



Agenda Report

Fullerton City Council

MEETING DATE: DECEMBER 7, 2021

TO: CITY COUNCIL / SUCCESSOR AGENCY

FROM: STEVE DANLEY, ACTING CITY MANAGER

SUBJECT: FISCAL YEAR 2021-2022 BUDGET ADJUSTMENTS AND INITIAL ARPA DESIGNATION

SUMMARY

This agenda item is a continuation of City Council efforts to select a budget adjustment scenario for the current FY 2021-22 General Fund budget and to formalize direction to initially obligate American Rescue Plan Act (ARPA) monies as revenue replacement for budgeted government operations.

If City Council cannot reach majority consensus on a budget adjustment option, staff requests City Council move to formally obligate the use of initial ARPA monies as revenue replacement to budgeted government operations allowing for the maintenance of at least a minimum Contingency Reserve level and direct staff to return to City Council within thirty days to provide direction on the use of a portion (up to \$8 million) of the remaining ARPA funds for non-budgeted projects and programs.

RECOMMENDATION

Staff presents its recommendations in the following two packages. Staff recommends City Council adopt Package A with a selected budget adjustment scenario (i.e., scenarios 1-18). If City Council adopts Package A with a selected budget adjustment scenario, Package B becomes moot.

If City Council cannot achieve majority consensus on Package A, then staff requests that City Council adopt Package B. This will allow the City to move forward with necessary budget actions.

Package A lists recommendations presented at the past two City Council meetings: choose a budget adjustment scenario, affirm the consensus rank of order of City strategic priorities, authorize the City Manager to pursue specific adjustments pursuant to City Council direction and rank order of strategic priorities and direct the City Manager to apportion the remaining ARPA funds for City Council consideration. Staff labeled these recommendations as A1, A2, A3 and A4.

Package B provides an option that allows City Council move forward with ARPA fund designations, until it chooses a budget adjustment scenario, by formally adopting the initial use of ARPA monies as revenue replacement to budgeted government operations and designates a portion of the remaining ARPA funds for new, non-budgeted projects and programs. Staff labeled these recommendations as B1 and B2.

Package A:

A1. City Council choose one of the following budget adjustment directives:

Option	Detail
A. Scenario Status Quo: \$3.8 million Reduction – No ARPA for Revenue Replacement	<ul style="list-style-type: none"> Contingency Reserve depleted by Fiscal Year 2022-23; Negative General Fund Balance by Fiscal Year 2023-24
B. Scenario 1: \$3.8 million Reduction and Initial \$19.4 million of ARPA for Revenue Replacement	<ul style="list-style-type: none"> Contingency Reserve Level of ~13% \$13.3 million of remaining ARPA funds to non-budgeted programs / projects
C. Scenario 2: \$3.8 million + Additional 2% Reduction and Initial \$8.7 million of ARPA for Revenue Replacement	<ul style="list-style-type: none"> Contingency Reserve Level of ~ 13%+ \$24 million of remaining ARPA funds to non-budgeted programs / projects
D. Scenario 3: \$3.8 million + Additional 5% Reduction and Initial \$2.7 million of ARPA for Revenue Replacement	<ul style="list-style-type: none"> Contingency Reserve Level of ~17%+ \$31.9 million of remaining ARPA funds to non-budgeted programs / projects
E. Scenario 4: \$3.8 million Reduction and Initial \$24.1 million of ARPA for Revenue Replacement	<ul style="list-style-type: none"> Contingency Reserve Level of 17% \$8.6 million of remaining ARPA funds to non-budgeted programs / projects
F. Council Alternate Scenarios 5, 7, 9, 11, 13, 15, or 17 5: \$0.0M Vacancy Savings; Add'l 0.0%; \$32.7M ARPA 7: \$3.8M Vacancy Savings; Add'l 1.0%; \$13.7M ARPA 9: \$3.8M Vacancy Savings; Add'l 1.5%; \$11.0M ARPA	<ul style="list-style-type: none"> Contingency Reserve Level of 10% minimum See Attachment 2 for remaining ARPA funds to non-budgeted projects / programs

