



Agenda Report

Fullerton City Council

MEETING DATE: JANUARY 21, 2025

TO: CITY COUNCIL / SUCCESSOR AGENCY

SUBMITTED BY: ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES

PREPARED BY: STEVEN AVALOS, BUDGET AND PURCHASING MANAGER
CINNDY BARRIOS, SENIOR BUDGET ANALYST
NOAH HYUN, ACCOUNT CLERK II

SUBJECT: FISCAL YEAR 2025-26 BUDGET PROCESS OVERVIEW

SUMMARY

An overview of the Fiscal Year (FY) 2025-26 City budget development process (Budget Process) and underlying principles guiding budget development including City Council top priority policies, budget policies and methodology and new budget initiatives for the upcoming year.

PROPOSED MOTION

Receive and file.

ALTERNATIVE OPTIONS

- Approve the Proposed Motion
- Other options brought by City Council.

STAFF RECOMMENDATION

Staff recommends the Proposed Motion.

CITY MANAGER REMARKS

This item is intended to provide the City Council with an overview of the upcoming budget calendar and process.

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 Budget Process overview and identifies guiding principles and financial parameters that facilitate the FY 2025-26 budget development.

The FY 2025-26 Budget Process began with a Citywide Budget Kickoff Meeting on November 18, 2024 where staff explained the budget process and guidelines to departments. The City operates on a fiscal year basis from July 1 to June 30 and adopts the operating budget before July 1 each year per City financial policies. The Administrative Services Department administers the budget process and coordinates the proposed budget development in conjunction with City Manager's Office to ensure the process incorporates City Council goals and priorities.

The FY 2025-26 Budget Process takes a citywide, collaborative approach with all departments developing and submitting their department budgets. City financial policies and the current-year budget guidelines also guide the budget process, which considers the City's overall fiscal condition and resources.

The City established new budget initiatives in FY 2025-26 including an early budget start date and budget timeline for budget flexibility and adequate time to develop the FY 2025-26 Proposed Budget, exploring cost-containment and reduction strategies with departments and continual internal service fund review to ensure adequate funding levels and identify potential cost-saving opportunities as well as future revenue options.

City Council Priorities

City Council priorities provide the basis for budget development and guide department work plan development each fiscal year. City Council reaffirmed its top three priorities in FY 2024-25: Fiscal and Organizational Stability, Public Safety and Infrastructure. These priorities will carry forward to FY 2025-26.

Staff identified other Citywide policy areas in FY 2024-25 including Community Preservation, Community Events and Services and Organizational Efficiencies, which also guide FY 2025-26 budget development.

Budget Methodology

Expenditures

Maintenance of Effort Budget Approach. The City will employ a "Maintenance-of-Effort", or MOE, budget approach for FY 2025-26 which maintains existing department operating service levels while allowing department budgets to increase due to the following:

- approved employee agreement salary increases
- annual benefits and CalPERS retirement increases

- current City agreement and contractual increases.

The City allowed 'cost of doing business' or inflationary increases for goods and services capped at a set percentage in prior year budgets. However, FY 2025-26 will have *no MOE inflationary adjustment* as a cost containment strategy (other than contractual increases).

Budget Requests. Departments may submit new budget requests that align with City Council priorities, City Manager initiatives and/or new statutory requirements. Staff considers and deliberates all budget requests during department budget reviews with the City Manager and Administrative Services Department. Staff evaluates these budget requests in consideration of the City's overall fiscal condition with final input from the City Manager. Staff then develops the FY 2025-26 Proposed Budget to present to City Council at Budget Study Session tentatively scheduled in April 2025.

Revenues

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

Staff develops the major City revenue - Property Tax and Sales Tax - budget utilizing an outside specialized consultant support and current year and historical data. Staff regularly compares consultant projections against revenue receipts and evaluates historic growth factors. Staff compares 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 fees 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 2025-26 using a variety of metrics, including software to track data and input values (i.e., permits software), historical data and trend analysis and/or any approved fee increases.

Budget Initiatives for FY 2025-26

Early Budget Start Date and Timelines. Staff implemented an early budget start date (November 2024) and expedited timeline for the FY 2025-26 budget year to provide departments and Administrative Services staff sufficient time to review and submit department budgets. The accelerated timeline should allow sufficient time to incorporate City Council direction for the final proposed budget for adoption on June 3, 2025.

Continued Review of Internal Services Funds. Staff annually reviews all Internal Service Funds (ISFs) for the FY 2025-26 budget development and identifies and assesses appropriate funding levels, proper methodologies and potential cost-containment savings to the General and other funds. . The City has eight ISF funds providing citywide services and benefits for the entire organization, including the Vehicle Replacement Fund, Information Technology Fund, Building Maintenance Fund, Workers Compensation and Liability Insurance Fund.

FY 2025-26 Budget Calendar

Staff attached the FY 2025-26 Budget Calendar for reference (Attachment 1) which identifies all budget events and key dates for this year's budget development process. The following chart provides a high-level summary of key budget dates (subject to change):

Table 1 – FY 2025-26 Budget Calendar

FY 2025-26 Key Budget Events	Date
Budget Kickoff Meeting	November 18, 2024
Department Budget Development Period	November 2024 - January 2025
Department Budget Submittals Due	January 23, 2025
City Manager-Department Budget Reviews	Week of February 10, 2025
Budget Study Session	April 2025
FY 2025-26 Budget Adoption Meeting	June 3, 2025
Start of New Fiscal Year	July 1, 2025

Staff plans to present the FY 2025-26 Proposed Budget, a City financial position overview and preliminary Five-Year Financial Forecast to City Council at a Budget Study Session in early April 2025. The study session gives City Council an opportunity to provide feedback and direction regarding the FY 2025-26 Proposed Budget prior to budget adoption in June.

City Council will tentatively hold a public hearing on June 3, 2025 to adopt the FY 2025-26 Operating Budget, Capital Improvements Program (CIP) Budget, Annual Appropriations or GANN Limit and Annual Schedule of Fees and Charges. The adopted budget becomes effective for the new fiscal year starting July 1, 2025.

Staff attached the FY 2025-26 Budget Calendar (Attachment 1) for reference.

Attachments:

- Attachment 1 – FY 2025-26 Budget Calendar

cc: City Manager Eric J. Levitt