



# ***Agenda Report***

## ***Fullerton City Council***

**MEETING DATE:** JUNE 1, 2021

**TO:** CITY COUNCIL / SUCCESSOR AGENCY

**FROM:** STEVE DANLEY, ACTING CITY MANAGER

**PREPARED BY:** ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES  
STEVEN AVALOS, BUDGET ANALYST

**SUBJECT:** FISCAL YEAR 2021-22 ANNUAL OPERATING BUDGET,  
SCHEDULE OF FEES AND ANNUAL APPROPRIATIONS  
LIMIT

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### **SUMMARY**

Presentation of Fiscal Year (FY) 2021-22 Annual Operating Budget including General Fund, Capital Improvement Program and all other City Funds, FY 2021-22 Schedule of Fees and Charges and FY 2021-22 Appropriations Limit.

### **RECOMMENDATION**

Adopt the following resolutions:

RESOLUTION 2021-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, APPROVING AND ADOPTING THE PROPOSED OPERATING BUDGET FOR FISCAL YEAR 2021-22 AND APPROPRIATING THE FUNDS NECESSARY TO MEET THE EXPENDITURES SET FORTH THEREIN

RESOLUTION 2021-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, APPROVING THE CITY'S SCHEDULE OF FEES AND CHARGES FOR MUNICIPAL SERVICES FOR FISCAL YEAR 2021-22 AND REPEALING RESOLUTION NO. 2020-48

RESOLUTION 2021-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, ADOPTING THE ANNUAL APPROPRIATIONS LIMIT FOR FISCAL YEAR 2021-22 PURSUANT TO ARTICLE XIII B OF THE CALIFORNIA STATE CONSTITUTION

## BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability.

## FISCAL IMPACT

### Proposed FY 2021-22 Operating Budget

The Proposed Operating Budget for all City Funds, including the General Fund, Enterprise Funds, Special Revenue Funds and the FY 2021-22 Capital Improvement Program totals \$214,177,338 in citywide expenditures to be supported by \$211,460,702 in citywide revenues. Available fund balances support the \$2,716,636 operating shortfall.

The Proposed FY 2021-22 General Fund Budget totals \$110,861,923 in expenditures supported by a revenue budget of \$100,908,385, identified vacancy savings in the amount of \$3,800,000 and \$6,153,538 of use of contingency reserves. Use of contingency reserves to balance the General Fund Budget will reduce the General Fund reserve level below the minimum 10% established by City Council. While going below the minimum reserve level is not normally recommended, staff presents for approval at this time in order to adopt a budget prior to July 1, 2021, the start of the new fiscal year. Per City Council direction at the May 18, 2021 budget study session, during FY 2021-22, the City Manager's Office will identify 2% - 5% in budget reduction measures for City Council consideration to assist in balancing the City's operating budget and/or replenishing contingency reserves.

The City received the first tranche of American Rescue Plan Act (ARPA) of \$16,332,650.50 on May 17, 2021. As US Treasury has released its initial guidance and continues to release guidance, Staff continues to review eligible uses of ARPA funds and will provide ongoing updates to City Council. Staff has clarification and determination regarding eligible use of ARPA funds, Staff will seek direction from City Council with respect to possible designation of eligible uses of the City's ARPA allocation. Staff will submit requests to appropriate ARPA allocations after City Council provides designated use direction.

### Schedule of Fees and Charges for FY 2021-22

The FY 2021-22 Schedule of Fees and Charges does not include any new fees. Staff has updated the Schedule to incorporate the additions of sidewalk vending permit fees and short-term rental fees approved by City Council during FY 2020-21.

### Annual Appropriations Limit for FY 2021-22

No fiscal impact as the City's revenue appropriation is below the prescribed State appropriation limit.

## DISCUSSION

### Introduction

Staff presented the draft Proposed FY 2021-22 Operating Budget for all City Funds and the General Fund to City Council at a study session on May 4, 2021, with a primary emphasis on the General Fund, as this is the City's chief operating fund supporting

traditional municipal services. At the first budget study session, City Council reviewed the Proposed FY 2021-22 Operating Budget in advance of formal budget adoption. The first budget study session provided an overview of the City’s economic drivers impacting expenditures, an update on revenues given the continued impacts of COVID-19 and financial forecasts projecting the City’s financial outlook over a ten-year period. The budget study session enabled the City Council to provide input, comments and direction on the Proposed FY 2021-22 Operating Budget.

