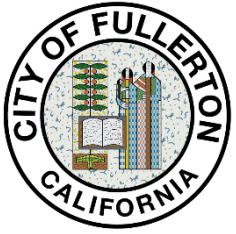




Fiscal Sustainability Ad Hoc Committee

Committee Meeting #5 ~ March 13, 2025

City of Fullerton, CA



Agenda

- ❖ Recap / Overview of FY 2024-25 Adopted Budget
- ❖ Cost Recovery & Containment Strategies
- ❖ City's Unfunded Needs / Areas
- ❖ Committee Recommendations on Budget Balancing Alternatives



General Fund FY 2024-25 Adopted Budget

Beginning Fund Balance	\$27,011,519
Revenues	127,716,541
Transfers In:	1,320,164
<i>Transfers In from Traffic Safety Fund</i>	200,000
<i>Transfers In from IT Fund - Server Loan</i>	378,087
<i>Transfers In from ARPA Revenue Replacement</i>	742,077
Total Revenues and Transfers In	129,036,705
Expenditures	(132,859,319)
Transfers Out:	(5,603,000)
<i>Transfers Out to Infrastructure Fund</i>	(2,926,062)
<i>Transfers Out to Residential Streets (CIP)</i>	(1,000,000)
<i>Transfers Out to IT Fund - IT Projects</i>	(1,676,938)
Total Expenditures and Transfers Out	(138,462,319)
Net Operating Surplus/(Deficit)	(9,425,614)
MOE Reserve	5,000,000
Ending Fund Balance	\$22,585,905
17% Reserves Target	\$22,562,515
Over/(Under) 17% Reserves Target	\$23,390



FY 22-23 Actuals, FY 23-24 & FY 24-25 Adopted Budget

Expenditures by Major Program Area	Actuals FY 22-23	Adopted Budget FY 23-24	Adopted Budget FY 24-25
General Government	\$6,433,805	\$8,158,699	\$6,160,258
City Council	513,657	438,995	459,535
Administration	3,303,031	3,652,786	4,095,438
Administrative Services	2,921,263	3,347,304	3,632,811
Human Resources	627,996	717,258	731,485
General Government ¹	(932,142)	2,356	(2,759,011)
Fire	28,735,152	31,543,067	34,837,549
Police	54,830,228	54,718,263	61,551,581
Community & Economic Development	6,163,016	6,155,592	7,060,214
Public Works	9,017,558	10,260,788	11,295,211
Human & Leisure Services	9,154,702	10,048,028	11,954,505
Library	3,641,251	4,123,406	4,744,137
Parks & Recreation	5,513,451	5,924,622	7,210,368
Total General Fund Expenditures	\$114,334,461	\$120,884,437	\$132,859,319

¹ General Gov't is a non-operating (non-Department) account that houses Citywide costs such as personnel payouts (retirement payouts), Vacancy Savings & other miscellaneous costs.



