



Agenda Report

Fullerton City Council

MEETING DATE: FEBRUARY 9, 2021

TO: CITY COUNCIL / SUCCESSOR AGENCY

FROM: KENNETH A. DOMER, CITY MANAGER

PREPARED BY: ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES
STEVEN AVALOS, BUDGET ANALYST
TAYLOR SAMUELSON, ADMINISTRATIVE ANALYST I

SUBJECT: FISCAL YEAR 2019-20 FINANCIAL RESULTS AND
FISCAL YEAR 2020-21 MID-YEAR REVIEW

SUMMARY

Presentation of FY 2019-20 financial results, FY 2020-21 General Fund mid-year update and FY 2021-22 budget process overview.

RECOMMENDATION

Receive and file.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability.

FISCAL IMPACT

No fiscal impact.

DISCUSSION

Fiscal Year 2019-20 Financial Results

Staff submitted the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2020 to City Council to receive and file on February 2, 2021.

The study session presentation will provide an overview the City's financial condition for fiscal year end June 30, 2020 and provide further review of the City's General Fund. The presentation will then provide a 2020-21 mid-year update as to how the General Fund is tracking against budget. Lastly, Staff will review FY 2020-21 mid-year budget adjustments to be submitted for City Council consideration on February 16, 2021.

FY 2019-20 CAFR – City Financial Results

Government-Wide Financial Statement of Net Position indicates the City's overall financial condition. As of June 30, 2020, the City's net position totaled \$462.7 million, representing an increase of \$15.7 million over the previous fiscal year primarily due to increased water rates, grant revenues for infrastructure projects, and COVID-19 CARES Act Federal grants. Of the total net position, \$584.3 million is the City's net investment in capital assets, while \$41.9 million is restricted for specific governmental operations, leaving a \$163.5 million negative unrestricted balance, increasing the negative unrestricted balance by \$9.7 million from last fiscal year.

Governmental Funds (General, Special Revenue, Debt Service and Capital Projects) reported combined ending fund balances of \$18.1 million, representing a decrease of \$4.4 million in comparison with the prior year, primarily due to the reduction in restricted fund balance as it relates to reporting the PEG restricted revenues in a special revenue fund in the current fiscal year. Assigned fund balance for street projects also decreased as funds were expended for their intended purpose.

Enterprise Funds account for operations where the intent of the cost of providing goods or services is recovered primarily through user charges. These funds, including water, sewer, airport, Brea Dam, parking facilities and CNG, ended the year with a net position of \$132.8 million at June 30, 2019, representing an increase of \$8.0 million over the previous fiscal year. Changes in net position include \$6.9 million in the Water Fund, \$1.4 million in the Sewer Fund and \$(0.5) million in the Airport Fund, and \$(0.4) million in Other Enterprise Funds.

- *Brea Dam Fund – Continued Financial Challenges*

As previously reported in prior financial updates to the City Council, Staff continues to express concern about Fund 42, the Brea Dam Fund, of which the largest operating activity is the golf course. Historically, golf course surpluses had subsidized the sports complex, tennis center and other Brea Dam recreational activities.

The Brea Dam Fund ended the fiscal year with a deficit of \$0.3 million as expenditures of \$2.6 million exceeded revenues of \$2.3 million. Revenues were 17% below budget. It should be noted that FY 2019-20 budgeted revenues was already reduced by \$238,000 from the FY 2018-19 budget. The Brea Dam's inability to operate on a self-supporting basis has been exacerbated by the pandemic. Concerns about the Brea Dam Fund are further heightened as General Fund's ability to subsidize these recreational activities are limited.

Internal Service Funds account for activity that provides goods and services to other funds or departments on a cost-reimbursement basis, such as liability insurance, vehicle

replacement, workers' compensation, group insurance, equipment maintenance, information technology, building maintenance and facility capital repair. The City's net position in the Internal Service Funds increased by \$5.6 million over the previous fiscal year to \$29.2 million at June 30, 2020. This is the net of increases (decreases) reflected across all internal service funds.