11: \$3.8M Vacancy Savings; Addt'l 2.5%; \$6.9M ARPA 13: \$3.8M Vacancy Savings; Addt'l 3.0%; \$5.2M ARPA 15: \$3.8M Vacancy Savings; Addt'l 3.5%; \$3.7M ARPA 17: \$3.8M Vacancy Savings; Addt'l 4.0%; \$2.7M ARPA	
G. Council Alternate Scenarios 6, 8, 10, 12, 14, 16, or 18 6: \$0.0M Vacancy Savings; Addt'l 0.0%; \$32.7M ARPA 8: \$3.8M Vacancy Savings; Addt'l 1.0%; \$18.5M ARPA 10: \$3.8M Vacancy Savings; Addt'l 1.5%; \$15.8M ARPA 12: \$3.8M Vacancy Savings; Addt'l 2.5%; \$11.9M ARPA 14: \$3.8M Vacancy Savings; Addt'l 3.0%; \$10.2M ARPA 16: \$3.8M Vacancy Savings; Addt'l 3.5%; \$8.5M ARPA 18: \$3.8M Vacancy Savings; Addt'l 4.0%; \$7.4M ARPA	<ul style="list-style-type: none"> • Contingency Reserve Level of 17% minimum • See Attachment 2 for remaining ARPA funds to non-budgeted projects / programs
H. Other	

- A2. Affirm consensus rank order of Strategic Priorities (i.e., Public Safety, Infrastructure, Community and Economic Development, Workforce, Parks and Recreation, Library, Arts, Other).
- A3: Authorize City Manager to develop and recommend specific budget adjustments pursuant to City Council direction and rank order of Strategic Priorities and return to City Council for approval.
- A4: Direct City Manager to agendize an item to receive City Council direction on the use of remaining ARPA monies not obligated for Revenue Replacement within allowable US Treasury categories.

OR

Package B:

- B1. Approve the initial use of ARPA monies as revenue replacement for budgeted government operations thereby allowing for the maintenance of at least a minimum ten percent Contingency Reserve level at fiscal year-end for the next five fiscal years.
- B2. Direct staff to return to City Council within thirty days for City Council to allocate a portion (up to \$8 million) of the remaining ARPA funds for non-budgeted projects/programs.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statements:

- Fiscal and Organizational Stability

- Public Safety
- Infrastructure and City Assets.

FISCAL IMPACT

City Council action items may result in revisions to the FY 2021-22 budget.

DISCUSSION

At the August 17, 2021 and September 14, 2021 study sessions (Study Session No. 1 and No. 2), staff presented potential adjustment scenarios to the Fiscal Year 2021-22 General Fund budget.

At the conclusion of Study Session No. 2, City Council directed staff to agendize an item for the October 5, 2021 City Council meeting to provide formal direction with respect to the following areas: selection of a budget adjustment option, initial allocation of ARPA for Revenue Replacement for government operations and a desired contingency reserve level to maintain.

City Council also provided consensus direction as to the order of its strategic priorities at Study Session No. 2:

1. Public Safety
2. Infrastructure
3. Community and Economic Development
4. Workforce: employee attraction and retention
5. Parks and Recreation
6. Library
7. Arts
8. Other.


City Council did not reach consensus at its October 5, 2021 meeting on the selection of a budget adjustment option. Staff re-agendized the discussion on October 19, 2021 and November 2, 2021. City Council did not come to consensus during those meetings.

Staff recommends City Council adopt Recommendation Package A. If City Council cannot reach majority consensus on Package A, staff requests City Council adopt Package B to allow for a partial implementation of necessary budget actions.

Package A - Budget Adjustment Scenarios

The following table provides a high-level summary of the initial budget adjustment scenarios (Scenario Status Quo and Scenarios 1 through 4) presented to City Council. Each scenario demonstrates the amount of initial ARPA needed first for Revenue Replacement to support government operations and then the amount of ARPA monies remaining for designation by City Council for non-budgeted projects or programs. The table also shows the resulting contingency reserve level for each scenario.

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Summary of Scenarios with Corresponding Contingency Reserve Level Impacts

Scenario	ARPA – Revenue Replacement (Gov't Operations)	ARPA – Non-Budgeted Projects / Programs	Impact to Contingency Reserve Level
\$3.8M Vacancy Savings w/o Use of ARPA: Status Quo (No Add'l Cuts; No ARPA for Gov't Operations)	\$0	\$32.7M	Reserves depleted by FY 22-23; Negative Fund Balance FY 23-24
Scenario 1: \$3.8M Vacancy Savings & ARPA for Revenue Replacement (No Add'l Cuts)	\$19.4M	\$13.3M	- 13%
Scenario 2: \$3.8M Vacancy Savings + Add'l 2% & ARPA for Revenue Replacement	\$8.7M	\$24.0M	~ 13%+
Scenario 3: \$3.8M Vacancy Savings + Add'l 5% & ARPA for Revenue Replacement	\$2.7M *	\$30.0M	- 17%+
Scenario 4: \$3.8M Vacancy Savings & ARPA for Revenue Replacement at 17% Reserves (No Add'l Cuts)	\$24.3M	\$8.6M	- 17%

* ~\$700,000 for Revenue Replacement and ~\$2M for unforeseen COVID-19 Expenditures and ARPA administration.

