



Agenda Report

Fullerton City Council

MEETING DATE: MAY 5, 2020

TO: CITY COUNCIL / SUCCESSOR AGENCY

FROM: KENNETH A. DOMER, CITY MANAGER

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SUBJECT: FINANCIAL BUDGET REVIEW REPORT FOR FISCAL YEAR 2020-21 PROPOSED OPERATING BUDGET

SUMMARY

A Financial Budget Review Report for Fiscal Year (FY) 2020-21 to provide a review of FY 2020-21 Proposed Operating Budget and opportunity for comments, input and direction from City Council, including discussion of measures to prepare for budget impacts due to COVID-19.

RECOMMENDATION

1. City Council provide input and direction to Staff regarding the FY 2020-21 Proposed Operating Budget.
2. Receive and file Financial Budget Review report for FY 2020-21 Proposed Operating Budget.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability.

FISCAL IMPACT

There are no fiscal impacts associated with the recommended actions on this report. The preliminary Proposed Operating Budget for all City funds for FY 2020-21 is currently projected to total \$240.4 million and includes a Capital Improvement Projects (CIP) Budget of \$50.1 million. The General Fund budget is projected to total \$106.1 million in

expenditures and will be supported by projected revenues of \$97.1 million. Measures to eliminate the projected \$9.0 million deficit in the General Fund budget are discussed later in this report.

DISCUSSION

The FY 2020-21 Budget Development Process initially began as a “regular” budget process, which encompassed a six to eight month period that involves all departments who develop and collaborate on a citywide budget. In January 2020, there was an initial Budget Kickoff Meeting that outlined the budget policy and all budget requirements for the upcoming fiscal year. All Departments submitted their budgets and budget requests, in which the Administrative Services Department and the City Manager reviewed all budget requests and held budget meetings with all departments in early March. This was all completed in preparation to present a preliminary FY 2020-21 Proposed Operating Budget for City Council to review at a budget study session in May 2020 in order to formally adopt in June 2020.

As the year (and budget process) progressed, a national pandemic and the COVID-19 health crisis took hold and took precedence beginning in March 2020. This continues today. As a direct result of this national pandemic and health crisis, several State and County-wide orders were issued and mandated, with the primary “Safer at Home” executive order mandated by the Governor on March 19, 2020 at the forefront, which required all “non-essential” businesses to close, residents to stay home and go out for essential services only, placed travel bans and restrictions and enacted several social distancing measures.

As a result this has had, and will continue to have, a negative impact on the economy and has severely affected the City’s operations, economic revenue base and overall budget. In response to all mandates, the City activated its Emergency Operations Center (EOC). Shortly after, City Hall and all other City Facilities, including all Parks and Recreation community centers and the Library, closed to the public effective March 20, 2020 and continue to be closed to date. With regard to financials, Staff has been providing the City Council with financial updates on a week-to-week basis, supplying preliminary impacts to our revenues for the current fiscal year and initial financial forecasts for FY 2020-21. As such, the preliminary FY 2020-21 Proposed Operating Budget brought before you today is based on conservative projections from the best available financial information as of April 21, 2020.

All City Funds

All City Funds, include all the City’s Enterprise Funds (such as Water Utility and Sewer), all restricted funds (such as Gas Tax, SB1 and Measure M), all internal services funds, the General Fund and CIP. For all City Funds, the Preliminary FY 2020-21 Proposed Operating Budget (Attachments 2 through 4) totals \$240.4 million in expenditures and are supported by \$240.4 million in revenues and use of available reserves and available fund balances to submit a balanced All City Funds budget. The FY 2020-21 Proposed CIP budget totals \$50.1 million and will largely be supported by grant funding (\$23.8 million), private developer loans (\$7.6 million) and by City funding by way of transportation revenues (Gas Tax and Measure M) and Water and Sewer funds (\$18.7 million). The City’s subsidy of the CIP Budget has been greatly affected by the current health crisis

and we are projecting decreases to our streets and transportation projects funding levels, as COVID-19 has adversely impacted gas tax and transportation sales tax revenues.

General Fund (including Parks & Recreation and Library)

The City's preliminary FY 2020-21 proposed General Fund budget will total \$106.1 million in expenditures and will be supported by a revenue budget of \$97.1 million, in which we are projecting an operating deficit of \$9.0 million (to be addressed later in this letter).

Outlined below are the primary factors in developing the FY 2020-21 proposed General Fund budget.