Government-Wide Liabilities:

- The City ended the fiscal year with bond and capital lease debt outstanding of \$15.2 million, a decrease of \$2.8 million from prior year as the City pays down its existing bond and capital lease obligations.
- CalPERS Miscellaneous Plan net pension liability increased by \$8.0 million with a resulting 75.84% funded ratio. PERS Safety Plan net pension liability increased by \$13.0 million with a resulting 65.22% funded ratio. PERS liability increases at June 30, 2020 are primarily the result of pension increases as part of CalPERS initial "ramp-up" or increase in employer costs for their recent strategy of shortening the amortization period for actuarial gains and losses, which is anticipated to level out and then decrease over the course of the 30-year amortization period.
- OPEB liability increased by \$2.9 million and the OPEB funded ratio as of June 30, 2020 is 0.17%. The increase in ending OPEB liability is due to changes in actuarial assumptions.

FY 2019-20 CAFR – General Fund Financial Results

The General Fund, which includes the Library and Parks and Recreation, is the City's chief operating fund that supports traditional municipal services such as public safety, public works, community development and community services.

The General Fund reported revenues of \$97.0 million against expenditures of \$99.9 million and ended FY 2019-20 with an operating deficit of \$2.9 million which is discussed below. When including all transfers in (out), the change in fund balance increases to a deficit of \$7.3 million. When including the special item (an adjustment of \$2.9 million to transfer property held for resale from the Successor Agency to the General Fund that should have been recorded in a prior fiscal year), the change in fund balance decreases to a deficit of \$4.4 million.

Transfers, which are generally one-time in nature, tend to fluctuate from year to year. The \$5.8 million of transfers out included previously approved street capital improvement projects (approved in the prior fiscal year from one-time property sales) and one-time expenditures approved by City Council during FY 2019-20.

Provided below is a comparison of current year to prior year actual ending fund balance and its designations. The FY 2019-20 change in fund balance is the difference between the prior year and current year ending fund balance.

The General Fund ended FY 2019-20 with a fund balance of \$18.1 million. Table 1 is a comparison for General Fund FY 2018-19 and FY 2019-20 ending fund balance.

Table 1 – Comparison of FY 2019-20 and 2018-19 General Fund Balance

General Fund Balance per CAFR	FY 2018-19	FY 2019-20
Beginning Fund Balance	\$14,281,439	\$22,481,174
Revenues	100,526,519	97,005,904
Expenditures	(94,513,448)	(99,928,975)
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,013,071	(2,923,071)
Other Financing Sources (Uses):		
Transfers In	396,351	1,416,514
Transfers Out	(621,000)	(5,813,877)
Proceeds from sale of assets	2,400,000	-
Total Other Financing Sources (Uses):	2,186,664	(4,397,363)
Special Items	-	2,900,768
Changes in Fund Balances	8,199,735	(4,419,666)
Ending Fund Balance	\$22,481,174	\$18,061,508

Major revenues and expenditures and other financing source (use) differences from the prior year are as follows:

Revenues:

- *Interest & Investment Income* – Beginning in FY 2019-20, interest income was allocated and recorded across funds with cash balances to better reflect interest earned. As such, General Fund interest income in FY 2019-20 were lower by \$1.4 million compared to FY 2018-19.
- *COVID-19 Revenue Impacts* – In FY 2019-20, the City saw a decrease of \$1.3 million in sales tax revenues. Transient occupancy tax revenues saw a decrease of almost \$1.0 million from FY 2018-19 levels. Parks and Recreation fees saw a decrease of \$600,000, as many facilities were closed and programming was reduced or eliminated in the latter half of FY 2019-20. Other charges for services also declined due to the fiscal impacts of COVID-19.

Expenditures:

- *Salary Increases from Previously Approved MOA (Safety Groups)* – In FY 2019-20, public safety labor increased by 1.0% - 2.5% via negotiated salary increases. This salary increase of \$600,000 was included in the FY 2019-20 adopted budget.
- *CalPERS/Pension Retirement Costs* – In FY 2019-20, CalPERS retirement pension costs increased by \$2.5 million from FY 2018-19. This increase was anticipated and included in the FY 2019-20 adopted budget. The majority of the pension increase is part of CalPERS initial “ramp-up” or increase in employer costs for their recent strategy of shortening the amortization period for actuarial gains

and losses, which is anticipated to level out and then decrease over the course of the 30-year amortization period.

