



Agenda Report

Fullerton City Council

MEETING DATE: MAY 21, 2019

TO: CITY COUNCIL / SUCCESSOR AGENCY

FROM: KENNETH A. DOMER, CITY MANAGER

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SUBJECT: BUDGET STUDY SESSION FOR FISCAL YEAR 2019-20

SUMMARY

Staff will present the preliminary Proposed Budget, Capital Improvement Plan (CIP) and fee discussion for Fiscal Year 2019-20.

RECOMMENDATION

Provide necessary direction and / or adjustments to Staff in preparation of the Proposed Fiscal Year 2019-20 Budget adoption scheduled for June 4, 2019.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement/s:

- Fiscal and Organizational Stability
- Public Safety
- Infrastructure and City Assets.

FISCAL IMPACT

The preliminary Proposed Budget, CIP and fee revisions result in a total FY 2019-20 City budget of \$197.6 million, including the CIP of \$24.4 million. The total preliminary Proposed City Budget includes a General Fund budget of \$97.6 million, balanced against revenues of \$97.6 million.

DISCUSSION

Budget Strategy

The City of Fullerton historically adopted a biannual budget for all City funds (General Fund, Capital Projects, Water, Sewer, etc.), but for Fiscal Year 2017-18 the City Council

elected to adopt a one-year budget in order to concentrate on stabilizing the financial future of the City. A one-year budget was adopted by the City Council again for FY 2018-19. While the City adopts a budget for all City funds, the General Fund is of particular concern because it is the City's chief operating fund. The preliminary Proposed Budget for FY 2019-20 has resulted in a balanced General Fund budget, where ongoing revenues are equal to ongoing expenditures.

The budget preparation process, which began months ago with a comprehensive review of internal service funds, personnel costs and departmental requests, included a detailed review of revenues and expenditures with the City Manager and Department Heads to ensure accurate budgeting practices are being employed on both sides of the budget equation (revenues and expenditures). As part of this process, expenditure and revenue items were adjusted to better match the most realistic scenarios (based on actuals and best practice projection methodologies), ensuring that the budget is prepared with fair assumptions and best available information.

While the preliminary Proposed Budget includes a balanced General Fund, additional efforts will continue moving forward during FY 2019-20 to further ensure the financial stability of the City going forward. Some of these continuing efforts include: 1) Operational reviews of City services which may result in programmatic changes, 2) Fee / cost studies of City services, 3) Analysis of the Downtown paid parking program and 4) Identification of potential revenue sources and / or expenditure prioritizations to properly fund the City's streets, roads, and infrastructure needs.

General Fund (including Library and Parks and Recreation)

FY 2018-19 General Fund revenues are projected to come in over budget by approximately \$2.8 million, primarily due to one-time revenue of \$2.4 million related to the sale of underground utility credits along with revenues materializing as expected during the FY 2018-19 budget development process. FY 2018-19 expenditures are projected to come in under budget by approximately \$2.7 million, primarily due to the level of vacant positions occurring during the current FY. As such, the under budget expenditures are considered one-time savings and are reflective of staffing vacancies, which also would have resulted in potential service deficiencies or increased use of overtime. These projections may vary from actuals dependent on the remainder of the Fiscal Year, expenditure accruals, revenue recognition requirements and other factors.

The preliminary Proposed FY 2019-20 General Fund budget is structurally balanced and includes revenues of \$97.6 million and expenditures of \$97.6 million. Last year's FY 2018-19 General Fund budget included revenues of \$93.1 million and expenditures of \$93.1 million. Proposed revenues and expenditures are approximately \$4.4 million higher than FY 2018-19's General Fund budget. The \$4.4 million revenue increase is primarily related to continued growth of property tax revenues from increased assessed values of taxable property (\$1.3 million), continued growth in sales tax revenue of 2% (\$400 thousand) and passage of AB 147 (\$100 thousand), elimination of certain ambulance revenues that have been replaced by the CARE ambulance contract (-\$700 thousand) and recognition of gross CARE ambulance contract revenues instead of net revenues (\$3.0 million). The FY 2018-19 General Fund budget showed the net revenue projection of \$1 million for the CARE ambulance contract, while the revenues and expenditures are now shown independent of each other for FY 2019-20. The \$4.4

million expenditure increase is primarily related to the recognition of gross CARE ambulance contract expenditures instead of netting the cost with gross revenues (\$2.4 million) and expected increased CalPERS pension contributions (\$2.0 million).

