



# ***Agenda Report***

## ***Fullerton City Council***

**MEETING DATE:** FEBRUARY 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:** FISCAL YEAR 2026-27 BUDGET PROCESS OVERVIEW

---

### SUMMARY

An overview of the Fiscal Year (FY) 2026-27 City budget development process (Budget Process), underlying principles guiding budget development including the City Council top priorities and City policy areas, budget policies and methodology and new budget initiatives for the upcoming year.

### PROPOSED MOTION

Receive and file.

### ALTERNATIVE OPTIONS

- Approve the Proposed Motion
- Do not receive and file
- Other options brought by City Council.

### STAFF RECOMMENDATION

Staff recommends the Proposed Motion.

### CITY MANAGER REMARKS

None.

### PRIORITY POLICY STATEMENT

This item matches the following Priority Policy Statement:

- Fiscal and Organizational Stability.

## FISCAL IMPACT

This item generates no fiscal impact.

## BACKGROUND AND DISCUSSION

This report provides a high-level overview of the Budget Process and identifies the guiding budget principles and financial parameters facilitating the FY 2026-27 budget development.

The FY 2026-27 Budget Process began with a Citywide Budget Kickoff Meeting on January 7, 2026. Budget staff provided information to departments for the new budget process, timeline and guidelines. The City operates on a July 1 to June 30 fiscal year, adopting an operating budget before July 1 each year per City financial policies. The Administrative Services Department coordinates the budget process in conjunction with City Manager's Office and provides oversight to ensure the process incorporates City Council goals and priorities.

The FY 2026-27 Budget Process uses a Citywide, collaborative approach with departments developing and submitting department budgets. City financial policies and the current-year budget guidelines also guide the budget process, which considers the overall City fiscal condition and resources.

### *City Council Priorities*

City Council priorities form the basis for budget development and guidance for developing work plans each fiscal year. City Council reaffirmed its top three priorities of Fiscal and Organizational Stability, Public Safety and Infrastructure in FY 2025-26. These priorities will carry forward to budget development in FY 2026-27.

The City identified other Citywide policy areas in FY 2025-26, including Community Preservation, Community Events and Services and Organizational Efficiencies, which will also guide budget development for FY 2026-27.

### *Budget Methodology*

#### *Expenditures*

*Maintenance of Effort Budget Approach.* The City will employ a "Maintenance-of-Effort", or MOE, budget approach for FY 2026-27, which maintains existing department operating service levels while allowing department budgets to increase due to the following:

- salary increases from approved MOA employee agreements
- annual benefits and CalPERS retirement increases
- contractual increases for current City agreements and contracts.

Staff allowed the 'cost of doing business' or inflationary increases for goods and services capped at a set percentage in prior budgets. However, as a cost containment strategy, there will be *no MOE inflationary cap* in FY 2026-27. Staff will continue to monitor rising

costs in labor, CalPERS unfunded accrued liability (UAL) and operating costs in the current uncertain economic environment.

*Budget Requests.* Departments may submit Budget Requests that align with City Council priorities, City Manager initiatives and/or new statutory requirements. The City Manager and Administrative Services staff evaluate budget requests during department Budget Reviews. Staff evaluates these budget requests in consideration of the overall fiscal condition. The City Manager has final approval. Staff develops the FY 2026-27 Proposed Budget to present to City Council at in a study session format in April or May 2026.

*Revenues*

Staff develops revenue budgets each fiscal year based on known information at the time and uses a variety of factors and quantitative and qualitative methodologies to present reasonable estimates to assist City Council in the decision-making process.

Staff develops the City major revenues, Property Tax and Sales Tax budgets using a combination of specialized consultant support and current year and historical data. Staff regularly compares consultant projections against revenue receipts and evaluates based on historic growth factors. Staff factors consultant projections against the current economic outlook and budgets property and sales tax revenues at reasonable budget levels based on information available at that time.

Staff uses a combination of trend analysis, current year data and economic factors to project revenues for other major tax revenues such as Transient Occupancy Tax (TOT or hotel taxes) and franchise fee, as well as other non-tax revenues such as fines, penalties and lease revenue.

Departments develop user fee and department-based revenue projections for FY 2026-27 utilizing a variety of metrics, ranging from software to track data and input values (i.e., permits software) to historical data and trend analysis and/or any approved fee increases.

*Continued Internal Services Funds Review.* Staff annually reviews all City Internal Service Funds (ISFs) to prepare for the FY 2026-27 budget development. The City has eight ISF funds providing citywide services and benefits on behalf of the entire organization, such as the Vehicle Replacement Fund, Information Technology Fund, Building Maintenance Fund, Workers Compensation and Liability Insurance Fund. Staff reviews all ISF funds to identify and assess appropriate funding levels, proper methodologies and potential cost-containment savings to the General and other funds.

*FY 2026-27 Budget Calendar / Key Dates*

Staff presents budget events and key dates for the FY 2026-27 Budget Development Process in this section. The budget process began in January 2026, initiating the FY 2026-27 budget process. The following chart provides a high-level summary of key budget dates and discussed below.

Table 1 – FY 2026-27 Budget Calendar

FY 2026-27 Key Budget Events	Date
Budget Kickoff Meeting	01/07/2026
Department Budget Development Period	Dec. 2025 - Feb. 2026

City Manager-Department Budget Reviews	Early March 2026
Community Budget Meeting(s)	April 2026
Budget Study Session	April or May 2026
FY 2025-26 Budget Adoption Meeting	6/2/2026
Start of New Fiscal Year	7/1/2026

*Budget Community Meetings.* The budget process includes community budget meetings, similar to last year to gather resident and community members input on the upcoming budget, as well as provide transparency on City budget challenges. The community budget meetings will occur either in the Council Chambers or at the Fullerton Community Center in April 2026.

Staff plans to present the FY 2026-27 Proposed Budget to City Council in a study session format in either April or May 2026 with an initial review of the Proposed FY 2026-27 Budget, an overview of the City fiscal position and preliminary Five-Year Financial Forecast. The study session provides the first review for City Council and the opportunity to provide feedback, make any changes and/or direction regarding the FY 2026-27 Proposed Budget.

City Council will hold a public hearing on June 2, 2026 to formally adopt the FY 2026-27 Operating Budget, Capital Improvements Program (CIP) Budget, Annual Appropriations or GANN Limit and Annual Schedule of Fees and Charges. The public will have an opportunity to provide comments on the Proposed Budget. The new fiscal year begins July 1, 2026 and the adopted budget will take effect.

cc: Interim City Manager Eddie Manfro