



Agenda Report

Fullerton City Council

MEETING DATE: JUNE 3, 2025

TO: CITY COUNCIL / SUCCESSOR AGENCY

SUBMITTED BY: KINGSLEY OKEREKE, INTERIM DIRECTOR OF ADMINISTRATIVE SERVICES

PREPARED BY: STEVEN AVALOS, BUDGET AND PURCHASING MANAGER

SUBJECT: CITY OF FULLERTON ANNUAL OPERATING AND CAPITAL BUDGET AND ANNUAL APPROPRIATIONS LIMIT FOR FISCAL YEAR 2025-26

SUMMARY

Request to adopt the City of Fullerton Annual Operating and Capital Budget for Fiscal Year (FY) 2025-26 including the General Fund, the Capital Improvement Program and All Other City Funds and approve Annual Appropriations Limit.

PROPOSED MOTION

1. Adopt the following resolutions:

RESOLUTION NO. 2025-XXX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, ADOPTING THE CITY OF FULLERTON ANNUAL OPERATING AND CAPITAL BUDGET FOR FISCAL YEAR 2025-26 AND APPROPRIATING THE FUNDS NECESSARY TO MEET THE EXPENDITURES SET FORTH THEREIN

RESOLUTION NO. 2025-XXX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, ADOPTING THE ANNUAL APPROPRIATIONS LIMIT FOR FISCAL YEAR 2025-26 PURSUANT TO CALIFORNIA STATE CONSTITUTION ARTICLE XIII B

2. Continue Public Hearing to June 17, 2025 to consider Proposed Fee Changes and FY 2025-26 Master Fee and Charges Schedule.

ALTERNATIVE OPTIONS

- Approve the Proposed Motion.

- Other Options brought by City Council.

STAFF RECOMMENDATION

Staff recommends the Proposed Motion.

CITY MANAGER REMARKS

Over the last three years, based on City Council priorities, the City has taken a variety of steps to accomplish the City Council goals of providing quality services to the community, improving Public Safety, invested in its labor workforce, and enhancing funding for Infrastructure, specifically for streets & water. In working towards achieving these goals, the City has strived to meet its goals of financial stability including maintaining its financial policy of up to 17% Reserves level.

The FY 2025-26 Proposed Budget (Proposed Budget) continues the City Council's goals and commitment to providing quality levels of services to its residents. The City continues its high level of community preservation efforts and will maintain its level of maintenance in parks, trails and right of ways as last year. Key community events like the Fourth of July, First Night and full year of programming at the Hunt Library are included in the proposed budget. Also, the Proposed Budget continues City investment in Streets, city facilities and IT infrastructure, as well as its water and sewer utilities' infrastructure.

We continue to have concerns about the City's use of reserves. The City Council in recognizing this concern has requested that staff explore 2 dedicated ½ cent measures for Streets and Public Safety. However, currently, many cities in California, including the State, have been showing deficits in the coming years. Fullerton is in a similar situation and will need to do reduce services in operations or increase revenues to alter the budget deficit outlook in our 5-year financial forecast.

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 Proposed FY 2025-26 All City Funds Budget, including the General Fund, Enterprise Funds, Special Revenue Funds and the Capital Improvement Program, totals \$270,506,504 and supported by ongoing \$259,935,518 Citywide revenues, transfers in and available fund balances (including designated set aside funds for capital projects).

The Proposed FY 2025-26 General Fund Budget includes expenditures (including transfers out) totaling \$141,874,050 supported and balanced with \$138,320,539 revenues (including transfers in) and \$3,553,511 available reserves. Staff projects the proposed General Fund Budget to maintain the 17% contingency reserves goal per the City financial policy.

BACKGROUND AND DISCUSSION

Introduction

Staff presented the initial FY 2025-26 Proposed Annual Budget to City Council for review and feedback at a special meeting on May 13, 2025. Staff presented the FY 2025-26 Proposed General Fund Budget, All Funds Budget and Capital Improvement Program (CIP) Budget for City Council review and direction.

