



Agenda Report

Fullerton City Council

MEETING DATE: FEBRUARY 16, 2021

TO: CITY COUNCIL / SUCCESSOR AGENCY

FROM: KENNETH A. DOMER, CITY MANAGER

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SUBJECT: FY 2020-21 SECOND QUARTER FINANCIAL REPORT AND MID-YEAR BUDGET AMENDMENTS

SUMMARY

This report provides an overview of the City's financial position through the second quarter of Fiscal Year 2020-21, comparing the City's revenue performance and expenditures incurred from July 1, 2020 through December 31, 2020 to the same period in the prior fiscal year and presents FY 2020-21 Mid-Year Budget Amendments for City Council consideration.

RECOMMENDATION

1. Receive and file Fiscal Year 2020-21 Second Quarter Financial Report.
2. Approve Fiscal Year 2020-21 Mid-Year Budget Amendments.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability.

FISCAL IMPACT

Staff will use the information provided in these reports to ensure continued budgetary diligence over the remainder of the fiscal year and through the FY 2021-22 budget development process. The mid-year budget adjustments amending the FY 2020-21 budget reflect a \$2.5 million appropriation to the Liability Insurance Fund (Fund 62) from

unappropriated available working capital and a \$550,000 transfer in and appropriation to the Information Technology Fund (Fund 68) from all funds that contribute to this internal service fund, which includes the General Fund.

DISCUSSION

Introduction

As part of the City's budget monitoring and maintenance efforts, Staff provides quarterly financial updates on the current fiscal year budget to City Council. This is a sound fiscal practice and fiscal transparency tool to report on the City's ongoing fiscal condition, to identify and correct any budget issues as they arise and to strengthen financial planning efforts. Quarterly reports provide a measurement of the City's overall fiscal health and condition relative to adopted budget levels and keep City Council updated regularly on the City's financial condition.

The FY 2020-21 second quarter financial report compares General Fund revenues and expenditures from July 1, 2020 through December 31, 2020 in comparison to the same period in the prior fiscal year and to overall budget levels. The FY 2020-21 second quarter financial report will also present mid-year budget amendments for City Council's consideration.

While assessing the fiscal condition of all City funds is important, the second quarter financial report focuses on the General Fund, as this is the City's chief operating fund that supports traditional municipal services, such as public safety, fire suppression, community services and public works, to name a few. This report presents all City funds at a high level and discusses specific funds where needed.

Overview of FY 2020-21 Adopted Budget

Due to the unanticipated and severe disruptions of the economy as a result of the COVID-19 pandemic, the City adopted its FY 2020-21 budget in an atypical manner, as the City adopted it contingent upon meeting several budget balancing measures. The City adopted the FY 2020-21 budget based on reducing expenditures by \$7.9 million in the General Fund. The reductions enacted and approved by City Council at budget adoption in June 2020 include the following budget balancing measures:

- *Separation (Layoffs) of Non-Regular Employees* – The City has significantly reduced program service levels in Parks and Recreation and Library in response to the State and local orders. In April 2020, the City separated 153 of its non-regular, part-time employees, the majority of which supported Parks and Recreation and Library services. While Parks and Recreation and the Library retained a limited number of part-time non-regular employees to provide seasonal programmatic support services, by not filling these positions in FY 2020-21, the City projects a \$1.3 million savings.
- *Vacancy Savings (Hiring Freeze)* – In FY 2020-21, the City projected a \$3.2 million General Fund savings by vacancy savings measures. The projected vacancy savings include unfilled budgeted positions across several departments, which equates to approximately 39.5 vacant full-time equivalent (FTE) positions held vacant.

- *Temporary Closure of the Museum* – The City has begun assessing opportunities to enable the ‘City-operated’ Fullerton Museum Center (the “Museum”) to operate independently with a reduced subsidy from the City. The Museum has been closed to the public since the onset of the State’s shelter-in-place order in FY 2019-20, reducing related operating costs. At budget adoption, the savings from operational reductions at the Museum in FY 2020-21 were estimated at \$305,000. Staff is working with Parks and Recreation staff to create a plan to reopen, pending State Orders, on or about April 15, 2021, which could necessitate hiring of non-regular staff. This will necessitate the need for other budget balancing measures to offset reduced savings from closure of the museum.
- *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 continued with services such as drive-thru book check outs, the Library’s service levels have decreased and staff hours have been reduced. Budgeted savings on Library staff and operations reflect the change in service levels. The savings from operation reductions at the Library in FY 2020-21 at budget adoption were estimated at \$149,000.
- *Training and Travel Reductions* – Training and travel was reduced by \$57,000 in FY 2020-21.
- *Executive Team Salary Reduction* – In anticipation of needed labor reductions that would be negotiated with the various employee bargaining groups, the City Executive Team voluntarily agreed to 10% pay reduction in FY 2020-21, yielding an estimated savings of \$195,000.

The remaining \$2.7 million estimated deficit at budget adoption was to be achieved in FY 2020-21 through negotiated labor savings and through review of operating budgets to identify additional cost cutting measures.

Update on FY 2020-21 Adopted Budget

Since the adoption of the FY 2020-21 Budget, the City completed discussions with the various bargaining groups and departmental review of their operations. The City achieved \$700,000 in labor concessions 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 some of which is related to parking enforcement and crossing guard services. A portion of the \$700,000 operational savings also results from not holding community events, such as Fourth of July and First Night New Year’s events. The remaining deficit of \$1.3 million is expected to be closed with a combination of CARES Act federal funds to offset substantially dedicated staff time redirected to respond to COVID-19, additional revenues above budgeted levels and/or further operating reductions.