As requested by City Council at the May 4<sup>th</sup> study session, City Council held a second budget study session on May 18, 2021. At the second budget study session, staff provided additional financial forecasts with various budget reduction scenarios and potential impacts of such budget reductions. The second budget study session enabled City Council to provide additional input, comments and direction on the Proposed FY 2021-22 Operating Budget. Staff incorporated that direction in the Proposed FY 2021-22 Operating Budget presented for consideration for adoption on June 1, 2021.

In order to formally adopt the City’s operating budget, City Council will hold a public hearing on June 1, 2021, to approve and formally adopt the FY 2021-22 Operating Budget for all City Funds, including the General Fund, Enterprise Funds, Special Revenue Funds, Capital Improvement Projects (CIP) and all other City fund budgets. In addition, the City has a legal mandate to adopt the annual Appropriations Limit and approve an annual resolution adopting City’s Schedule of Fees and Charges for FY 2021-22, also presented for City Council consideration.

All City Funds

For all City Funds, the FY 2021-22 Proposed Operating Budget totals \$214.2 million in expenditures supported by \$211.5 million in citywide revenues and \$2.7 million in available fund balances. The All Funds budget increased by \$300,000 from the budget presented on May 4, 2021 due to revisions to the City’s capital projects’ budget. The proposed All Funds budget includes the General Fund, the Enterprise Funds such as Water and Sewer, the Special Revenue Funds such as Gas Tax and Measure M transportation funds and the Capital Improvement Projects budgets. The following Tables 1 and 2 present an overview of the City’s All Funds budget by major fund type.

**Table 1 – All City Funds FY 2021-22 Expenditure Budget**

<b>All Funds Budget by Major Funds</b>	<b>FY 21-22 Proposed Budget</b>
General Funds	110,861,922
Water Fund	32,781,592
Other Enterprise Funds	7,736,209
Special Revenue Funds	27,382,725
CIP Budget	26,836,777
Successor Agency	8,578,113
<b>Total All Funds Budget</b>	<b>\$214,177,338</b>

**Table 2 – All City Funds FY 2021-22 Budget Overview**

<b>All Funds Budget by Major Funds</b>	<b>FY 21-22 Proposed Operating Budget</b>
All Funds Revenues	211,460,702
All Funds Expenditures	214,177,338
<b>All Funds Surplus / (Deficit)</b>	<b>(\$2,716,636)</b>

All City Funds’ budgets are structurally balanced for FY 2021-22 supported either by ongoing revenues or sufficient reserves available in each respective fund. The Schedule of Changes to Fund Balances, included in Attachment 1 - Resolution No. 2021-XX Adopting the Proposed Operating Budget for FY 2021-22, lists all specific City fund budgets.

Capital Improvement Program (CIP)

The FY 2021-22 Proposed CIP Budget totals \$26.8 million for all planned capital projects for the fiscal year. \$5.4 million in transportation funding (i.e. Gas Tax, SB1 and Measure M2) supports the CIP budget for street improvement projects, \$12.8 million in water and sewer funds for utility improvements and \$5.4 million from other City funds. \$3.2 million in grant funds and other local and developer public-private partnerships will also support the CIP Program.

General Fund (including Parks & Recreation and Library)

The FY 2021-22 Proposed General Fund Budget totals \$110.9 million in expenditures supported by \$100.9 million in revenues, \$3.8 million in identified vacancy savings and \$6.2 million of use of contingency reserves for City Council consideration. The budget needs to use \$6.2 million in contingency reserves at this time in order to adopt a balanced budget before the start of the new FY 2021-22. However, as the City Council considers additional expenditure cuts and/or the use of ARPA funds in future meeting(s), the impact on contingency reserve levels may be reduced. The following section provides an overview of General Fund revenues and expenditures.

*Revenues*

Staff projects General Fund revenues to total \$100.9 million in FY 2021-22, which reflects an increase of \$2.7 million (or 2.8%) from FY 2020-21. While staff anticipates the General Fund to increase in FY 2021-22, COVID-19 economic impacts will likely continue to negatively affect certain General Fund revenues such as Transient Occupancy Taxes (TOT) and parks and recreation fees.

Property Tax largely attributes to the increase in General Fund revenues. Property Tax provides the City’s largest revenue source at 49% of General Fund revenue. For FY 2021-22, Staff projects Property Tax to increase by 4.2%, or by \$2.0 million and total \$48.9 million as staff estimates assessed property valuations to continue to increase.

Staff projects sales tax, the City’s second largest revenue, to total \$23.6 million in FY 2021-22. This represents an increase of \$2.3 million from FY 2020-21, returning to pre-COVID-19 sales tax levels and similar to FY 18-19 sales tax receipts. An increase to County pool sales tax allocations aided Sales Tax revenues, resulting from a new state

law requiring online vendors to remit certain online sales tax to the County pools, which the County then allocates to cities.