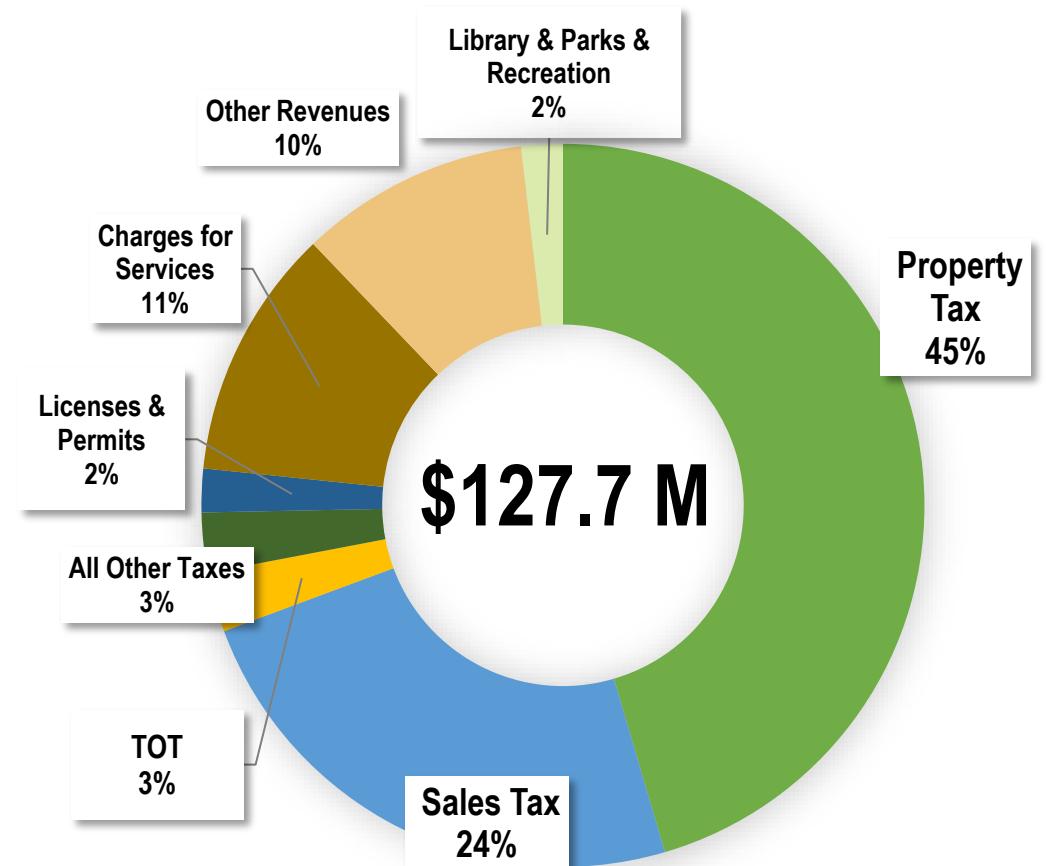
FY 2024-25 General Fund Revenues of \$127.7 Million

Amounts listed in millions

Major Revenue Category	Adopted Budget FY 2024-25
Property Tax	\$58.0
Sales Tax	\$30.5
Transient Occupancy Tax (TOT)	\$3.4
All Other Taxes	\$3.4
Licenses & Permits	\$2.5
Charges for Services	\$14.3
Other Revenues *	\$13.1
Human & Leisure Services (<i>Library & Parks & Recreation</i>)	\$2.4
Total General Fund Revenue	\$127.7

* Includes Fines & Penalties, Use of Money & Property, Intergovernmental & Other Miscellaneous Revenue.

FY 24-25 General Fund Revenues by Type





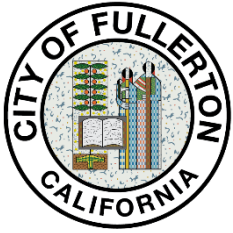
Fiscal Challenges

➤ ***Expenditures are Outpacing Revenue***

- Budget impacts from maintaining competitive salaries in region with approved labor agreements
- Even with Pension reform, Unfunded Actuarial Liability (UAL) remains high due to external factors (i.e., legislation, lowering the discount rate, investment strategies, etc.)
 - UAL primarily captures liability for retirees, primarily Classic members before PEPRRA took effect
 - FY 24-25 UAL Miscellaneous: \$6.6 million
 - FY 24-25 UAL Safety: \$16.9 million
- Historically high inflationary environment & higher cost of doing business

➤ ***Aging City Infrastructure***

- Road Repairs & Street Rehabilitation, Facility Repairs & IT Infrastructure
- Potential Measure M2 shortfall due to insufficient General Fund MOE funding.