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Scenario Status Quo

This scenario presents the adjusted General Fund Forecast with the adopted \$3.8M of vacancy savings. This scenario does not utilize ARPA for Revenue Replacement to support budgeted governmental operations, resulting in contingency reserves likely depleted by Fiscal Year 2022-23, followed by a negative General Fund balance in FY 2023-24.

Scenario 1

This scenario adds to the Status Quo scenario by initially using ARPA monies for Revenue Replacement to support budgeted government operations. With approximately \$19.4M of ARPA initially used to support budgeted operation under the US Treasury Revenue Replacement provision, this option maintains General Fund contingency reserve levels of approximately 13% and approximately \$13.3M of ARPA would remain for City Council to designate towards non-budgeted projects or programs.

Scenario 2

This scenario includes an additional 2% reduction to General Fund expenditures above the \$3.8M vacancy savings and then applies ARPA for Revenue Replacement to support budgeted government operations. With approximately \$8.7M of ARPA initially used to support budgeted operation under the US Treasury Revenue Replacement provision, this option would maintain General Fund contingency reserve levels of 13%+ and approximately \$24.0M of ARPA would remain for City Council to designate towards non-budgeted projects or programs.

Scenario 3

This scenario includes an additional 5% reduction to General Fund expenditures above the \$3.8M vacancy savings and then applies \$2.7M of ARPA monies to support COVID-19 related costs and ARPA administration. This option would maintain General Fund contingency reserve levels of 17%+ and approximately \$30.0M of ARPA would remain for City Council to designate towards non-budgeted projects or programs.

Scenario 4

Staff developed this scenario with the goal of maintaining a 17% contingency reserve level. The scenario initially allocates ARPA monies for Revenue Replacement to support budgeted government operations. With approximately \$24.1M of ARPA initially used to support budgeted operation under the US Treasury Revenue Replacement provision, this option maintains a General Fund contingency reserve level of 17% and approximately \$8.6M of ARPA would remain for City Council to designate towards non-budgeted projects or programs.

Other Scenarios

During the October 5, 2021 City Council meeting, City Council members proposed and deliberated on several alternative scenarios. Staff has provided a summary of the alternate scenarios discussed at contingency reserve levels of ~10% and ~17%. The following tables summarize these alternate scenarios and in Attachment 2 "Summary of Scenarios and Alternative Scenarios."

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Alternate Scenarios at ~10% Contingency Reserves:

Scenario	ARPA - Revenue Replacement (Gov't Operations) (millions)	ARPA - Non-Budgeted Projects/ Programs (millions)	Impact on Contingency Reserve Level
<u>Alternate Scenario 5:</u> \$0.0M Vacancy Savings + Addt'l 0.0% & ARPA for Revenue Replacement at 10% Reserves	\$32.7	\$0.0	FY25-26 Contingency Reserve <10%
<u>Alternate Scenario 7:</u> \$3.8M Vacancy Savings + Addt'l 1.0% & ARPA for Revenue Replacement at 10% Reserves	\$13.7	\$19.0	~13%+
<u>Alternate Scenario 9:</u> \$3.8M Vacancy Savings + Addt'l 1.5% & ARPA for Revenue Replacement at 10% Reserves	\$11.0	\$21.7	~13%+
<u>Alternate Scenario 11:</u> \$3.8M Vacancy Savings + Addt'l 2.5% & ARPA for Revenue Replacement at 10% Reserves	\$6.9	\$25.8	~14%+
<u>Alternate Scenario 13:</u> \$3.8M Vacancy Savings + Addt'l 3.0% & ARPA for Revenue Replacement at 10% Reserves	\$5.2	\$27.5	~14%+
<u>Alternate Scenario 15:</u> \$3.8M Vacancy Savings + Addt'l 3.5% & ARPA for Revenue Replacement at 10% Reserves	\$3.7	\$29.0	~14%+
<u>Alternate Scenario 17:</u> \$3.8M Vacancy Savings + Addt'l 4.0% & ARPA for Revenue Replacement at 10% Reserves	\$2.7*	\$30.0	~14%+

* ~\$700,000 for Revenue Replacement and ~\$2M for unforeseen COVID-19 Expenditures and ARPA administration.

