



Agenda Report

Fullerton City Council

MEETING DATE: MARCH 17, 2026

TO: CITY COUNCIL / SUCCESSOR AGENCY

SUBMITTED BY: STEVEN AVALOS, INTERIM DIRECTOR OF ADMINISTRATIVE SERVICES

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

SUBJECT: SECOND QUARTER FINANCIAL REPORT FOR FISCAL YEAR 2025-26 AND MID-YEAR BUDGET AMENDMENTS

SUMMARY

An overview of the City financial position through mid-year Fiscal Year (FY) 2025-26, report on City revenues and expenditures incurred between July 1, 2025 and December 31, 2025 and FY 2025-26 financial position based on final Annual Comprehensive Financial Report issued for FY 2024-25.

PROPOSED MOTION

1. Receive and file Second Quarter Financial Report for FY 2025-26.
2. Approve FY 2025-26 Mid-Year Budget Amendments and authorize City Manager, or designee, to make the proposed budget amendments to the FY 2025-26 Adopted Budget.

ALTERNATIVE OPTIONS

- Approve the Proposed Motion.
- 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 Statement:

- Fiscal and Organizational Stability.

FISCAL IMPACT

Staff uses the Q2 Financial Report information to ensure continued budgetary diligence and compliance with FY 2025-26 adopted budget levels through the end of the fiscal year.

Citywide revenues through the second quarter of FY 2025-26 total \$108.0 million, or 41.6% of adopted \$259.9 million. Expenditures total \$127.0 million and are at 46.9% of \$270.7 million adopted All Funds budget. General Fund revenues during the first half of the fiscal year totaled \$48.8 million, representing 35.5% of adopted \$137.5 million revenues. General Fund expenditures total \$67.0 million, representing 48.6% of adopted \$138.0 million. General Fund revenues and expenditures fall typically where they should through fiscal year mid-point.

City Council approved financing for ambulance vehicles and related equipment for the City in-house ambulance program on December 2, 2025. The proposed FY 2025–26 Mid-Year Budget Amendments reflect City Council direction and the appropriations needed to implement that action.

The requested amendments total \$1,955,000 in net expenditures, supported by \$1,955,000 in revenue amendments. Staff requests a \$1,955,000 appropriation to the Fire Department operating budget to purchase seven ambulances and related equipment, supported by bond proceeds (revenue) in this same amount consistent with the financing authorized by City Council. In addition, the City will fund the first \$181,133 debt service payment, due May 1, 2026, using savings and budget reduction of this same amount from the previous ambulance contract.

All proposed revenue and expenditure appropriations are budget-neutral and have no General Fund (Fund 10) fiscal impact.

BACKGROUND AND DISCUSSION

Introduction

Staff provides quarterly financial reports on the current year budget to City Council as part of the City budget monitoring and financial reporting practices. This sound financial practice and fiscal transparency tool reports the ongoing fiscal condition to identify and address fiscal or budget issues as they arise and strengthen financial planning efforts. Quarterly financial reports measure the overall City fiscal condition relative to adopted budget levels and updates City Council on current financial conditions.

The FY 2025-26 Second Quarter Financial Report (Q2 Report), also referred to as the Mid-Year Budget Report, reports revenues received and expenditures incurred through the second quarter of the fiscal year, July 1, 2025 through December 31, 2025, against adopted budget levels. The Q2 Report also includes Mid-Year Budget Amendments (Attachment 3) to amend the FY 2025-26 Adopted Budget to reflect the ambulance financing for City Council consideration.

The Q2 Report primarily focuses on the General Fund, the chief operating fund supporting traditional City services such as public safety, community and economic development, parks and recreation, library, community services and public works. Staff included

information on all other City Funds in the attachments and presents at a high level in this report.

Q2 Review of General Fund (including Library and Parks and Recreation)

Revenues

General Fund revenues through the second quarter of FY 2025-26 total \$48.8 million and are at 35.5% of adopted \$137.5 million revenues. Revenues typically appear low at approximately 35.5% received through the mid-point of the year as the City receives three large property tax installments in the second half of the year. The City normally receives 35% of all Sales Tax revenues through the fiscal year mid-point as the City receives sales tax two months in arrears (e.g. City receives sales tax for July receipts in September).

Overall, General Fund revenues are up by \$3.8 million (or by 8.4%) compared against the FY 2024-25 midpoint. The following summarizes the major City revenue sources:

Property Tax – Property Tax revenues, the largest revenue source for the City General Fund, total \$19.5 million through December 31, 2025 and are up by \$1.9 million compared to the second quarter last fiscal year. The City receives most property tax revenues during the second half of the fiscal year, including one large secured property tax installment in April 2026 and two VLF In-Lieu installments in January and May 2026. Overall, property tax revenues remain on pace and may surpass the \$62.7 million adopted budget levels. Overall, property tax continues to provide the most stable revenue source, indicating a strong assessed valuation of mixed commercial and residential properties in Fullerton.

Sales Tax – Sales Tax revenues are at \$9.9 million through the first half of FY 2025-26 and up by \$0.7 million (or 7.2%) from Q2 in FY 2024-25. Fullerton maintains a diverse sales tax base that does not rely on one economic sector and attributes this increase to a variety of factors. Automotive industry sales rebounded following a period of stagnation driven by higher inflation and pricing pressures. County and state pools also came in higher, supported by strong online spending. This is positive news as sales tax revenues remained flat or came in under budgeted levels the last two years. Staff will continue working with the City sales tax consultant to monitor sales tax revenues throughout the remainder of the fiscal year.