Staff presented budget additions and reductions recommended by the City Manager and alternative 'Budget Options' for City Council to consider including in the FY 2025-26 Proposed Operating Budget. Staff incorporated City Council into the FY 2025-26 Proposed Budget. Staff also presented the General Fund Five-Year Financial Forecast to show the projected City financial outlook to aid City Council decision-making efforts to support financial and organizational stability.

The FY 2025-26 Proposed Budget prioritizes the City Council Public Safety, Infrastructure and Organizational Stability goals. The Proposed Budget continues the City Council goals and commitment to providing quality service levels to residents which this report summarizes. The Proposed FY 2025-26 Budget Book (Attachment 3) summarizes City resources (revenues), operating expenditures and service levels the City intends to provide for the upcoming fiscal year.

Overall, the FY 2025-26 Proposed All Funds Budget totals \$270.5 million. The General Fund (the chief City operating fund) Budget including transfer out totals \$141.9 million with staff proposing to balance with ongoing revenues, cost containment expenditure reductions and \$3.55 million available reserves. Staff presents the resolution adopting the FY 2025-26 Operating Budget for approval.

Staff also requests City Council approve the resolution adopting the Annual Appropriations Limit (or GANN Limit) for FY 2025-26 required by State law for all cities and local agencies.

All City Funds

The FY 2025-26 All Funds Proposed Budget totals \$270.5 million and supported by ongoing Citywide revenues, transfers in and available fund balances (including designated set aside funds for capital projects). The Proposed All Funds Budget includes:

- General Fund, the chief City operating fund
- Enterprise Funds, such as Water and Sewer Utility Funds
- Special Revenue Funds, such as Gas Tax and Measure M2 transportation Funds
- Internal Service Funds
- the Capital Improvement Program (CIP) and capital projects budget
- Successor Agency.

Table 1 – All Funds' Proposed FY 2025-26 Budget Overview

All Funds by Fund Type	FY 25-26 Proposed
General Fund	\$137,781,505
Special Revenue Funds	36,150,459
Water Fund (<i>Operating Only</i>)	43,303,509

The General Fund is the chief City operating fund supporting traditional municipal services and totals \$137.8 million in FY 2025-26.

The City *Special Revenue Funds* totals \$36.2 million in FY 2025-26 and includes City Gas Tax funds, Measure M2 Local Fair Share fund, Sanitation and Drainage Capital Outlay funds, Community Development Block Grant Program (CDBG) federal funds and other Grants Funds. These funds are restricted for special purposes, such as street maintenance efforts, street capital improvements, housing and community assistance programs and other earmarked grant purposes.

Enterprise Funds. The Water Enterprise Fund (excluding capital projects) totals \$43.3 million in FY 2025-26 and supports City water utility system operations. The City maintains its sewer utility and other enterprise funds and anticipates these to total \$12.1 million in FY 2025-26. Enterprise funds are self-supporting funds generating their own revenue through user fees or charges passed to customers to support business activities and operations.

The Capital Improvement Projects Program (CIP) totals \$32.2 million in FY 2025-26. Special revenues largely support the CIP Program such as Measure M2 and SB1 gas tax for street improvements, enterprise funds for water and sewer utility improvements, various grants and/or developer funds and General Fund allocations through the Infrastructure Fund and direct General Fund support.

General Fund (including Parks and Recreation and Library)

The FY 2025-26 Proposed General Fund Budget totals \$137.8 million in operating expenditures and \$4.1 million in transfers out to other funds. Staff proposes balancing the General Fund Budget with \$137.5 million operating revenues, \$0.8 million transfers in and \$3.55 million available reserves.

Table 2 – FY 2025-26 Proposed General Fund Budget Overview

	Adopted Budget FY 24-25	Projected Budget FY 24-25	Proposed Budget FY 25-26
Beginning Fund Balance	\$31,196,742	\$31,196,742	\$30,816,295
Revenues	127,716,541	129,261,407	137,542,452
Transfers In:	1,320,164	1,320,164	778,087
Total Revenues and Transfers In	129,036,705	130,581,571	138,320,539
Expenditures	(132,859,319)	(130,769,018)	(137,781,505)
Transfers Out:	(5,603,000)	(5,193,000)	(4,092,545)
Total Expenditures and Transfers Out	(138,462,319)	(135,962,018)	(141,874,050)
Net Operating Surplus/(Deficit)	(9,425,614)	(5,380,447)	(3,553,511)
MOE Reserve Adjustment	5,000,000	5,000,000	-
Ending Fund Balance	\$26,771,128	\$30,816,295	\$27,262,784