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Alternate Scenarios at ~17% Contingency Reserves:

Scenario	ARPA - Revenue Replacement (Gov't Operations) (millions)	ARPA - Non-Budgeted Projects/ Programs (millions)	Impact on Contingency Reserve Level
Alternate Scenario 6: \$0.0M Vacancy Savings + Addt'l 0.0% & ARPA for Revenue Replacement at 17% Reserves	\$32.7	\$0.0	FY25-26 Contingency Reserve <10%
Alternate Scenario 8: \$3.8M Vacancy Savings + Addt'l 1.0% & ARPA for Revenue Replacement at 17% Reserves	\$18.5	\$14.2	~17%+
Alternate Scenario 10: \$3.8M Vacancy Savings + Addt'l 1.5% & ARPA for Revenue Replacement at 17% Reserves	\$15.8	\$16.9	~17%+
Alternate Scenario 12: \$3.8M Vacancy Savings + Addt'l 2.5% & ARPA for Revenue Replacement at 17% Reserves	\$11.9	\$20.8	~17%+
Alternate Scenario 14: \$3.8M Vacancy Savings + Addt'l 3.0% & ARPA for Revenue Replacement at 17% Reserves	\$10.2	\$22.5	~18%+
Alternate Scenario 16: \$3.8M Vacancy Savings + Addt'l 3.5% & ARPA for Revenue Replacement at 17% Reserves	\$8.5	\$24.2	~18%+
Alternate Scenario 18: \$3.8M Vacancy Savings + Addt'l 4.0% & ARPA for Revenue Replacement at 17% Reserves	\$7.4	\$25.3	~18%+

* ~\$700,000 for Revenue Replacement and ~\$2M for unforeseen COVID-19 Expenditures and ARPA administration.

Budget Adjustment Impacts

The following chart presents a summary of fiscal and service level impacts for the original Scenarios 1 through 3 provided at earlier study sessions.



Budget Scenario Impacts (with ARPA)

Scenario	Financial Impacts	Service Impacts
Scenario 1: \$3.8M Vacancy Savings	<ul style="list-style-type: none"> Status quo per adopted budget Does not achieve structural balancing but provides five years to identify revenue source or additional efficiencies Results in ~13% contingency reserve level Provides ~\$13.3M of \$32.7M ARPA funds for new projects; remainder for Revenue Replacement 	<ul style="list-style-type: none"> Continuation of current reduced service levels with ~37 positions held vacant Minimizes bargaining group impacts
Scenario 2: \$3.8M + Addtl 1.9% Cuts	<ul style="list-style-type: none"> Provides ~13%+ contingency reserve level Addresses structural deficit by FY 2025-26 Provides use of ~\$24.0M of \$32.7M ARPA for new projects; remainder for Revenue Replacement Provides greater availability of funds for one-time pay increases 	<ul style="list-style-type: none"> ~51 position reductions results in significant negative impact on City service levels MOA/Union negotiations will require increased timeframe for implementation Significant public/business complaints with little ability to address issues Unintended/unknown multiplier consequences of shutting down parts of organization Precipitate potential staff exodus
Scenario 3: \$3.8M + Addtl 1.5% Cuts	<ul style="list-style-type: none"> Provides substantial contingency reserve levels over time: 13%-17%+ Address structural deficit by FY 2022-23 Provides use of nearly all ARPA (~\$30.0M) for new projects Allows greater ability to provide one-time and/or possible base-building pay increases 	<ul style="list-style-type: none"> ~72 position reductions results in extreme/debilitating impact to all City departments; essentially whole divisions/services will be cut in several areas Intense MOA/Union negotiations with significant delays in implementation Precipitate potential staff exodus Large unintended/unknown multiplier consequences of shutting down large swaths of City government; may not recover and reopen some services once gone Potential loss of businesses/residents due to cut impact

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Attachment 2 “Summary of Scenarios and Alternate Scenarios” also provides all other budget reduction scenarios requested by City Council.

During previous City Council discussions on budget adjustment scenarios, at least one Councilmember stated that he would like to see which specific position classifications would be recommended for inclusion in both a 1% budget cut list as well as the \$3.8M vacancy savings list. This information is provided as Attachment 4. All positions recommended for defunding / deletion on each list are vacant (with the exception of one position filled by a non-regular employee). Of course, the implementation of any actual cuts would be based on City Council review and direction and be voted on at a future City Council meeting.

