



# ***Agenda Report***

## ***Fullerton City Council***

**MEETING DATE:** JULY 20, 2021

**TO:** CITY COUNCIL / SUCCESSOR AGENCY

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

**PREPARED BY:** ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES  
STEVEN AVALOS, BUDGET AND PURCHASING MANAGER

**SUBJECT:** FISCAL YEAR 2020-21 THIRD QUARTER FINANCIAL REPORT

---

### **SUMMARY**

The Third Quarter Financial Report (Q3 Report) provides an overview of the City's financial position through the third quarter of Fiscal Year (FY) 2020-21. The Q3 Report is a solid projection of the City's FY 2020-21 year-end budget performance as the City's revenue and expenditure performance from July 2020 through March 2021 is compared against adopted budget levels. The Q3 Report also provides year-end General Fund projections for FY 2020-21 prior to the close of the City's financial records and issuance of audited financial statements.

Additionally, this agenda item requests to establish SB2 Permanent Local Housing Allocation (PLHA) and American Rescue Plan Act (ARPA) special revenue funds and appropriate receipt of funds.

### **RECOMMENDATION**

1. Receive and file Fiscal Year 2020-21 Third Quarter Financial Report.
2. Authorize City Manager, or designee, to effectuate any budget amendments and transfers necessary to ensure budget and accounting compliance in preparing the Fiscal Year 2020-21 audit and financial statements.
3. Approve creation of new special revenue funds, Fund 28-SB2 Permanent Local Housing Allocation (PLHA) and Fund 38-American Rescue Plan Act (ARPA) and authorize related grant funds appropriations received in FY 2020-21.

## BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement/s:

- Fiscal and Organizational Stability.

## FISCAL IMPACT

Staff will use the information provided in the Q3 reports to ensure continued budgetary diligence over the last three months of FY 2020-21 through the year-end close process. FY 2020-21 year-end projections are not final figures. Staff develops the projected budget based on revenues and expenditures data available at the time. As of this agenda report, staff projects General Fund revenues to come in \$1.5 million above budgeted levels. Staff projects General Fund expenditures to come in at 97% expended of (or \$2.6 million under) adopted budgeted levels. Based on these projections, staff anticipates a General Fund operating surplus of +/- \$4.0 million for FY 2020-21.

Staff will present any fiscal year end budget amendments necessary to ensure accounting and budget compliance for FY 2020-21 financial reporting to City Council with the FY 2020-21 audited financial statements in December 2021.

## DISCUSSION

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

The FY 2020-21 Q3 Report identifies all actual revenues received and all actual expenditures incurred from July 1, 2020 through March 31, 2021 (three-fourths of the fiscal year), compared against adopted budget levels. The Q3 Report also includes year-end projections for FY 2020-21.

While assessing the fiscal condition of all City funds is important, the Q3 Report will largely focus on the General Fund, as this is the City's chief operating fund supporting traditional municipal services such as public safety, community and economic development, parks and recreation, library services and public works.

## FY 2020-21 Q3 Review of General Fund (including Library and Parks and Recreation)

Through the first three quarters of FY 2020-21, General Fund revenues total \$58.7 million, and are at 60% of adopted revenues of \$98.2 million. General Fund expenditures total \$69.7 million and are at 71% of adopted expenditures of \$98.2 million. Revenues typically appear low (60% of adopted levels), as expenditures have a more linear fashion because staff processes payroll biweekly and processes bills weekly. Further, the City's receives a large portion of its revenues during the last quarter of the fiscal year including April and May installments of property taxes and certain franchise revenues. Overall, year to date revenues and expenditures through the third quarter match expected budget levels.

FY 2020-21 General Fund (including Library and Parks/Recreation) Year End Projection

As highlighted in prior financial reports, City Council adopted the FY 2020-21 Budget in June 2020 predicated on the City achieving \$7.9 million in budget reduction or balancing measures. Based on Q3 financials and best available information to date, the City is not only on target to meet these balancing measures, the City is on track to exceed these reductions by an additional \$2.6 million in expenditure reductions. In addition, staff projects General Fund revenues to come in at \$1.5 million above adopted levels.

