire Department existing user fees and proposed new fees, as validated and recommended by a fire fee study for approval at budget adoption. The Budget Study Session did not factor these new Fire user fee increases and new fees and staff projects to increase General Fund revenues by an additional \$0.7 million in FY 2023-24.

City Council directed minor changes to a select number of planning and zoning user fees for approval at budget adoption. These user services occur infrequently, generating minimal impact to General Fund revenues. Staff made no revenue adjustments to the proposed budget.

Expenditures

Staff projects the FY 2023-24 General Fund operating expenditures budget (excluding transfers out) to total \$120.9 million, which reflects an increase of \$6.6 million (or 5.7%) from FY 2022-23 budgeted levels of \$114.3 million. The following generate the primary increases to the FY 2023-24 expenditure budget:

- *Salaries and Benefits (\$1.5 million)* – Staff anticipates salaries and benefits to increase by \$1.5 million due to approved MOA salary increases for Police and Fire safety groups approved in FY 2022-23, anticipated employee salary step increases, other compensation considerations and CalPERS pension costs. Salaries and benefits also factor for a normalized annual vacancy savings.
- *Maintenance and Operations (\$2.5 million)* – Staff anticipates a \$1.6 million increase to Maintenance and Operations’ budgets in FY 2023-24 due to the City’s Maintenance-of-Effort (or MOE) budget practice capped at a 4.5% increase in FY 2023-24; to account for inflation and contracted increases for multi-year agreements. Increased utility costs also increased the maintenance and operations budget. Staff anticipates utility costs in the FY 2023-24 General Fund to increase by \$0.9 million.
- *Budget and City Service Level Enhancements (\$1.4 million)* – As presented at the Budget Study Session, the FY 2023-24 Proposed Budget includes \$1.4 million of budget and service enhancements to: *improve service levels to the community, offer additional community programming and events and create organizational efficiencies to better deliver such services to the community.* All recommended enhancements center around major program areas and City priorities of Public Safety, Community

Preservation, Community Events and Services and Organizational Efficiencies and Sustainability.

- *General Fund Support to Local Streets (Non-Operating)* - The FY 2023-24 Proposed Budget includes a budget enhancement and one-time \$1.5 million General Fund contribution towards improvements for residential streets. In addition, the Infrastructure Fund will contribute a new allocation of \$1.3 million towards street improvements starting in FY 2023-24. This allocates an additional \$2.8 million towards local streets improvements in FY 2023-24.

Additional City Council Recommendations

City Council provided direction on the FY 2023-24 Proposed Operating Budget at the Budget Study Session. The FY 2023-24 Proposed Budget incorporates City Council direction. The Revised FY 2023-24 Proposed Budget presented today consists of \$1.2 million of additional budget considerations which include:

- *Public Safety (\$300,000)* ~ Budget enhancements to public safety to include improvements and new software for a Real-Time Crime Center.
- *Community Preservation (\$260,000)* ~ Budget enhancements to community perseverance efforts and increased homelessness encampments cleanups.
- *Organizational Efficiency and Sustainability (\$460,000)* ~ Additional Personnel Costs.
- *Community Services and Programs (\$190,000)* ~ Includes funding for a three-year "Hunt Library Bridge Program" presented on a separate agenda report at a subsequent Council meeting.

All financial budget schedules as reflected in the FY 2023-24 Proposed Budget Book document (Attachment 3) include all City Council directed budget additions and adjustments.

Measure M2 Set Aside Reserve Funds

Staff raised concerns that the City may not have sufficient funding to meet its annual MOE matching requirements to continue receiving Measure M2 funds beginning in FY 2025-26 as presented at the Budget Study Session and outlined in the General Fund Five-Year Financial Forecast (included in budget presentation),. Measure M2 provides critical County add-on sales tax funds to support vital local street projects in the City's CIP program. The FY 2023-24 Proposed Budget includes setting aside MOE reserves of \$5.5 million from FY 2022-23 to FY 2024-25 as assigned General Fund balance to support future City's MOE matching requirements anticipated to be needed beginning in Fiscal Year 2025-26 to enable the City to continue to receive Measure M2 funding.

Capital Improvement Program (CIP)

The City operates a Five-Year Capital Improvements Program to provide a comprehensive, capital projects plan the City intends to undertake over a five-year period, in which it adopts its current year plan with the adopted budget. The Proposed FY 2023-24 CIP Budget totals \$41.4 million, highlighted by \$14.5 million for Street Rehabilitation and \$17.5 million for Water Infrastructure projects in addition to other capital improvements. The following outlines the City's planned capital infrastructure funding

levels for: Street Rehabilitation, Utility Infrastructure (Water, Sewer and Storm Drain Repairs and Replacements), Traffic Systems, Parks and Recreation, Facility improvements and Airport:

Table 2 – FY 2023-24 CIP Projects by Category

CIP Budget by Category	Proposed Amount
Street Rehabilitation	\$14.5 M
Utility Infrastructure (includes Water, Sewer, and Storm Drains)	\$21.0 M
Traffic Systems Infrastructure	\$1.2 M
Facility Infrastructure	\$2.7 M
Parks & Recreation Infrastructure	\$1.2 M
Airport Infrastructure	\$0.8 M
FY 2023-24 CIP Budget Total	\$41.4 M

- *Street Rehabilitation - \$14.5 Million* – City Council directed staff to increase the Proposed Streets Rehabilitation projects budget by \$0.25 million from \$14.3 million to \$14.5 million from the City’s Infrastructure Fund. Aside from this change, SB1 gas tax funds, Measure M2 and CDBG federal funds support street funding. New funding for FY 2023-24 includes \$5.5 million of the total \$13.1 million City Council obligated ARPA revenue replacement funds towards vital infrastructure projects, \$1.25 million from Infrastructure Fund and a one-time \$1.5 million General Fund contribution towards local streets.
- *Utility Infrastructure (Water, Sewer and Storm Drains) - \$21.0 Million* – Utility Infrastructure projects increased by \$0.5 million from \$20.5 million to \$21.0 million to account for a new Water grant expected to be received in FY 2023-24. Enterprise and special revenue funds primarily support these projects.
- *Facility Improvements - \$2.7 million* – Facility Improvement projects also increased by \$0.3 million due to a new Library grant expected in FY 2023-24. Facility improvements planned for FY 2023-24 includes improvements to City facilities to enhance site functionality, technology upgrades and provide greater accessibility to the community. These projects are highlighted by the planned use of \$1.4 million from Infrastructure funds.

The FY 2023-24 Proposed CIP Budget also includes capital improvements to its Traffic Systems (\$1.2 million) infrastructure; \$0.8 million of Airport improvements supported by Federal Aviation Administration grants and Parks and Recreation parks and infrastructure improvements (\$1.2 million) primarily supported by park dwelling funds.

Appropriations Limit

The Annual Appropriations Limit, also known as the GANN Limit, is a maximum spending amount for tax proceeds (i.e., property and sales tax) placed on cities in California. California Government Code 7902 (Article XIII B) requires cities to annually adjust its annual appropriations limit for changes in population and consumer price index as

provided by the State and can utilize change in population of either the County or City, whichever is greater, as its growth factor. Cities must remain under the annual appropriations limit to be in compliance.

For FY 2023-24, staff utilized the City's growth factor and the City's Appropriations Limit amount set at \$263,644,153, in which the City is \$171,532,777 under the limit and in full compliance. The Appropriations Limit resolution and GANN Limit worksheets for formal approval are attached (Attachment 4).

Schedule of Fees and Charges

Staff presents the annual resolution adopting and/or amending the City's Annual Schedule of Fees and Charges for FY 2023-24 for adoption. The primary changes to the FY 2023-24 Fees Schedule pertain to fee changes that presented to and directed to submitted for approval by City Council in prior meetings.

City Council approved a three-year "phased-in" fee increases to various Fire and Community and Economic Development departments user fees on May 2, 2023. City Council also approved a number of new Fire fees under the same three-year phased in approach.

City Council approved a three-year "phased-in" fee increases to various Public Works-Water users fees and Airport lease and hangar rental fees to align with market trends on May 16, 2023. These revenue increases apply to the Water and Airport enterprise funds only and staff incorporated into FY 2023-24 Proposed Budget as presented.

The only new changes to the FY 2023-24 Schedule of Fees and Charges includes administrative fee changes to Library fees. These changes are administrative and "clean-up" in nature and have no material fiscal impact.

Staff attached each department Redlined Fee Schedules to identify the proposed fee changes (Attachment 5). Staff presents the authorizing Resolution to formally adopt the Citywide Schedule of Fees and Charges for FY 2023-24 and attached for consideration (Attachments 6).

Staff requests City Council to formally adopt the FY 2023-24 Operating Budget for all City Funds as presented herein, approve the annual Appropriations Limit and approve Schedule of Fees and Charges for FY 2023-24 by adopting the three resolutions.

Next Steps

Staff will complete the final budget book document following adoption and post to the City's website. Staff will effectuate all funds-departments' budgets into the City's financial system at start of the fiscal year July 1, 2023. Certain new fees become effective July 1, 2023 and certain fees that pertain to development-related fees become effective 60 days after fee resolution approval. Staff will post the final Master Fees and Charges Schedule for FY 2023-24 to the City's website.

Attachments:

- Attachment 1 – FY 2023-24 Budget Adoption Presentation

- Attachment 2 – Draft Resolution Operating Budget for FY 2023-24
- Attachment 3 – Draft FY 2023-24 Proposed Budget Book
- Attachment 4 – Draft Resolution Annual Appropriations Limit
- Attachment 5 – Draft Resolution Master Schedule of Fees and Charges
- Attachment 6 – Redlined Proposed Schedule of Fees and Charges for FY 2023-24

cc: City Manager Eric J. Levitt