- *Maintenance & Operations* – Maintenance and operating costs increased by \$2.3 million in FY 2019-20. This is largely due to increases in professional services (\$1.1 million) for account billing services for the ambulance contract, jailer services and parking enforcement services to name a few. However, some of these items also increased revenues and/or were exchanges of costs from personnel to contract. This also includes annual contract increases agreed to at the time the City entered into agreements to contract with its existing contracted service providers.

The remaining \$1.2 million increase over FY 2018-19 expenditures is related to increases in multiple areas, which include regional mutual aid fire support and other reimbursable services for developer projects (\$700,000). The other \$500,000 increase is due to costs related for increased legal support, operating costs incurred for replacement of Fire turnouts, additional repair costs, non-cash adjustments and consumer price increases for goods and services.

Other Financing Sources (Uses) or Transfers In (Out):

- CARES Act Allocation – In FY 2019-20, the City received a \$1.2 million allocation from the County of Orange to support COVID-19 efforts. This was reflected as a transfer in.
- Transfers out were higher in FY 2019-20 than in FY 2018-20. The increase in the current year were primarily due to transfers out to for CIP projects of \$2.2 million, IT infrastructure improvements of \$2.6 million and to segregate PEG funds of \$700,000 into a separate special revenue fund. These transfers are presented in Table 1 above.
 - PEG funds are restricted funds by State law that were previously reported in the General Fund that have spending restrictions and thus are not spendable for general purposes. In FY 19-20, a special revenue fund was created and these balances were transferred from the General Fund.
- *\$2.4 M One-Time Property Sale* – In FY 2018-19, the City benefitted from the sale of underground utility credits in the amount of \$2.4 million, which resulted in one-time revenue increase. Property sales are normally one-time in nature and thus vary from year to year. There were no such one-time property sales in FY 2019-20.

The General Fund ended FY 2019-20 with a fund balance of \$18.1 million, \$4.4 million less than in FY 2018-19.

General Fund – Fund Balance by Category

Table 2 below provides a snapshot and break out of ending General Fund balance by category for both FY 2019-20 and 2018-19.

Table 2 – Breakdown of General Fund - Fund Balance

Fund Balance	General Fund FY 2019-20	General Fund FY 2018-19
<i>Nonspendable:</i>		
Inventories	6,646	6,528
Prepays	306,135	0
Land Held For Resale	2,900,768	0
Total Nonspendable	3,213,549	6,528
<i>Restricted:</i>		
PEG	0	692,992
Library – Foundation and Friends	672,186	693,445
Total Restricted	672,186	1,386,437
<i>Assigned:</i>		
10% Contingency Reserve	9,992,898	9,513,445
Building Permit Software	174,409	225,189
Street Projects	3,526,288	5,647,643
Laguna Lake Project	264,790	270,000
Total Assigned	13,958,385	15,656,277
Unassigned	217,388	5,431,932
Ending Fund Balance	18,061,508	22,481,174

The General Fund reflects a nonspendable fund balance of \$3.2 million, which compares to nonspendable fund balance the previous year of \$6,000; a restricted fund balance of \$700,000, which compares to restricted fund balance the previous year of \$1.4 million; assigned fund balance of \$14.0 million, which compares to assigned fund balance the previous year of \$15.7 million and an unassigned fund balance of \$200,000, which compares to unassigned fund balance the previous year of \$5.4 million, for a combined total of \$18.1 million, representing a decrease of \$4.4 million over the previous fiscal year. The largest increase in nonspendable fund balance is due to the reclassification of property held for resale from the Successor Redevelopment Agency to the General Fund. This property is reported as nonspendable as the asset is not liquid.

Most of the reduction in restricted fund balance relates to reporting the PEG restricted fund balance in a special revenue fund in the current fiscal year. PEG was established as a separate special revenue fund in FY 2019-20 and as such removed from reporting in the General Fund. Certain components are reported as restricted as they are deemed restricted by an external authority. PEG funds have restricted uses designated by the State of California.