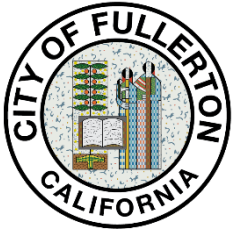
Cost Recovery & Containment Strategies

- Ongoing Vacancy Savings Factor ~ *Ranging from 2%-4% annually*
- Cost Recovery of Citywide User Fees to 100%
- Internal Citywide Cost Containment Efforts
 - *\$2-\$3 million target savings for FY 24-25*
 - *FY 24-25 Goal ~ Reduce operating deficit to \$6 million or lower to achieve higher Reserves level.*
- Proposed Operating Budget for FY 25-26
 - *With exception of Salary increases from Approved labor agreements, Flat / No increases to department operating budgets*
 - *Proposed budget developed to maintain 'FY 25-26 Goal ~ Reductions Target' to achieve 17% Reserves Goal*

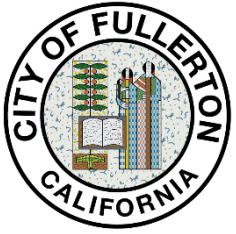


Unfunded Needs

- Rising Measure M2 Maintenance-of-Effort (MOE) City Match
- Facility Maintenance and Capital Repair
- Aging City Infrastructure
 - Road Repair & Streets Rehabilitation
 - City Facilities
 - Information Technology
- Public Safety

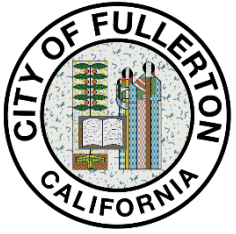


Budget Balancing Alternatives



Budget Balancing Alternatives

- ❖ Minimal Service Level Impacts
 - Pension Obligation Bonds
 - Revisit Infrastructure Fund Ordinance
- ❖ Expenditure Reductions / Service Level Impacts
- ❖ Revenue Enhancement Options
 - Add-On Sales Tax Measure options
 - TOT (“Hotel Tax”) option
- ❖ Other Budget Considerations
 - Street Financing
 - Enhanced Infrastructure Funding District (EIFD)



Pension Obligation Bonds (POBs)

- ❖ Issue POBs to reduce City's UAL obligation.
 - Issue POBs only if the following criterion are met:
 - Market Conditions: Municipal bond interest rates at least 4.5% or lower based on current 6.8% CalPERS discount rate;
 - *Target of \$2+ million* annual UAL savings or better.
 - Annual savings would directly benefit General Fund improving the operating budget surplus / (deficit).



Temporarily Suspend Infrastructure Fund Allocations

- ❖ Temporarily Suspend Infrastructure Fund (*Ordinance No. 3284*) for 1 year or multiple years.
 - Requires 4/5ths vote by the City Council
 - Removes restriction of diverting **\$2.5 ~ \$3 million** annually from General Fund.
 - Increased annual 'Budgetary Discretion' to address the deficit.
 - *Decrease in budget allocation* for Infrastructure improvements.
 - *Potential inability* to meet the City's Measure M2 Maintenance of Effort spending requirement.



Expenditure Reduction Alternatives



Expenditure Reduction Alternatives

- General Fund Budget Reductions by Service Area:
 - *Public Safety*
 - *Building & Planning & PW Engineering / Development Permitting (Cost Recovery)*
 - *Facility, Landscape & Medians, Parks & Trail Maintenance*
 - *Administration*
- OR -
- General Fund Across the Board Department Reductions
 - *Fixed % across all departments (i.e., 2.5% or 5%)*

Challenges

- Services Levels to community will be ***significantly impacted.***
- Unknown / unanticipated impacts from across the board reductions.
- Likely lead to downsizing and layoffs in organization.
- Public Safety encompasses majority (72%) of City budget.
- Reductions to Cost Recovery services leads to “reduced” revenues.

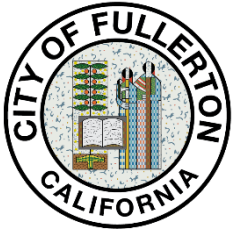


Revenue Enhancement Options



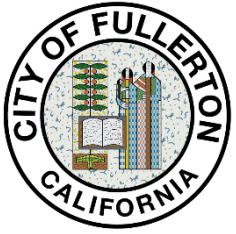
Add-On Sales Tax Ballot Measure Option

- Sales Tax Measure: **Add-On Sales Tax Options of 1%, 0.5% or 0.25%**
 - *Dedicated Sales Tax Measure*: 66.7% or 2/3 Voter Approval
 - e.g., Infrastructure, Public Safety or other special purpose
 - *General Sales Tax Measure*: 50% +1 Voter Approval
 - For any general purpose/City services
- Generate **\$7.25 / \$15 / \$30 million** annually to General Fund for 'special dedicated purpose' or 'general purpose'.
- If recommended and approved by City Council, next general election in November 2026.