Revenues

Staff projects FY 2025-26 General Fund operating revenues (*excluding transfers in*) will total \$137.5 million, an increase of \$9.8 million (or 7.7%) from FY 2024-25 budgeted

revenues of \$127.7 million. Consistent property tax revenue growth, stable sales tax and other tax revenues including increased cost recovery efforts from participation in a new ambulance revenue State recovery program drive this revenue growth.

Property Tax – Total Property Tax revenue from General Property Tax and Property Tax In Lieu of VLF comprises the largest General Fund revenue at 46% of General Fund operating revenues. Staff projects Property Tax to total \$62.7 million in FY 2025-26, a \$4.6 million increase from last year, primarily due to increased VLF allocation, continued strong assessed property valuations and growth, recent development projects on the secured property tax roll and increased residual property tax receipts as successor agencies pay down former redevelopment agency (RDA) obligations. Overall, the City's diverse and stable property tax base (mixture of commercial, industrial and residential) continues to drive property tax revenue growth.

Sales Tax – Staff projects Sales Tax, the second largest General Fund revenue, to total \$31.1 million in FY 2025-26, representing relatively flat growth from 2024-25 budgeted levels. Sales tax revenues have provided a stable revenue source for the City in recent years, however sales tax revenue growth has stalled largely due to economic uncertainty in the current business environment. Nonetheless, sales tax revenue has not decreased which due to the City's diverse economic base which does not rely on one economic sector.

Transient Occupancy Tax - Transient Occupancy Tax, or TOT, offers another viable revenue source for the City, projected to remain flat and total \$3.4 million in FY 2025-26. This includes TOT revenue from the hotels, motels and the Short-Term Rental (STR) program. The current City TOT rate is 10%, with neighboring city TOT rates ranging from 10% to 15%.

Charges for Services – Charges for Services revenues will increase substantially by \$2.4 million to total \$17.8 million in FY 2025-26, primarily due to participation in the State Voluntary Rate Range Program (VRRP) with CA DHCS and Cal-Optima to recover unfunded Medi-Cal transport (Ambulance) costs. Staff projects this program to yield an additional \$1.8 million net revenue costs.

Staff expects all other General Fund revenues either increase in line with market trends or remain flat in FY 2025-26.

Expenditures

FY 2025-26 Proposed General Fund Expenditures (excluding transfers out) total \$137.8 million, reflecting a \$4.9 million (or 3.7%) increase from the FY 2024-25 adopted \$132.9 million budget. The primary expenditure increases come from approved labor agreements with all employee labor groups and rising CalPERS Unfunded Actuarial Liability (UAL) pension costs.

Staff anticipates a \$6.2 million increase for salaries and benefits in FY 2025-26 due to approved labor agreements with all labor groups, as well as increases to CalPERS pension costs. Staff expects CalPERS Unfunded Accrued Liability (UAL) pension costs to increase by \$1.9 million in FY 2025-26 for both Safety and Miscellaneous groups. CalPERS UAL costs continue to increase year-over-year as a result of external factors, such as CalPERS discount rate and investment strategy performance.

The City Manager implemented the following *Cost Containment initiatives* across all departments to control spending and contribute savings to combat these increases and address the City's fiscal situation:

- *Cost Containment Initiatives* – The City Manager directed departments to implement cost-cutting or cost containment reductions as part of the FY 2025-26 Budget, resulting in *no increases* to department expenditure budgets except approved contract increases. Staff factored other operating reductions in the City Manager recommended additions and reductions to the base budget.
- *Organizational Efficiencies And Sustainability* – Staff identified Citywide operating reductions totaling \$7.2 million to support proposed FY 2025-26 Proposed Budget enhancements including a 'Department 3% Vacancy Hold' target achieved by holding *existing positions vacant, not filling future vacancies due to staff turnover and/or underfilling positions at a lower level*. Attachment 6 provides each department 3% vacancy target .
- The Proposed Budget factors in one-time department contribution reductions to the Workers Compensation and Liability Insurance internal services funds. These funds have sufficient reserve levels but will need restoration to regular allocation levels in FY 2026-27.