Assigned fund balances are designated through City Council action. Assigned fund balance includes the City's 10% contingency reserve (10% of General Fund expenditures). In prior fiscal years, City Council assigned fund balance for projects such as streets, building permit software upgrades and the Laguna Lake project. Changes in these project assigned fund balances fluctuate based on project costs incurred in the given fiscal year.

What remains of the General Fund balance is unassigned fund balance which may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. This is available fund balance which may be designated for use by City Council in a subsequent fiscal year. As unassigned fund balances fluctuate in any given year based on operating surplus (deficit), transfers in (out) and designations of fund balance as nonspendable, restricted or assigned, unassigned fund balance should be treated as one-time funds available for designated use.

FY 2020-21 General Fund Mid-Year Update

Due to the unanticipated and severe disruptions of the economy as a result of the COVID-19 pandemic, the City's FY 2020-21 Budget was amended to include the following reductions in order to balance the FY 2020-21 budget and reduce an expected \$7.9 million general fund deficit. The following budget adjustments are among the reductions that have been enacted and approved by the City Council at budget adoption in June 2020.

The City Council adopted the FY 2020-21 budget and approved the \$7.9 million of budget balancing measures with the understanding that Staff would work to identify and enact necessary measures to close the deficit. At budget adoption, City Council understood that time was needed to work with the employee bargaining groups to negotiate additional labor savings and to identify further operational cuts where appropriate to achieve the remaining savings of \$2.7 million needed to close the \$7.9 million FY 2020-21 General Fund deficit.

Separation (Layoffs) of Non-Regular Employees. The City has significantly reduced program service levels in Parks and Recreation and in the Library in response to the state's shelter in place order. In April 2020 the City separated approximately 153 of its employees, the majority of which supported Parks and Recreation and Library services as a result of the fiscal impacts of COVID-19 and the reduction in programs and services. It is projected that approximately \$1.3 million will be saved by not re-hiring these non-regular employees in Fiscal Year 2020-21. Parks and Recreation and the Library retain a number of part-time non-regular employees to provide seasonal programmatic support services.

Vacancy Savings (Hiring Freeze). It was projected that \$3.2 million could be saved by vacancy savings measures. The projected vacancy savings include positions across several departments which equates to approximately 39.5 vacant positions.

Temporary Closure of the Museum. The City has begun assessing opportunities to enable the Fullerton Museum Center (the "Museum") to operate independently with reduced subsidy from the City. The Museum has been closed to the public since the onset of the state's shelter-in-place order, reducing related operating costs. The savings from

operational reductions at the Museum in Fiscal Year 2020-21 at budget adoption were estimated at \$305,000.

Reducing the Library's Hours Open to the Public from 61 to 34 Hours. The Fullerton Public Library (the "Library") has been closed to the public since the onset of the state's shelter-in-place order. While the Library's operations have been ongoing with services such as drive thru book check outs, the Library's service levels have decreased and Library hours have been reduced. Budgeted savings in expenditures on Library staff and operations reflect the change in service levels. The savings from operation reductions at the Library in Fiscal Year 2020-21 at budget adoption were estimated at \$149,000.

Discretionary Training and Travel Reductions. Travel by City employees has been significantly reduced since the onset of the state's shelter-in-place order. The savings from reductions related to non-essential citywide training and corresponding travel costs in Fiscal Year 2020-21 at budget adoption were estimated at \$57,000.

Executive Team Salary Reduction. In anticipation of needed labor reductions that would be negotiated with the various employee bargaining groups, members of the City Executive Team voluntarily agreed to 10% pay reductions in Fiscal Year 2020-21 at an estimated savings of \$195,000.

Negotiated Labor and Other Operational Reductions. The remaining \$2.9 million estimated deficit at budget adoption was to be closed through negotiated labor savings and through additional review of operating budgets to identify additional cost cutting measures.

Since the adoption of the FY 2020-21 Budget, the City completed discussions with the various bargaining groups. An additional \$0.7 million of labor savings was negotiated with several bargaining groups. Another \$0.7 million of operational reductions were also identified and enacted. The remaining deficit of \$1.3 million is expected to be partially closed with CARES Act and Federal Aid to offset substantially dedicated staff time redirected to respond to the COVID-19 Pandemic.

