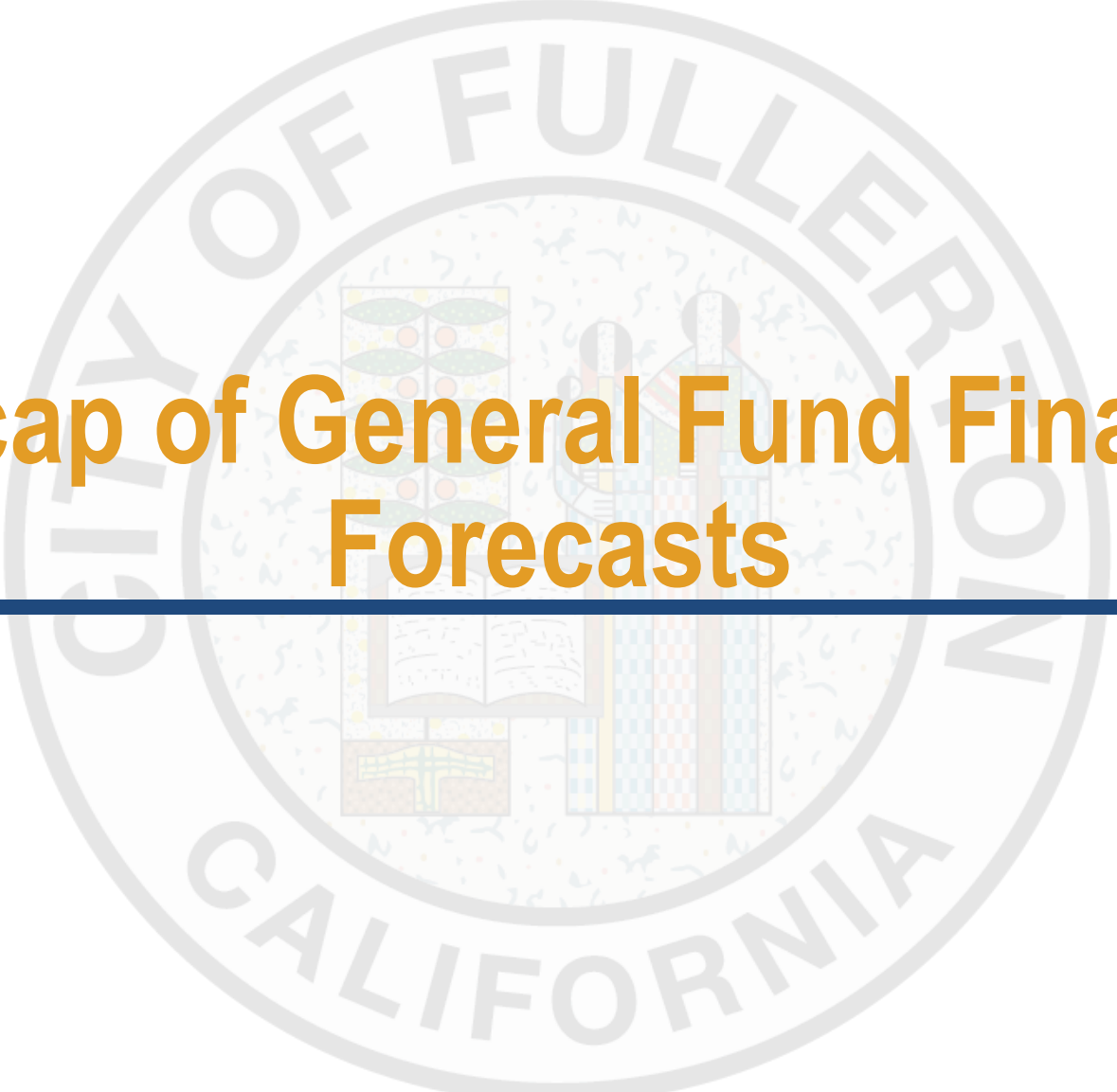


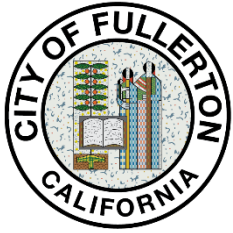


FY 2021-22 Budget Adjustments Study Session No. 2

City of Fullerton, CA
September 14, 2021



I. Recap of General Fund Financial Forecasts



FY 2021-22 Adjusted General Fund Forecast

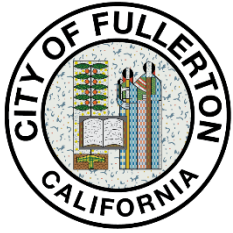
- Adjusted Beginning Fund Balance
- Increased Development User Fees