The FY 2025-26 Proposed Budget includes recommended budget additions and reductions to align with City Council priorities and goals in addition to the year-over-year changes.

FY 2025-26 General Fund Budget Highlights

The Proposed FY 2025-26 Proposed General Fund Budget supports the City Council top priorities and continues providing quality services to its residents. Staff incorporated the following budget recommendations in the Proposed Budget:

- *Public Safety* – Enhancements to Public Safety include transition to a new in-house Ambulance Program to provide improved ambulance services to the community and funding for the Operation Clean Streets initiative renewal.
- *Community Events and Services* – The Proposed Budget includes funding for the Fourth of July and First Night community events, a full year of Hunt Library programming and expanded Community events offset by revenue recovery.
- *Community Preservation* – The Proposed Budget includes the annual City contribution to the Navigation Center for nightly beds to address homelessness and the unhoused population.
- *Infrastructure* – The Infrastructure Fund will contribute \$2.5 million towards infrastructure improvements in FY 2025-26, including \$2 million for street improvements. The General Fund will contribute an additional \$500,000 towards street improvements in FY 2025-26.

The General Fund will support \$0.9 million critical IT Infrastructure improvements, which include Citywide Windows 11 and Microsoft 365 migrations and department software upgrades.

Attachment 5 provides the FY 2025-26 Budget Additions and Reductions.

City Council Direction

Staff presented alternative Budget Options for City Council consideration toward balancing the Proposed Budget for FY 2025-26 at the Budget Study Session. City Council directed staff to reduce IT Projects funding by \$804,000 which included deferring a Fire Department Network Upgrade project for another year and deferring citywide PC replacements and 'set-aside' funds for a future Police cloud migration. The FY 2025-26 Proposed Budget reflects these changes with the *exception of the Fire Network Upgrade Project. The City cannot defer this project as the current network is at 'end-of-life' and no longer supported by the data provider. Staff reinstated \$412,000 for this project and included in the Proposed Budget.*

Overall, the FY 2025-26 Proposed General Fund Budget will balance with ongoing revenues, cost containment expenditure reductions and \$3.55 million available reserves. The Proposed Budget also accomplishes the 17% financial reserve goal for one more year.

Capital Improvement Program (CIP) Budget for FY 2025-26

The City Capital Improvements Program (CIP) provides a comprehensive capital projects plan for upcoming fiscal year. The FY 2025-26 Proposed CIP Budget totals \$32.2 million, including \$8.2 million for Street Rehabilitation projects and \$16.1 million for Water Infrastructure projects as well as other capital improvements for sewer utility, storm drain repairs, traffic systems and other City facility improvements. The following summarizes the planned CIP by major category.

Table 3 – FY 2025-26 Proposed CIP Budget

CIP Project Category	FY 25-26 Proposed
Street Rehabilitation	8,150,000
Utility – Water System	16,100,000
Utility - Sewer and Storm Drain Systems	1,450,000
Traffic Systems	4,763,535
City Facilities (Buildings, Accessibility, etc.)	1,150,000
Parks	250,000
Misc. Projects (Sidewalk, PMP, etc.)	300,000
Total Proposed CIP Budget	\$32,163,535

- *Street Rehabilitation (\$8.2 million)* – The City will allocate \$8.2 million for Street Rehabilitation projects in FY 2025-26 from the following resources: \$3.7 million SB1 gas tax funds, \$1.6 million County Measure M2 local fair share funds, \$2.5 million General Funds (including the Infrastructure funds) and \$350,000 CDBG funds. FY 2025-26 Street Rehabilitation projects will entail one or two arterial streets but the majority of funds will focus on residential streets that received a water main replacement.

- *Traffic System Improvements (\$4.7 million)* – Improvements consist of safety and traffic signal operation enhancements, equipment upgrades and street light conversion analysis. Measure M2 funds, gas tax funds and traffic mitigation fees primarily support these projects. The City will receive a \$3.2 million federal Highway Safety Grant for Orangethorpe and Harbor Blvd corridor traffic safety improvements in FY 2025-26.
- *Water Infrastructure (\$16.1 million)* – Water improvement projects focus on main pipe replacements with additional work addressing PFAS issues, equipment and operations upgrades and reservoir rehabilitation.
- *Sewer and Storm Drain projects* will repair and maintain existing facilities.