Staff expects license and permit revenues to remain steady in FY 2021-22. Developer fee revenues may increase when the City Council considers proposed fee increases at an upcoming council meeting. In addition, new short-term rental and sidewalk vendor permit fees approved in FY 2020-21 should assist the City, but staff conservatively estimated revenue from these new programs.

The pandemic continues to heavily impact TOT revenues or hotel taxes. Staff anticipates a large decrease of \$1.2 million (decrease of 49%) and total \$1.25 million for FY 2021-22. The pandemic also impacted Parks and Recreation and Library programming revenues. Staff anticipates a 43% reduction in these revenues in FY 2021-22.

### *Expenditures*

For FY 2021-22, General Fund expenditures of \$110.9 million reflects an increase of \$4.8 million (or 5%) from FY 2020-21 (excluding enacted budget balancing measures). The FY 2021-22 expenditure budget includes increases to salary and benefits, primarily to its California Public Employees Retirement System (CalPERS) retirement pension costs for its miscellaneous and public safety members. In addition, the FY 2021-22 General Fund budget also includes planned budgetary impacts due to City initiatives undertaken in FY 2020-21 and limited new programs planned for FY 2021-22, as well as increases to the City's internal service funds allocations. An overview of the major General Fund expenditure increases are as follows:

- *CalPERS Retirement Costs (\$3.2 million)* – CalPERS pension costs will increase by \$3.2 million (or 23%) in the General Fund for FY 2021-22, largely due to increases to the City's unfunded actuarial liability (UAL) obligations, as the UAL continues to increase in accordance to its projected "ramp-up" schedule in its current 30-year amortization schedule. CalPERS lowered its discount rate to 7% a few years ago resulting in the five-year "ramp-up" increases.
- *FY 2021-22 New City Programs and Initiatives (\$180,000)* – In FY 2021-22, the City will implement a new Emergency Operations program to coordinate the City's emergency management and response efforts to mitigate and respond to emergencies such as the current COVID-19 pandemic. The City will also continue its economic development initiatives to bolster new business activities and economic growth. The budget includes a new Economic Development program. Illegal cannabis enforcement is also another City Council initiative included in the FY 2021-22 budget.
- *Increase to Internal Service Fund Allocations (\$1.6 million)* – In FY 2021-22, General Fund contributions to the Liability Insurance, Vehicle Replacement and Information Technology internal service funds are proposed to be increased. In FY 2021-22, the General Fund's allocation to the Liability Insurance Fund will increase by \$400,000, due to increases to its general insurance premiums and minimum reserves levels to mitigate and support ongoing claims.

The General Fund allocation to the Vehicle Replacement Fund increased by \$600,000, largely as the result of bringing Fire Heavy Apparatus back into the Equipment Replacement Program.

Allocations to the Information Technology Fund also increased substantially in FY 2021-22, mostly due to scheduled implementation of new cashiering, utility billing and general billing software (\$650,000) for end of life upgrades and/or replacements.

General Fund Budget Balancing Measures

Based on projected revenues and total expenditures, staff projects the General Fund to end with a \$10.0 million operating deficit in FY 2021-22, as shown in the following table.

**Table 3 – General Fund Projected Fund Balance**

	<b>Adopted FY 20-21 Budget</b>	<b>Proposed FY 21-22 Budget (No Vacancy Savings)</b>	<b>Proposed FY 21-22 Budget (Vacancy Savings)</b>
Contingency Reserve (10% Min.)	9,992,898	9,816,327	9,816,327
Available Unassigned Fund Bal.	217,389	693,960	693,960
<b>Beginning Fund Balance</b>	<b>\$10,210,287</b>	<b>\$10,510,287</b>	<b>\$10,510,287</b>
Revenues	98,163,272	100,908,385	100,908,385
Expenditures	106,087,083	110,861,923	110,861,923
<i>Budget Balancing Measures</i>	<i>(4,933,811)</i>	-	-
<i>Vacancy Savings</i>	<i>(2,990,000)</i>	-	<i>(3,840,571)</i>
Operating Surplus / (Deficit)	-	(\$9,953,538)	(\$6,112,967)
Other Financing Sources	300,000	(280,688)	(280,688)
<b>Ending Fund Balance</b>	<b>\$10,510,287</b>	<b>\$276,061</b>	<b>\$4,116,632</b>

As mentioned, in order to balance the projected \$10.0 million operating deficit for FY 2021-22, the City will achieve \$3.8 million of vacancy savings. Staff also requests City Council authorization to use \$6.2 million of contingency reserves. In utilizing contingency reserves, the General Fund will end FY 2021-22 below the 10% minimum reserve level. Authorized use of contingency reserves will enable the City Manager' Office to identify and bring forth other budget balancing measures for City Council consideration.

