



# ***Agenda Report***

## ***Fullerton City Council***

**MEETING DATE:** OCTOBER 1, 2019

**TO:** CITY COUNCIL / SUCCESSOR AGENCY

**FROM:** KENNETH A. DOMER, CITY MANAGER

**PREPARED BY:** ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES

**SUBJECT:** FINANCIAL AND TREASURER'S REPORT FOR FISCAL YEAR ENDED JUNE 30, 2019

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### **SUMMARY**

This report provides a preliminary review of the City's unaudited financial position for the fourth quarter of Fiscal Year 2018-19 and includes the Treasurer's Report for the same period. Final amendments to the FY 2018-19 budget are being proposed prior to final closing of the books for the fiscal year. The preliminary unaudited information is subject to adjustment during the audit process.

### **RECOMMENDATION**

1. Adopt Resolution No. 2019-XX.

RESOLUTION NO. 2019-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, APPROVING PROPOSED AMENDMENTS TO THE ANNUAL BUDGET FOR FISCAL YEAR 2018-19

2. Receive and file the Financial and Treasurer's Reports.

### **BUDGET POLICY PRIORITY STATEMENT**

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability.

### **FISCAL IMPACT**

Amendments proposed in this report will increase budget appropriations by \$982,838 for a total FY 2018-19 budget appropriation of \$291,122,984. Actual expenditures are projected to total \$201,915,575. The difference between the total appropriations and

actual expenditures is primarily related to Capital Improvement Projects that are multi-year in nature.

## DISCUSSION

### Introduction

The City of Fullerton historically adopted a biannual budget for all City funds (General Fund, Capital Projects, Water, Sewer, etc.), but for FY 2018-19 the City, once again, elected to adopt a one-year budget in order to concentrate on stabilizing the financial future of the City. 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 and has seen annual operating deficits for the past several years along with a corresponding decrease in General Fund balances. A quarterly review of the actual results as compared to the budget for all City funds is key to measuring the financial and operational health of the City. While the measurements for all City funds is highly dependent on the progress of capital improvement projects and their funding, the measurements for the General Fund are valuable in determining the immediate financial health of the City's ability to provide basic public services.

The fourth quarter information is subject to adjustment during the audit process, but no material adjustments are expected to occur. The final audited Comprehensive Annual Financial Report (CAFR) will be presented to the Council in November / December 2019.

### All City Funds

The attached report reflects unaudited actual revenues and expenditures posted through June 30, 2019, including total City funds revenues of \$220.4 million (94% of revenue budget) and expenditures of \$201.9 million (70% of expenditure budget). Overall, total City funds revenues and expenditures are within the projected range for the fourth quarter of the fiscal year. Capital improvement projects and their funding sources are budgeted in whole for the fiscal year but are not likely to be fully completed by the end of the fiscal year, causing actual expenditures to come in below appropriations, as expected.

### General Fund (including Library and Parks/Recreation)

The attached report reflects unaudited actual revenues and expenditures posted through June 30, 2019 and includes General Fund revenues of \$101.9 million (106% of revenue budget) and expenditures of \$94.5 million (98% of expenditure budget). Revenues include a one-time revenue of \$2.4 million related to the sale of underground utility credits which the Council has approved to be transferred to the Capital Projects Fund for street improvement and repair. If the \$2.4 million is excluded, General Fund revenues are \$99.5 million (104% of revenue budget).

Actual General Fund revenues exceeded budgeted revenues by \$5.9 million. This increase was primarily due to higher than anticipated sales tax revenue, some of which are one-time adjustments as explained below. Property tax revenues of \$44.1 million were received, an increase of 4.9% from the prior fiscal year, and slightly above the original budget amount of \$44.0 million. Sales tax revenues of \$23.4 million were received, an increase of 12% from the prior fiscal year, but were higher than projected

due to some collection timing adjustments as well as issues with the implementation of the State's new sales tax reporting system.

Actual General Fund expenditures generally tracked at the pace and amount expected. While a portion of higher overtime costs are offset by reimbursements from the state for Fire overtime related to out-of-area emergencies, there were actual overtime and professional services costs in some departments that exceeded budget and are included as part of the recommended budget adjustments. The total General Fund salaries and benefits costs are projected to be about \$1.9 million below budget.

The City's external financial statement audit will begin mid-October. Thus, financial statement preparation and analysis will occur now through November / December 2019 and any audit adjustments to the unaudited actuals discussed herein will be made during this time frame. The final audited draft of the Comprehensive Annual Financial Report will be presented to City Council in December 2019.

#### Additional Budget Amendments

While overall expenditures are below budget in total, final budget amendments are required to ensure that no Fund, or Department within a Fund, expenditures exceed any Fund / Department appropriation. These appropriation adjustments are partially offset by corresponding revenue. These additional appropriations total \$982,838 and are listed in Exhibit 1 of the attached Resolution. In summary, additional appropriations adjustments are required for Fire overtime and other Fire costs resulting from the change in the CARE Ambulance contract (i.e. medical supplies and State assessed health care service fees).

#### Ongoing Efforts

Continued departmental review by the City Manager and Department Heads was used to gain additional cost savings and efficiencies during the current fiscal year and was built into the budget process for FY 2019-20. Ongoing efforts continue to include close scrutiny of employee vacancies, use of overtime, contracts and other purchases. Other measures continue to move forward as well, including the continual review of various departmental service processes for improved efficiencies and potential additional revenue, the analysis from the downtown parking pilot program to help reduce the General Fund subsidy of downtown parking maintenance and public safety costs, and continued efforts working with our labor units.

Of note and general concern, Staff will focus on Fund 42, the Brea Dam Fund. The largest financial component of the Brea Dam Fund is the City's golf course. In FY18-19 golf course revenues came in under budget by approximately \$670,000 resulting in a loss of close to \$400,000 in the Brea Dam Fund. This loss will negatively impact the golf course's ability to operate on a self-sustaining basis without a potential future subsidy from the City's General Fund. Factors attributing to the reduction in revenues include the significant rainfall events which led to long periods of time where the course was not playable and/or fees were reduced to induce players. Additionally, Staff is reviewing the current Management Agreement to determine if any changes can be made to the overall agreement. Staff will continue to closely monitor the Brea Dam Fund to assess the actions required to enable the fund to operate on a stand-alone basis and not be a burden to the General Fund.

#### Investment Report – Fourth Quarter

The City's operating portfolio ended the quarter with investments totaling \$149.0 million, an increase of \$33.2 million from the previous quarter due primarily to the receipt of property taxes, sales taxes, reimbursements for the Raymond Avenue Grade Separation and the Transportation Center Overpass Elevator projects and the receipt of Successor Agency Recognized Obligation Payment Schedule (ROPS) payment. Investments included \$54.1 million in the State's Local Agency Investment Fund, \$65.1 million in U.S Treasury Notes, \$10.8 million in Federal Agency issues, \$13.2 million in corporate notes, \$4.2 million in Certificates of Deposit, \$1.4 million in asset-backed securities and \$0.2 million in money market funds. The market yield was 2.09% at June 30, 2019 and the net income realized for the quarter was \$766,987.

#### Attachments:

- Attachment 1 – PowerPoint
- Attachment 2 – Resolution No. 2019-XX
- Attachment 3 – Revenue Detail by Fund Report
- Attachment 4 – Expenditure Summary by Fund and Department Report
- Attachment 5 – Schedule of Changes to Fund Balances Report
- Attachment 6 – Quarterly Investment Report