Various city buildings and other facilities will receive equipment repairs, replacements, and accessibility improvements in FY 2025-26 supported by facility capital and infrastructure funds. Park Dwelling funds typically support park projects.

The FY 2025-26 Proposed Budget Book includes the FY 2025-26 Proposed CIP Budget project details, including the 5-year capital project plan.

Appropriations Limit

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

Staff utilized the County growth factor and set the FY 2025-26 City Appropriations Limit amount at \$292,178,666, in which the City is \$191,006,686 under the limit and in compliance with this statute. Staff attached the Appropriations Limit resolution for approval, with accompanying GANN Limit worksheets for reference (Attachment 4).

Schedule of Fees and Charges

Staff normally presents City Master Fee and Charges Schedule with the Annual Operating Budget adoption. The City noticed fee schedule adoption for June 3, 2025 and requests City Council continue the public hearing to June 17, 2025 to consider the Proposed Fee Changes and FY 2025-26 Master Fee and Charges Schedule.

Fiscal Challenges

The City faces the following fiscal challenges highlighted at the Budget Study Session:\

- *Expenditures Outpacing Revenues* – Expenditures outpace revenues primarily due to approved labor agreements and salary costs and rising CalPERS UAL pension costs. Approved labor agreements have significantly improved City vacancy and retention rates (*reduced from 20% to 10%*) and provided organizational stability and service levels but puts financial pressure on the City's budget. Further, CalPERS UAL pension costs increased in FY 2025-26 and project to continue increasing over the next few years. External factors and decisions, such as CalPERS not meeting

investment strategies and lowering the discount rate, have contributed significantly to increased pension costs.

- *Infrastructure – The City needs* additional investment to address aging infrastructure including residential streets, preserving the water utility, sewer and sanitation systems and City parks and facilities.
- *Revenues Not Keeping Pace with Expenditures –* City revenues have steadily grown but not at the same pace as expenditures. The City needs to identify additional revenue sources to balance the budget in future years.

Fiscal Sustainability Ad Hoc Committee

City Council formed a Fiscal Sustainability Ad Hoc Committee to review the City fiscal condition and provide recommendations to improve the City's financial position. Staff met regularly with the Ad Hoc Committee over last several months during which the Committee deliberated and decided on a set of recommended '*Budget Balancing Options*' for City Council to consider at the Budget Study Session.

City Council reviewed the balancing budget options at the Study Session and directed staff to agendize the Add-On Sales Tax options for consideration at the May 20, 2025 City Council meeting. City Council provided direction to staff on May 20, 2025 to pursue two 0.5% "*Dedicated*" *Add-On Sales Tax measures*: one 0.5% for Streets and Infrastructure *and* one 0.5% for Public Safety. Both measures would require 66.7% (or 2/3) voter approval.

Pursuing Add-On Sales Tax options *does not* impact the FY 2025-26 Budget adoption. Staff will initiate these efforts and come back to City Council in the upcoming fiscal year.

Closing

Staff requests City Council adopt the resolution adopting the City FY 2025-26 Annual Operating and Capital Budget to begin the new fiscal year on July 1, 2025. Staff will post the final FY 2025-26 Adopted Budget Book on the City website and make available to the public following adoption.

Staff will present the Proposed Fee Changes and FY 2025-26 Schedule of Fees and Charges for City Council review and approval at the June 17, 2025 City Council meeting.

Attachments:

- Attachment 1 – FY 2025-26 Budget Study Session Presentation
- Attachment 2 – Draft Resolution Adopting FY 2025-26 Operating Budget
- Attachment 3 – Draft Proposed FY 2025-26 Budget Book
- Attachment 4 – Draft Resolution Adopting FY 2025-26 Appropriations Limit
- Attachment 5 – FY 2025-26 Proposed Budget Additions & Reductions
- Attachment 6 – FY 2025-26 Department Vacancy Target

cc: City Manager Eric J. Levitt