TOT (Hotel Tax) Increase Option

- **Increasing Transient Occupancy Tax (TOT) Rate ~ 50% +1 Voter Approval**
 - Current TOT Rate is 10%
 - Increase from 10% to 12% or higher
 - Additional \$400,000 to \$600,000 in annual revenue
 - Impact to visitors/patrons of City

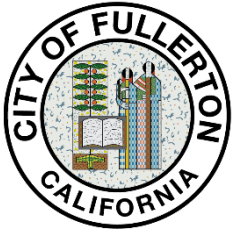


Other Budget Considerations



Street Financing Option

- **Issue Debt to Finance Street Rehabilitation Projects**
 - Potential \$35 million Bond Issue ~ \$14 million over 4 Years for Streets
 - *Current level of investment in Streets will return in FY 28-29 (\$5.5-\$6 million annually)*
 - Meet MOE Benchmark FY 2025-26 through FY 2027-28
 - **Risk:** General Fund revenue would be applied to Debt Service:
 - *Potential loss of Measure M2 Funds beginning FY 2028-29*
 - *Risk losing approx. \$3.4 ~ \$3.6 million of County Measure M2 funds for critical streets and traffic projects.*
 - **Risk Mitigation:** Issue debt shortly after an Add-On Sales Tax Measure is approved by voters to enable the City to begin street improvements projects prior to receipt of new revenue.



Street Financing Evaluation – Issue Debt

Street Financing - Debt Issuance	FY24-25	FY25-26	FY26-27	FY27-28	FY28-29
Total Projected Road Related Expenditures [A]	\$ 10,644,436	\$ 14,000,000	\$ 16,500,000	\$ 16,250,000	\$ 16,250,000
Total Projected Road Expenditures - CIP [A] - [B]	\$ 8,100,000	\$ 12,000,000	\$ 14,500,000	\$ 14,250,000	\$ 14,250,000
M2 - Roads	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
SB1 - Roads	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
Gas Tax	100,000	-	-	-	-
General Fund - PW Maintenance Expenditures [B]	2,544,436	2,000,000	2,000,000	2,000,000	2,000,000
Infrastructure Fund - Road Expenditures	2,000,000	-	-	-	-
General Fund - Street Financing Projects	-	7,000,000	9,500,000	9,250,000	9,250,000
General Fund - Road Expenditures	1,000,000	-	-	-	-
Total General Fund MOE Eligible Expenditures	\$ 5,544,436	\$ 9,000,000	\$ 11,500,000	\$ 11,250,000	\$ 11,250,000
MOE - General Fund Requirement	4,900,000	4,900,000	5,500,000	5,500,000	5,500,000
MOE Shortfall	\$ -	\$ -	\$ -	\$ -	\$ -



Enhanced Infrastructure Financing Districts (EIFDs)

Option to Establish/Create an EIFD

- EIFDs are special districts with defined boundaries that use local property taxes to issue bonds to fund infrastructure projects.
 - Formed to support funding for regionally-beneficial public infrastructure of communitywide significance.
- EIFDs do not impose an additional property tax – Supported by Incremental increase in Property Taxes that would support projects or debt issuance.
- There is no public vote to form an EIFD – only City Council vote is needed to form the EIFD.
 - *Unless debt is issued, 55% of the registered voters in the District must approve*



Ad Hoc Committee Action Items

- Provide Recommendations on Budget Balancing Alternatives and Other Budget Consideration options.
 - ❖ *Goal is to provide List of Recommendations to City Council at an upcoming Council meeting prior to Budget Adoption.*
- Establish next meeting date and time for the Fiscal Sustainability Ad Hoc Committee:
 - *Wednesday, April 2nd or Thursday, April 3rd*
 - *Thursday, April 10th*
 - *Tuesday, April 22nd*