The following table and narrative present an overview of the projected year-end revenues and expenditures. The Projected Budget column presents the year-end revenue and expenditure projection compared against the Adopted Budget column. The Adopted Budget is the FY 2020-21 budget with budget balancing measures adopted by City Council in June 2020. The Variance column compares the projection against the adopted budget.

Staff anticipates the General Fund to end FY 2020-21 with a \$14.5 million ending fund balance, sufficient to meet the minimum 10% contingency reserve with +/- \$4.0 -\$5.0 million of available unassigned fund balance for City Council designation when the staff presents the audited financial statements in December 2021.

<b>FY 2020-21 Projected General Fund Balance</b>				
<b>Year End Projections for Q3 2020-21 Financial Report</b>				
<b>FY 2020-21</b>				
		<b>Adopted Budget</b>	<b>Projected Budget</b>	<b>Variance Projected Over/(Under)</b>
Contingency Reserve (10% Minimum)		9,992,898	9,992,898	-
Available Unassigned Fund Balance		217,389	217,389	-
<b>Beginning Available Fund Balance</b>		<b>\$10,210,287</b>	<b>\$10,210,287</b>	<b>-</b>
<b>Revenues</b>				
		<b>\$98,163,272</b>	<b>\$99,647,630</b>	<b>\$1,484,358</b>
Property Tax		46,962,230	50,039,531	3,077,301
Sales Tax		21,338,510	22,965,764	1,627,254
Other Taxes		5,239,810	4,193,238	(1,046,572)
Licenses & Permits		2,215,930	2,284,963	69,033
Charges for Services		9,255,187	8,919,300	(335,886)
Fines & Penalties		1,646,250	729,155	(917,095)
Use of Money & Property (Leases, Interest Income, etc.)		7,724,325	6,956,896	(767,429)
Other Agencies (Grants, Reimbursements)		636,000	1,576,989	940,989
Other Revenues		309,353	437,298	127,945
Library Revenues		400,588	300,481	(100,106)
Park & Recreation Revenues		2,435,089	1,244,016	(1,191,073)
<b>Expenditures</b>				
		<b>(\$98,163,272)</b>	<b>(\$95,596,522)</b>	<b>(\$2,566,750)</b>
Salary & Benefits		(67,723,305)	(67,863,224)	139,919
Operations & Maintenance		(30,439,967)	(27,733,298)	(2,706,669)
<b>Operating Surplus (Deficit)</b>				
		<b>(0)</b>	<b>4,051,108</b>	<b>4,051,108</b>
<b>Net Transfers In (Out)</b>				
		<b>300,000</b>	<b>220,866</b>	<b>(79,134)</b>
<b>Net Change in Fund Balance</b>				
		<b>300,000</b>	<b>4,271,974</b>	<b>3,971,974</b>
<b>Total Ending Fund Balance</b>				
		<b>\$10,510,287</b>	<b>\$14,482,261</b>	<b>\$3,971,974</b>
<b>10% Contingency Reserve</b>				
		<b>(9,816,327)</b>	<b>(9,559,652)</b>	<b>256,675</b>
<b>Available Unassigned Fund Balance</b>				
		<b>693,959</b>	<b>4,922,608</b>	<b>4,228,649</b>

### *Revenues*

For FY 2020-21, staff anticipates General Fund revenues to come in at \$99.7 million, which is \$1.5 million above the adopted budget of \$98.2 million. This is primarily due to additional residual property tax receipts received in the fourth quarter of FY 2020-21.

The COVID-19 pandemic continues to have no effect on property tax, the City's largest General Fund revenue, and will assist the City in offsetting other revenue losses from the pandemic. For FY 2020-21, staff projects property tax revenues to come in at \$50.0 million, which is \$3.0 million above adopted revenues of \$47.0 million, largely due to one-time residual property tax receipts of \$3.0 million (\$1.7 million received in December and \$1.3 million received in May). As successor agencies continue to wind down former redevelopment agency (RDA) obligations, the County re-distributes property taxes to the taxing entities within the county. These residual receipts resulted in additional property tax revenue for the City. Overall, property tax returns consistent revenue growth.