In a continuing effort to align revenues and expenditures as close to reality as possible, the preliminary Proposed FY 2019-20 General Fund budget reflects approximately 28 full-time equivalent (FTE) General Fund positions as vacant through the assumption of a 4% vacancy rate, or approximately \$2.8 million. The City has experienced an actual employee vacancy rate of over 10% during FY 2018-19. While continued personnel recruitment will reduce the vacancy rate, it is not expected to reduce it below 4% as employees continue to retire and the economy makes some positions more difficult to fill. A best practice advisory for budgeting from the Government Finance Officers Association is consider forecasting procedures that would result in more accurate expenditure projections, especially as they relate to personnel. The use of a 4% vacancy factor is in line with this practice.

The FY 2019-20 General Fund budget will be recommended for City Council amendment throughout the Fiscal Year as additional cost savings and efficiency measures are reviewed, analyzed and placed into action. Unfortunately, with personnel costs representing over 70% of the operating budget, many of the measures must proceed through a lengthy process to include the meet and confer process per labor law. As such, and as we have seen in the prior year with achieving savings from health benefit realignment, the savings or programmatic change may not be seen during the same budget year as it was proposed. These measures include the reorganization of the Public Works Department, contracting street sweeping, review of current and possible future landscape maintenance services models, implementation of a jail services contract, completion of the Community Development fee study and additional departmental reviews.

Proposed Fee Revisions

The preliminary Proposed FY 2019-20 General Fund budget includes a limited number of proposed fee revisions. These include: 1) market based revisions for certain Parks and Recreation fees as reviewed and recommended by the City's Parks and Recreation Commission, 2), Elimination and conversion of the more expensive non-aeronautical hangar fees to the less expensive aeronautical hangar fees along with a 6% hangar fee increase based on periodic market analysis of hangar utilization and rates, 3) Animal care licensing fees to increase cost recovery for these services per a previously approved phased in approach to end the General Fund subsidy of these costs and 4) Continued elimination of the Accessory Dwelling Unit fee.

CIP and Street Improvements

The preliminary Proposed FY 2019-20 CIP budget, reviewed and recommended for adoption by the Infrastructure and Natural Resources Advisory Committee, includes \$24.3 million of funding for street, traffic signals, sewer, storm drain, facilities and parks improvements. The CIP also reflects \$8,110,000 in grant funding for the acquisition of open space in West Coyote Hills. This amount will be applied to the purchase of Neighborhood 1 and once the purchase and sale agreement for the two neighborhoods is considered by the City Council, additional grant revenues and appropriations will be made as amendments to the budget during the Fiscal Year.

Various street improvement projects make up almost \$7 million of this year's CIP projects. The funding is from gas tax, SB1 and Measure M2 revenues. The Roadway Pavement Management Program (PMP) Update, presented to City Council last year, showed the City's current projected Pavement Condition Index (PCI) rating is 64.7. The PMP Update projected a reduction of the PCI rating back to 64.3 in FY 2024-25 based on a projected annual funding level of approximately \$4.5 million. While SB1 funds survived being eliminated last year and are providing \$2.4 million, it is not enough to significantly improve the City's PCI towards the 70-75 level, however, City Council action previously added \$5.4 million of one-time funding towards street improvements which will be realized during FY 2019-20. The CIP funding represented in the attachment is new appropriations. All of the CIP funding (new and previously approved) will be reconciled in a final CIP project listing.

Some incidental PCI rating improvement is expected to result from certain sewer and water projects that require pavement improvements after projects are completed. It is estimated that as much as \$1 million annually of these additional improvements could be realized. Staff will continue to seek additional funding for further improvements through several measures, including: 1) Grant funding, 2) Advocacy for current funding allocation methodologies to be revised more equitably, 3) Use of future one-time revenues and/or cost savings and 4) Exploration of additional revenue sources.

Next Steps

The FY 2019-20 budget is scheduled to be brought to the City Council on June 4, 2019 for a public hearing. The budget is legally required to be adopted by June 30, 2019, but will continuously be reviewed throughout FY 2019-20 as actual revenues and expenditures occur. Any necessary changes that occur during the Fiscal Year due to newly identified organizational efficiencies, revised revenue / expenditure projections, etc. will be brought back to the City Council for consideration as the year progresses.

Staff will begin to schedule meetings with the Infrastructure and Natural Resources Advisory Committee (INRAC) to discuss and present an assessment of the City's infrastructure and the need for improvements to streets, parks, storm drains, sidewalks, buildings, etc. It is anticipated that the current and future condition of City infrastructure and assets will result in the need to identify additional revenue sources or major service levels reductions. Staff will work with the INRAC to determine the available options, the costs and benefits of these options and report the results of these meetings to the City Council for future action.

Attachments:

- Attachment 1 – Revenues by Fund Schedule
- Attachment 2 – Expenditure Summary by Fund and Department Schedule
- Attachment 3 – Schedule of Changes to Fund Balances
- Attachment 4 – Parks and Recreation Fee Schedule
- Attachment 5 – Airport Fee Schedule

- Attachment 6 – Animal Control Service Fee Schedule
- Attachment 7 – CIP Budget