The 1% proposed cut list is made up of both non-position operational expense cuts as well as seven position cuts. It is important to note that there are no easy or good choices on this list. Staff made these recommendations in consideration of City Council’s strategic priorities, discussion with executive staff and selecting positions with sufficient savings to achieve a 1% (\$1.2M) budget reduction. There is simply no way to reach the 1% cut amount without defunding / deleting some of the more expensive safety positions, unless the City chooses to make deeper (more position) cuts in critical positions in non-safety departments, essentially discontinuing public services in these areas.

Staff requests that City Council select a budget reduction scenario and affirm the initial use of ARPA monies for Revenue Replacement. Staff will propose any resulting position reductions and service level impacts taking into consideration the rank ordering of City Council priorities. If City Council cannot reach consensus, staff requests that City Council approve Package B.

ARPA Update

As previously discussed, the City of Fullerton's ARPA allocation totals \$32.7 million. The City received half (\$16.35M) in May 2021 and anticipates receiving the other half in May 2022. Two categories of ARPA expenses are eligible for funding: (1) to reimburse direct and indirect costs associated with responding to the COVID pandemic and (2) to replace revenue lost due to the pandemic (e.g., property tax, sales tax, hotel tax). This "revenue replacement" category allows the public entity wide discretion in how it chooses to use ARPA monies, with few restrictions (e.g., public entities may not use ARPA for deposits into employee pension funds, direct replenishment of financial reserves, outstanding debts, settlements / judgments / consent decrees, federal matching requirements).

ARPA requires public entities to utilize a formal calculation to determine revenue loss by each jurisdiction due to COVID-19. The formula is not static and the City must consistently update it as it receives actual revenues. At the August 17, 2021 Budget Study Session No. 1, the City's first revenue loss calculation, reviewed by the external financial statement auditors, indicated that the methodology met US Treasury guidelines and that based on known information at that time, the City could substantiate its entire \$32.7 million allocation under the Revenue Replacement category. This meant that the City had wide discretion on where to spend its entire \$32.7 million allocation.

Recent actual sales tax revenue numbers now show the City will receive \$1.6 million more than anticipated to end FY 2020-21. In addition, the City's sales tax consultant (Q2 2021 meeting) projects sales tax revenues to increase by \$2.5 million above budgeted amounts for sales tax in FY 2021-22. This is obviously good news. However, for the ARPA revenue replacement calculation perspective, it also means that the City "revenue replacement" calculation will change from \$32.7M to somewhere between \$23.7M - \$26.9M. This means the City can now only spend between \$6M to \$9M on direct and indirect costs associated with responding to the COVID-19 pandemic under allowable Treasury expense categories. The revenue replacement calculation may continue to change as actual revenues become known.

City Council has recently allocated up to \$1.3 million of ARPA funds to the Navigation Center for homeless beds for Fullerton residents and \$150,000 to the Fullerton Museum Association, making the available ARPA revenue balance available to allocate now \$31.25 million (\$32.7M minus \$1.3M minus \$150,000).

Potential ARPA Projects / Programs List (Attachment 3):

At the August 17, 2021 Budget Study Session No. 1, staff provided an ARPA Projects & Programs attachment as supplemental material. This attachment included ARPA funding requests developed by City departments for City Council consideration. The ARPA Projects & Programs attachment provided with this agenda report provides an "Updated Project List" of funding requests and also factors in City Council's ARPA appropriations

to the Navigation Center and Museum. The updated attachment includes both projects and programs eligible under allowable US Treasury expenditure categories and projects-programs eligible under Revenue Replacement.

Staff has made all budget reports and attachments available on the City's website under City Council Meetings for the respective City Council agenda dates:

- Study Session No. 1: August 17, 2021
- Study Session No. 2: September 14, 2021
- Budget Adjustments and ARPA Designation: October 5, 2021
- Budget Adjustments and ARPA Designation: October 19, 2021
- Budget Adjustments and ARPA Designation: November 2, 2021
- Budget Adjustments and ARPA Designation: December 7, 2021

Attachments:

- Attachment 1 - 110221 Presentation
- Attachment 2 - Summary of Scenarios and Alternate Scenarios
- Attachment 3 - Updated ARPA Projects & Programs List
- Attachment 4 –Positions and Proposed 1% Budget Reductions