Staff projects sales tax revenue to come in higher at \$1.6 million above the adopted budget. A new State law enacted last year requiring certain online marketplace vendors to remit sales tax in California has aided the City's sales tax revenues. This has resulted in increases in the county pool which the County then distributes to participating cities. The City has benefitted from this and these new revenues help offset sales tax losses from other economic sectors.

The pandemic continues to heavily impact Transient Occupancy Taxes (TOT). Staff projects TOT revenues to end FY 2020-21 \$1.1 million below the adopted budget and come in around \$1.3 million. This is below the \$2.4 million adopted budget which staff projected conservatively lower than the prior fiscal year.

As City facilities and community programs have just begun to re-open, Parks and Recreation and the Library saw significantly reduced revenues, by \$1.2 million and by \$100,000, respectively. The City saw a reduction in fines and penalties by over \$900,000, also attributed to the pandemic as the City did not fully enforce parking citation services and other fines and penalties.

Despite these losses, General Fund revenues, as a whole, have increased and based on current projections, staff anticipates revenues to come in \$1.5 million above budgeted levels. As stated, this is due in large part to increases in property tax revenues from RDA residual property tax receipts.

### *Expenditures*

The City adopted a \$98.2 million expenditure budget for FY 2020-21, which factored in achieving \$7.9 million in budget reductions to balance at year end. The budget balancing measures to achieve the \$7.9 million in cost reductions consisted of holding a number of positions vacant to yield vacancy savings, the negotiation of labor concessions and other operating reductions that included foregoing some community events.

Based on Q3 financials and the best available information to date, staff projects General Fund expenditures to come in under budget at \$95.6 million, which is \$2.6 million below the adopted budget of \$98.2 million for FY 2020-21. This translates into \$2.6 million of expenditure savings above the \$7.9 million of targeted budget balancing measures for total reductions of \$10.5 million in FY 2020-21. This savings came from departments

monitoring their respective budgets, not filling several vacant positions, operating at baseline levels to close the deficit and closures or reduced programming due to COVID-19. The following provides an overview of major reductions.

Staff projects salaries and benefits to meet its budget savings target and come in at adopted budget levels. Labor savings, largely due to vacancy savings of not filling identified positions and a reduction in part-time staff as a result of facilities and programs not fully operational due to the pandemic, generated the majority of the original \$7.9 million budget balancing saving measures. This diligence has resulted in staff projecting that the City will meet its salary reduction target to end FY 2020-21.

Staff also projects operating and maintenance costs to come in below budget by \$2.7 million, largely due to not hosting various community events, such as the 4<sup>th</sup> of July event, First Night, contract classes, the Fullerton Market and other human and leisure programming during the pandemic.

Further, the City reduced utilization of certain professional services in FY 2020-21 due to decreased services resulting from the pandemic. For example, the City did not fully implement the new Parking Enforcement Services program for the City's downtown district during the majority of the pandemic nor did the City fully operate crossing guard services in FY 2020-21 as schools operated remotely.

Overall, staff projects the City will spend \$2.6 million less than the FY 2020-21 adopted expenditure budget.

#### Establish Special Revenue Funds

The City has received, and anticipates to continue receiving, SB2 Permanent Local Housing Allocation grant funding, as well as its first allocation of the American Rescue Plan Act (ARPA) local government assistance monies. Staff recommends City Council approve establishing individual funds to properly budget, account for and maintain accurate grant records to ensure grant compliance for the duration of these activities.

Staff also requests budget appropriation of funds received in FY 2020-21 to facilitate accounting and reporting of funds received and expended during the fiscal year.

#### Next Steps

The next financial report for FY 2020-21 will include the presentation of the annual audited financial statements, better known as the Comprehensive Annual Financial Report (CAFR), for FY 2020-21. Staff normally submits the CAFR to City Council in December of each year along with the City's final year-end position, comparison of actuals against adopted and projected budget and beginning FY 2021-22.

#### Attachments:

- Attachment 1 – Revenue Detail by Fund
- Attachment 2 – Expenditure Summary by Fund and Department