Revenues

The following factors and assumptions were utilized in developing FY 2020-21 revenue projections:

- **Property Tax** – There are no significant projected impacts to property taxes at this time. As such, we are projecting a 1% increase in property tax revenues for FY 2020-21.
- **Sales Tax** – Sales tax revenues are projected to have a negative impact through the first and second quarters of the fiscal year based on the assumption that businesses will be slow to recover at the start of the fiscal year. Overall, we took a slightly more conservative approach than the City's fiscal consultant, HDL, and are projecting a 12% decrease for the first quarter of FY 2020-21 and a 10% decrease overall.
- **Transient Occupancy Taxes (TOT)** – Transient Occupancy Taxes or hotel occupancy taxes are projected to take an even more severe hit, as travel is significantly reduced. We are anticipating travel and lodging to have a much slower recovery period to start the fiscal year. For TOT revenues, we are projecting to receive approximately 50% of monthly revenues through the first half of the year; and slowly ramping up this recovery percentage through the end of the fiscal year. Overall, we are projecting a \$600,000 revenue loss which is a 20% decrease from FY 2019-20 budgeted levels.
- **Development Fees** – Development is still considered an "essential" service and continues in the City, despite development fee revenues coming in at a slower pace. For the first three months of FY 2020-21, Staff projects these revenues to come in at approximately 70-80% of their average monthly revenue, with the hope that development will fully recover by the end of the year.
- **Parks & Recreation / Library** – Parks & Recreation and Library programming fees and revenues are experiencing a direct loss of revenues. As these facilities continue to be closed, there are no fees collected to offset the cost of assigned staff. Though we are anticipating that a majority of City facilities will be open to the public by the start of the new fiscal year, we also expect that these facilities will be operating at limited service levels with various social distancing restrictions. As such, we are projecting a slow recovery period for all Parks & Recreation / Library fees and programming revenues for the first and second quarters of the fiscal year. These revenues will likely be revisited and adjusted in FY 2020-21.

To reiterate, there are many unknowns as to how long this pandemic and the duration of the "Safer at Home" executive order will last, as it is currently in effect through May 15,

2020. Extension of the order beyond this date or if the order is lifted with new social distancing restrictions, this will further impact our projections. Staff will continue to monitor revenues, particularly our April installment (and second large installment) of secured property taxes and monthly sales tax revenues. Should these revenues perform above or below initial projections and should there be time to incorporate these revised projections, Staff will provide an updated revenue forecast for FY 2020-21 at the June budget adoption meeting.

Expenditures

For FY 2020-21, expenditures for the General Fund budget will total \$106.1 million and was developed under the context of a “Maintenance of Effort” budget, which allows the budget to only be increased by obligated Memorandum of Understanding salary increases (i.e. step increases or negotiated salary increases), utility rate increases, as well as built-in contract increases for its contracted services. This also includes California Public Employees Retirement System (CalPERS) increases, as well as any increases to medical premiums.

It should be noted, that the CalPERS cost increase of 16% (or \$2.9 million) in FY 2020-21, is largely attributed to shortening the amortization period and reducing the CalPERS discount rate over the last few years. This ramp up period has caused short-term increases, but based on current information CalPERS costs are projected to level off starting in FY 2021-22. However, due to the current economic crisis and CalPERS investment loss returns this year, this is not a foregone conclusion as CalPERS begins its experience study and review of actuarial assumptions.

In addition to the increases mentioned above, departments were allowed to submit additional budget requests and those approved by the City Manager are incorporated herein.

A summary of significant budget changes are as follows:

- Negotiated Salary Increases (\$420,000) – This represents previously negotiated and approved salary increases effective July 2020 for the Fullerton Police Officers’ Association Public Safety and Dispatcher Units (FPOA) and the Fullerton Firefighters’ Association (FFA) employees.
- CalPERS Retirement Costs (\$2.9 million) – CalPERS pension costs will increase by \$2.9 million (or 16%) in the General Fund for FY 2020-21.
- Health Premium Increases (\$400,000) – Health premium costs for all employees and retirees are projected to increase by approximately 7%. This is in line with the average premium increases over the last five years.
- FY 2019-20 Budget Enhancements (\$1.1 million) – The FY 2020-21 budget will increase by \$1.1 million as a result of various budget enhancements approved in FY 2019-20. This includes the Parking Enforcement services contract, Jailer services contract and the Cost Allocation Plan financial study to name a few.
- One-Time Budget Enhancements (\$400,000) – This includes one-time budget increases for the upcoming general election in November 2020 (occurs every other

year), miscellaneous election related costs and continued economic development efforts to name a few.

Proposed Cost Saving/Budget Reduction Strategies

The City has historically relied on the use of vacancy savings, anywhere from \$1.8 million to \$2.8 million, to balance any operating deficit in years past. While it is still a proposed consideration, the City can no longer rely solely on vacancy savings due to the continued effect COVID-19 is anticipated to have on the City's economic base and budget. Given the unknown overall fiscal impact of this health crisis and the uncertainty of any potential federal assistance, City services were assessed to develop potential budget reducing actions.

To present the City Council with a balanced budget for FY 2020-21 for adoption in June 2020, Staff has tentatively identified several cost saving measures to bridge the projected \$9.0 million operating deficit. In order to be fully transparent with all staff, the community, and all other interested parties, these cost savings options are listed below. The City is also beginning discussions with its bargaining units to explore these options, as well as to seek suggestions for other cost saving strategies and measures.

Please note that the following measures are listed in no order of priority, nor are they exhaustive of measures the City may have to take in order to be fiscally sustainable.