Per City Council direction at the May 18, 2021, study session, the City Manager's Office will identify an additional 2% - 5% in budget reduction measures for future City Council consideration, in anticipation that further reductions will assist the City in balancing the General Fund operating budget and/or replenishing the use of contingency reserves in FY 2021-22.

American Rescue Plan Act (ARPA)

The President signed the American Rescue Plan Act, better known as ARPA, into law on March 12, 2021. The Act provides \$130 billion in federal funding to local governments across the nation to provide financial relief to address the negative economic impacts (i.e. assist businesses, household assistance programs, etc.) associated with the pandemic and to assist agencies to stabilize its local government finances as a result of revenue

loss due to the pandemic. The statutory language currently outlines four broad uses for ARPA funding:

- To respond to and actively address the public health emergency or its negative economic impacts with respect to the COVID-19 disease
- To respond to essential workers working during COVID-19 with premium pay
- To provide for revenue reduction or loss due to COVID-19
- To invest in water, sewer or broadband infrastructure improvements.

The City received its first tranche of ARPA allocation in the amount of \$16.3 million on May 17, 2021. Staff estimates that the City will receive an additional \$16.3 million one year from this first disbursement sometime in late FY 2021-22 for an estimated total of \$32.7 million.

While the ARPA legislation intends to be broader and more flexible than the prior CARES Act funding with regard to eligible uses, Staff is conducting an ongoing comprehensive review of the US Treasury guidance. Cities through organizations such as the National League of Cities and other advocacy organizations have and continue to actively seek clarifications with respect to eligible use of funds. Once staff receives specific determinations for eligible use of ARPA funds, Staff will seek direction from the City Council with respect to possible designation of eligible uses.

#### Schedule of Fees and Charges

Staff presents a draft resolution to adopt the City's annual Schedule of Fees and Charges for FY 2021-22. The resolution does not propose new fees for FY 2021-22 but includes the new short-term rental (Community and Economic Development Fee Schedule) and sidewalk vendor permit fees (Public Works Fee Schedule), both approved by City Council in FY 2020-21. Attachment 2 and 3 list all FY 2021-22 fee schedules.

#### Appropriations Limit

The Annual Appropriations Limit, or also known as the GANN Limit, sets a maximum spending amount on cities in California for spending tax proceeds (i.e. property and sales tax). California Government Code requires annual adjustment of the appropriations limit for changes in population and consumer price index as provided by the State. Cities must remain under the annual appropriations limit for compliance. The City's Appropriations Limit amount for FY 2021-22 is \$233,711,292. The appropriations subject to the limitation are \$76,805,089, which is \$156,906,203 under the limit, as reflected by resolution in Attachment 4.

#### Moving Forward

As indicated at the two budget study sessions and budget adoption public hearing, adoption of the Proposed Operating Budget for FY 2021-22 represents the City's initial "spending plan". In order to balance the General Fund budget in FY 2021-22, the City will achieve \$3.8 million of vacancy savings. Per City Council direction, the City Manager's Office will identify an additional 2% - 5% in potential budget reduction measures to submit to City Council for consideration. Staff anticipates that as the City achieves additional budget reductions measures, the City will further reduce the deficit, thereby reducing the impacted use of contingency reserves to balance the General Fund budget.

As the General Fund primarily supports municipal operations, labor comprises the largest component of the General Fund expenditure budget. As staff identifies additional General Fund expenditure reduction options, staff will submit these proposed reductions to City Council for consideration and direction for determination of which service levels to impact.

During the course of the fiscal year, programming and service levels may be re-evaluated per City Council direction. At such direction, corresponding options to reallocate or adjust budgetary resources will be considered.

In addition, as staff clarifies eligible uses of ARPA funding, staff will present such uses to City Council for consideration and direction.

Similar to FY 2020-21, staff anticipates a fluid FY 2021-22 General Fund as staff identifies budget reductions and as new information becomes available. Staff will present budget amendments to City Council for consideration throughout the fiscal year.

Attachments:

- Attachment 1 – Resolution No. 2021-XX - Operating Budget for FY 2021-22
- Attachment 2 – Redlined Proposed Schedule of Fees and Charges for FY 2021-22
- Attachment 3 – Resolution No. 2021-XX Schedule of Fees and Charges FY 2021-22
- Attachment 4 – Resolution No. 2021-XX Annual Appropriations Limit