FY 2020-21 Mid-Year Review of General Fund (including Library and Parks/Recreation)

As indicated above, the second quarter financial report compares the General Fund's revenue performance and expenditures incurred from July 1, 2020 through December 31, 2020 to the prior fiscal year and to adopted budget levels. As customary, this report focuses on the General Fund.

Revenues

As General Fund Revenues are not received evenly throughout the fiscal year, mid-year actuals are compared against the prior year actuals for the same period.

Based on currently available information, General Fund revenues are down by 2% (or \$660,000) in FY 2020-21 from \$35.3 million to \$34.9 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 and no adjustments are requested at this time.

Transient Occupancy Taxes, more commonly known as TOT, is another revenue that is down in FY 2020-21. Through the first half of the fiscal year, TOT is down by 69% or by \$1.46 million compared to the same period in FY 2019-20. This is a revenue the City is actively monitoring and 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 approximately 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 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. This increase over prior year is largely due to a one-time \$1.7 million residual property tax receipt. Overall, property tax revenues are increasing in line with historical trends. Increases in property tax revenues over budgeted levels will likely offset other revenue shortfalls in the General Fund for FY 2020-21.

Expenditures

As General Fund Expenditures tend to incur in a more linear manner, mid-year actuals are compared against budget.

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, and barring any expenditure timing issues, the City expenditures appear to be on pace to meet this savings target and is in line with budgeted levels adopted for FY 2020-21.

When comparing FY 2020-21 expenditures against last year's expenditures during this same period (July-December), expenditures are actually lower by \$2.3 million, from \$47.3 million in FY 2019-20 to \$45.0 million in FY 2020-21. This is in large part due to the City's

enacted budget balancing measures, primarily the City's hiring freeze and overall, collective effort by all departments to monitoring spending.

Mid-Year Budget Amendments

As customary with the Second Quarter or Mid-Year Report, mid-year budget amendments are normally included and presented with this financial report for the City Council's consideration for approval. As changes in the organization occur and/or unanticipated issues arise, budget assumptions often need to be revisited and adjustments to the adopted budget need to be made. In efforts to improve its budget monitoring and better identify fiscal issues prior to arising, Finance staff held budget meetings with all departments to review mid-year budget to actuals. This also facilitates improved communication with departments and better fiscal transparency.

While there were no significant fiscal issues identified through these departmental budget reviews, the General Fund will be impacted by the mid-year budget adjustments. Expenditures to date are tracking on pace with budgeted levels and in line with savings projections at this time. As General Fund revenues are not anticipated to return to pre-COVID-19 levels this fiscal year, departments are mindful of additional budget requests, understanding that any increases will put additional pressures on the objective of ending FY 2020-21 in a structurally neutral position where expenditures do not exceed revenues. While revenues remain a concern due to COVID-19, it is still early in the year to make any revenue adjustments. The primary fiscal issues were identified in the City's internal services funds.

The internal services funds are established to provide organization wide support for liability insurance, vehicle replacement, workers' compensation, group insurance, equipment maintenance, information technology, building maintenance and facility capital repair. Each internal service fund collects revenue from various funding sources through annually allocated department contributions. Through the mid-year review, the Liability Insurance and Information Technology Funds were identified as requiring additional budgetary approval to cover unanticipated costs.

Liability Insurance Fund (Fund 62) – In FY 2020-21, City Council approved settlement of several claims which exceed amounts budgeted. Further, the City's excess liability premium increased beyond what was anticipated at budget adoption. As a result, a budget amendment of \$2.5 million from unappropriated available working capital in the Liability Insurance Fund is being requested for approval. To ensure the Liability Insurance Fund has sufficient balance to address future needs, increased contributions will be required in future fiscal years. This will negatively impact General Fund operations as additional service reductions will be required to offset future increased contributions.

Information Technology (IT) Fund (Fund 68) – Budget transfers in the amount of \$550,000 to increase the IT professional services budget is being requested to cover the cost of IT staff augmentation services to support continued IT operations through fiscal year end 2020-21. Unlike the Liability Internal Service Fund, the Information Technology Fund does not have sufficient working capital and requires a transfer of money from the General Fund and the other impacted funds.

All Mid-Year Amendments are listed in Attachment 3.

Mid-Year 2020-21 General Fund Revenues and Expenditures (Attachments 1 & 2)

Due to complete accounting staff turnover, the City issued the Fiscal Year 2019-20 CAFR in late January. Fiscal Services staff have now directed their focus on closing the monthly books for Fiscal Year 2020-21. Because of month-end close delays, Attachments 1 and 2 include top sided adjustments for unrecorded allocated costs through December to better reflect General Fund revenues and expenditures as of mid-year.

Next Steps

The FY 2021-22 budget process is underway and officially started at the beginning of February 2021. Below is a high-level, projected timeline of the FY 2021-22 budget development process.

Timeline	Overview of 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 continue to closely monitor revenues and expenditures through the end of FY 2020-21. 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 for review in May. Adoption of the FY 2021-22 Operating Budget is scheduled for the first City Council meeting in June.

Attachments:

- Attachment 1 – General Fund Revenue Detail by Fund Report
- Attachment 2 – General Fund Expenditure Summary by Fund and Department Report
- Attachment 3 – FY 2020-21 Mid-Year Budget Amendments