FY 2020-21 Mid-Year Review of Financials & Mid-Year Budget Adjustments

At the February 16, 2021 City Council meeting, the FY 2020-21 Second Quarter Financial Report and mid-year budget adjustment requests will be submitted, respectively for receive and file and approval. The Second Quarter Financial Report will compare the City's revenue performance and expenditures incurred from July 1, 2020 through December 31, 2020 to the prior fiscal year and identify any major trends or variances in comparison to adopted budget levels. As customary, this report will focus on the General Fund, identifying other funds with fiscal issues as needed.

Revenues

Based on currently available information, General Fund revenues are down by 2% (or \$660,000) in FY 2020-21 from \$35.3 million to \$34.7 million compared to this same period last year from July through December. This decrease is largely due to the continued economic impacts of COVID-19 in FY 2020-21.

Sales Tax revenues are down by 5% (\$370,000) from FY 2019-20 actuals through the first half of the year and this is attributed to COVID-19 impacts. Based on currently

available information, FY 2020-21 sales tax revenues appear to be in line with budgeted levels.

Transient Occupancy Taxes, more commonly known as TOT, is another revenue that is significantly down in FY 2020-21. Through the first half of the fiscal year, TOT is down by 69% by \$1.46 million compared to the same period in FY 2019-20. This is a revenue the City is actively monitoring and a budget adjustment may be requested at the next financial update.

As facilities continue to remain closed in FY 2020-21, Charges for Services continue to be lower in FY 2020-21 (by 23%). Many of the Park and Recreation fees and Library fees are significantly down, as programs are either not being run or operating in limited in capacity.

However, Property Tax revenues, the City's largest revenue for the General Fund, has not experienced similar COVID-19 impacts and is trending to exceed adopted budget levels. Property Tax is up by 21% compared to the same period last fiscal year. Increases in property tax revenues over budgeted levels may offset other revenue shortfalls for FY 2020-21.

Expenditures

When factoring in the \$7.9 million budget balancing measures, the City adopted an expenditure budget of \$98.2 million for FY 2020-21. Through the first half of the year from July through December, expenditures total \$45.0 million and are at 46% of the total General Fund budget. Given the City's savings target adopted in initial projections, barring any expenditure timing issues, the City expenditures appear to be on pace to meet this savings target.

Additionally, of the \$7.9 million savings target adopted in FY 2020-21, the City needed to achieve \$2.7 million in additional savings by either negotiated labor concessions and/or further operating reductions. The City achieved \$700,000 in labor concession through negotiated salary reductions, negotiated deferral of salary increases and negotiated layoff of seven positions. Should closures persist through the end of the fiscal year, there should be an additional \$700,000 operational savings from reduction of professional services related to parking enforcement and crossing guard services. A portion of the \$700,000 operational savings results from not holding community events, such as Fourth of July and First Night New Year's events, due to COVID-19. The remaining savings needed is anticipated to be achieved by a combination of additional revenues and further operating reductions.

The following are the mid-year budget amendments to be submitted to City Council for consideration at the February 16, 2021 City Council meeting.

Internal Service Funds:

- Liability Fund – Request to increase budget from unappropriated available working capital in the amount of \$2.5 million for increase in excess liability premiums and unanticipated claims previously approved by City Council in FY 2020-21.
- Information Technology Fund – Request to increase budget and transfer funds from the General Fund and other impacted funds to cover cost of IT staff

augmentation services to support continued IT operations through fiscal year end 2020-21 in the amount of \$550,000.

Next Steps

The FY 2020-21 budget process is underway and officially started at the beginning of February 2021. Below is a projected timeline of the budget development process.

Timeline	Budget Process
February – April 2021	Budget Development
April 2021 (TBD)	Study Session – Financial Forecast
May 2021 (TBD)	Study Session – Proposed Budget
June 1, 2021	Regular Business – Budget Adoption

In closing, Staff will present the Second Quarter Financial Report for FY 2020-21 and mid-year budget adjustments, respectively for receive and file and approval, on February 16, 2021. Staff anticipate conducting the first budget study session to review the financial forecast in April in advance of presenting the proposed FY 2021-22 budget in May with budget adoption at the first City Council meeting in June.