Charges for Services - The City incurs costs for providing certain services and charges fees (user fees) to recover those costs which include staffing and administrative costs. Planning and development fees, fire inspection fees and Public Works development fees comprise the primary revenues in this category. FY 2025-26 charges for services revenues total \$7.3 million and are up by \$0.6 million (or 8.9%) compared to last year, attributed to consistent planning and development revenues through the first half of the year, as well as increased cost recovery for ambulance transport and ambulance billing revenue.

All other major revenues have performed in line with budgeted levels. Staff may submit revenue adjustments with the Q3 financial report if any major revenues (e.g., property tax, sales tax and planning / development fees) perform substantially over or under budgeted levels.

Expenditures

General Fund expenditures total \$67.0 million and are at 48.6% of the \$138.0 million adopted expenditures. Expenditures have a more linear nature as staff processes payables such as payroll biweekly and invoices on a weekly basis.

General Fund expenditures this fiscal year are \$2.8 million higher than Q2 FY 2024-25. Staff anticipated the higher FY 2025-26 expenditure levels and budgeted accordingly to account for projected salary increases from approved Memorandum of Agreements with all City employee labor groups. In addition, the City retention level has substantially improved with vacancy levels at a low 10%-12% rate for the organization. This is good news for the organization with service levels and delivery improving but also contributes to higher expenses in FY 2025-26.

Overall, FY 2025-26 General Fund expenditure remains in line with adopted budget levels through the fiscal year mid-point. Staff will closely monitor expenditures and work with departments throughout the year to maintain or ensure the City remains on track to meet adopted budget levels.

FY 2025-26 Mid-Year Budget Amendments

Staff typically presents budget amendments with the Q2 Financial Report / Mid-Year Report to account for administrative or budget corrections, unanticipated costs, significant changes in revenue and/or changes in budgeted assumptions that may occur during the fiscal year.

The FY 2025-26 Mid-Year Budget Amendments total \$1,955,000 in expenditure and revenue adjustments in the Fire Department budget within the General Fund (Fund 10). This pertains to budget amendments related to Fire Department ambulances and equipment financing authorized by City Council on December 2, 2025. The City signed a \$1,955,000 Master Lease Agreement with Bank of America to purchase seven ambulances and related gurney equipment with the first debt service payment due May 2026 which requires a budget appropriation. \$1,955,000 bond proceeds and ambulance contract savings due following transition to an in-house ambulance program would support these amendments. Staff also requests corresponding revenue budget amendments to appropriate the bond proceeds. All requested budget amendments remain budget-neutral with no General Fund impact.

Attachment 3 presents the FY 2025-26 Mid-Year Budget Amendments requested for City Council approval.

FY 2024-25 Audited Actuals and FY 2025-26 Updated General Fund Financial Position

The final audit and FY 2024-25 ACFR completion submitted to City Council on February 17, 2026 reflect the General Fund ended FY 2024-25 with a \$30.0 million total fund balance, down from \$38.6 million from the prior fiscal year. The \$30.0 million total fund balance includes:

- \$10.2 million assigned or committed allocated funds - funds set aside and restricted for specific purposes. These have contractual or legal obligations and the City *cannot* use for general purposes such as donations earmarked for special use, fees funds adopted by City Council ordinance or resolution or external legislation imposed by other government entities (i.e. the State).
- \$19.8 million contingency reserves. Contingency reserves reflect City Council policy to maintain a minimum 10% of operating costs as reserves, with a 17% contingency

reserve level target goal. The City ended FY 2024-25 with a \$19.8 million contingency reserve, a \$1.3 million decrease from \$21.1 million the prior year. The General Fund will end the year at 14.4% contingency reserves, below the 17% reserve goal but still within the 10% minimum policy.

The following presents the 'Adjusted' FY 2025-26 Budget and updated financial position based on the FY 2024-25 ACFR audited financials (Attachment 4).

Table 1 – FY 2024-25 Audited Actuals & Updated FY 2025-26 General Fund Financial Position

	Audited Actuals FY 24-25	Adopted Budget FY 25-26	Adjusted Budget FY 25-26
Beginning Total Fund Balance	\$38,656,835	\$30,816,295	\$30,041,758
<i>Fund Balance Adjustment-Restatement</i>	<i>(2,900,768)</i>	-	-
Re-stated Beginning Fund Balance	\$35,756,067	\$30,816,295	\$30,041,758
Revenues	136,607,726	137,542,452	139,497,452
Transfers In:	1,017,328	778,087	778,087
Total Revenues and Transfers In	\$137,625,054	\$138,320,539	\$140,275,539
Expenditures	(137,786,505)	(137,981,505)	(139,936,505)
Transfers Out:	(5,552,858)	(4,092,545)	(4,092,545)
Total Expenditures and Transfers Out	(\$143,339,363)	(\$142,074,050)	(\$144,029,050)
Net Operating Surplus/(Deficit)	(5,714,309)	(3,753,511)	(3,753,511)
Ending Total Fund Balance	\$30,041,758	\$27,062,784	\$26,288,247

Next Steps

Staff will present the updated City General Fund financial outlook to the Fiscal Sustainability Ad Hoc Committee in late March or early April 2026. And then present the Ad Hoc Committee recommendations and the FY 2026-06 budget to City Council at a meeting in late April or early May 2026 in a study session format. Staff will continue exercising fiscal diligence and present cost-containment strategies, new revenue opportunities and other options to improve the City's financial position, along with the Five-Year Financial Forecast and updated budget outlook.

Staff requests City Council receive and file the Q2 Financial Report for FY 2025-26 and approve the Mid-Year FY 2025-26 budget amendments as presented in Attachment 3.

Attachments:

- Attachment 1 – Revenue Summaries - Q2 FY 2025-26
- Attachment 2 – Expenditure Summaries - Q2 FY 2025-26
- Attachment 3 – FY 2025-26 Mid-Year Budget Amendments
- Attachment 4 – FY 2024-25 ACFR

cc: City Manager Eddie Manfro