Enacted:

- Separation of Non-Regular Employees – The majority of the City's non-regular employees were separated effective April 2020. In addition, there has been a reduction of hours for non-regular employees that remain on staff. The largest number of separated employees were in Parks and Recreation and served as the majority of staffing for the City's community events (i.e. July 4th Festival, First Night, etc.). As social distancing regulations are expected to extend into the new fiscal year, this will impact the City's ability to host certain community events and provide some community services. Due to these potential changes, the City will review the use of non-regular positions during this time to ensure effectiveness of programs and how best to provide traditional services. The continuation of not staffing these non-regular positions can generate significant savings for FY 2020-21.
- Reducing the Library's Operating Hours from 61 to 34 Hours – Upon reopening, the reduction of the Library's operating hours from 61 hours to 34 hours to the general public will yield operational savings, as well as savings in non-regular staffing costs.
- Executive Team Salary Reduction of 10% - The Executive Team has agreed to a 10% salary reduction for FY 2020-21 that will assist in contributing savings to close the budget gap.

Additional Budget Balancing Options:

- Temporary Closure of the Museum – The Museum would remain closed until a re-evaluation of its future operations determines if the Museum remains a subsidized function of the General Fund or if other partnership opportunities exist to enhance the overall cultural, arts and educational presence within the City. Annual savings to be determined.

- Elimination or Unfunding of Vacant Positions – There are several key positions that are currently vacant. This includes the recently vacant Director of Human Resources position and a handful of others identified by departments. This will assist in balancing the budget for FY 2020-21.
- Employee Furloughs-Two Friday Closures Per Month – Please note that this cost savings proposal measure is subject to the “Meet and Confer” process with the miscellaneous employee bargaining units, including any impasse resolution procedures if the parties cannot reach agreement. Furloughing miscellaneous City Staff for two Fridays per month for the entire fiscal year will generate substantial savings for the City in FY 2020-21. This equates to approximately a 10% pay reduction for affected employees.
- Department Programs and/or Service Reductions – This would require meeting with all departments to discuss eliminating any “non-essential” programs, cancelling community events directly affected by COVID-19 for the fiscal year, and/or reducing service levels. Potential savings will be known after discussing all options with departments.
- Vacancy Savings (Hiring Freeze) – This would continue the City’s current practice of utilizing vacancy savings to balance the budget. Continued reliance on vacancies and not filling critical vacancies will continue to impact City operations and service levels we offer to the general public and our residents.
- Use of Contingency Reserves – Utilize the City’s available contingency reserves to supplement any deficit balance not covered by cost saving proposal measures. Staff recommends utilizing no more than \$2 million in order to preserve contingency reserves for future fiscal years.

Staff requests that City Council review the identified cost saving measures and provide input and direction for moving forward.

Cost Recovery Efforts – State and Federal Assistance

Staff is thoroughly reviewing all federal assistance and grant opportunities to support any and all potential reimbursement prospects for COVID-19 related expenses and staffing costs related to the City’s emergency operations efforts. Currently, the City is working with the California Office of Emergency Services and is in the process of applying for the Federal Emergency Management Agency’s public assistance program, which could provide expedited pre-funding of up to 50% of the City’s eligible projected emergency operations total costs. Police Department Staff is applying for Coronavirus Emergency Supplemental Funding Program grants administered through the US Department of Justice and Fire Department Staff is applying for grants to recover costs related to the EOC.

The City is also looking at the available funding to local agencies from the Coronavirus Aid, Relief, and Economic Security Act, better known as the CARES Act. The original legislation offered financial assistance to states and local governments with populations above 500,000, which do not apply to Fullerton. However, there are discussions at the Federal level that a future phase of funding may be available to local governments to provide assistance resulting from local revenue losses. Although there are potential aid

opportunities, we should temper any expectations for receiving financial aid allocations. Any assistance received will be subject to scrutiny and audit, and when the dust settles, could result in refunds of assistance received. At this stage, it is recommended that the City be as self-reliant as possible, prudently managing our financial resources while striving for full cost recovery, at which time we would revisit any staffing and service reductions previously made.

Next Steps

As mentioned earlier, the preliminary FY 2020-21 Proposed Operating Budget presented today is based on the best available information known as of April 21, 2020. To caution, we are persevering and going through uncertain and unprecedented economic times and this budget process is not typical this year. We are moving forward with adopting the FY 2020-21 budget with the best available information to date and our best projected service and staffing levels for the new fiscal year. Staff will continue to monitor revenues and revisit its initial assumptions and, should time permit, may provide an updated revenue forecast for FY 2020-21 at the upcoming budget adoption meeting tentatively scheduled for June 2, 2020.

The budget to be submitted to City Council for consideration and adoption at the June 2, 2020 meeting will represent the City's "Spending Plan" heading into the new fiscal year. As the national and local climate continue to change throughout the year, it is likely Staff will bring forth amended budget projections and corresponding budget adjustments as needed throughout the fiscal year.

Attachments:

- Attachment 1 – Presentation
- Attachment 2 – Revenue Detail by Fund Report
- Attachment 3 – Expenditure Summary by Fund and Department Report
- Attachment 4 – Schedule of Changes to Fund Balances Report