	Adjusted FY 21-22	Projected FY 22-23	Projected FY 23-24	Projected FY 24-25	Projected FY 25-26	Projected FY 26-27
Contingency Reserve (10% Minimum)	9,559,652	8,211,368	2,938,953	(806,622)	(3,318,711)	(4,896,381)
Available Unassigned Fund Balance	4,922,609	-	-	-	-	-
Beginning Fund Balance	\$14,482,261	\$8,211,368	\$2,938,953	(\$806,622)	(\$3,318,711)	(\$4,896,381)
Revenues	101,071,718	104,846,572	107,534,430	110,281,194	110,342,102	112,722,283
Expenditures w/ Budget Balancing-Vacancy Savings	(107,061,923)	(109,990,646)	(111,066,942)	(112,491,089)	(111,523,852)	(113,162,260)
Operating Surplus/(Deficit)	(5,990,205)	(\$5,144,074)	(\$3,532,513)	(\$2,209,894)	(\$1,181,750)	(\$439,977)
Total Net Transfers In and Out	(280,688)	(128,342)	(213,062)	(302,195)	(395,921)	(243,607)
Net Change in Fund Balance	(6,270,893)	(\$5,272,416)	(\$3,745,575)	(\$2,512,089)	(\$1,577,671)	(\$683,584)
Ending Fund Balance	\$8,211,368	\$2,938,953	(\$806,622)	(\$3,318,711)	(\$4,896,381)	(\$5,579,965)
10% Contingency Reserve (Minimum)	10,706,192	10,999,065	11,106,694	11,249,109	11,152,385	11,316,226
17% Contingency Reserve (Goal)	18,200,527	18,698,410	18,881,380	19,123,485	18,959,055	19,237,584
Over/(Under) 10% Contingency Reserve	(2,494,824)	(8,060,112)	(11,913,316)	(14,567,820)	(16,048,766)	(16,896,191)
Over/(Under) 17% Contingency Reserve	(9,989,159)	(15,759,457)	(19,688,002)	(22,442,196)	(23,855,436)	(24,817,549)
<i>*Updated as of 8/13/21</i>						



Key Points – FY 2021-22 Adjusted Forecast

- Adjusted Forecast includes \$3.8M in vacancy savings (reduction of ~37 positions) in FY 2021-22 from maintaining an ongoing ~4% vacancy factor; and incorporates increased development user fees.
- For several years, ~37 positions have been held vacant to achieve \$3.8M of savings to assist in balancing the General Fund budget. This ~4% vacancy level has resulted in current reduced service level to the public.
- The City has a continuing General Fund structural deficit (Operating Revenues less than Operating Expenditures) that will result in depletion of contingency reserves by FY 2023-24 if ARPA is not used for government operations.



Scenario 1

FY 2021-22 General Fund

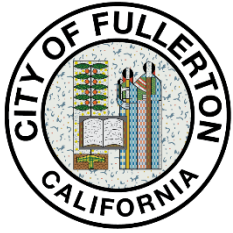
\$3.8M & ARPA

	Adjusted FY 21-22	Projected FY 22-23	Projected FY 23-24	Projected FY 24-25	Projected FY 25-26	Projected FY 26-27
Beginning Fund Balance	\$14,482,261	\$14,482,261	\$14,482,261	\$14,482,261	\$14,482,261	\$14,482,261
Revenues	101,071,718	104,846,572	107,534,430	110,281,194	110,342,102	112,722,283
Expenditures w/ Budget Balancing-Vacancy Savings	(107,061,923)	(109,990,646)	(111,066,942)	(112,491,089)	(111,523,852)	(113,162,260)
Operating Surplus/(Deficit)	(5,990,205)	(5,144,074)	(3,532,513)	(2,209,894)	(1,181,750)	(439,977)
Total Net Transfers In and Out	(280,688)	(128,342)	(213,062)	(302,195)	(395,921)	(243,607)
Net Change in Fund Balance	(6,270,893)	(\$5,272,416)	(\$3,745,575)	(\$2,512,089)	(\$1,577,671)	(\$683,584)
<u>Budget Balancing Adjustments-Options</u>						
ARPA Revenue Replacement for Budgeted Services	6,270,893	5,272,416	3,745,575	2,512,089	1,577,671	-
Adjusted Net Change in Fund Balance w/ ARPA Scenario	-	-	-	-	-	(683,584)
Ending Fund Balance	\$14,482,261	\$14,482,261	\$14,482,261	\$14,482,261	\$14,482,261	\$13,798,677
10% Contingency Reserve (Minimum)	10,706,192	10,999,065	11,106,694	11,249,109	11,152,385	11,316,226
17% Contingency Reserve (Goal)	18,200,527	18,698,410	18,881,380	19,123,485	18,959,055	19,237,584
ARPA Funding Available for Designation	\$13,286,659	\$ -	\$ -	\$ -	\$ -	\$ -
Over/(Under) 10% Contingency Reserve	3,776,069	3,483,196	3,375,567	3,233,152	3,329,876	2,482,451
Over/(Under) 17% Contingency Reserve	(3,718,266)	(4,216,149)	(4,399,119)	(4,641,224)	(4,476,794)	(5,438,907)
<i>*Updated as of 8/13/21</i>						



Scenario 1: Key Points – FY 2021-22 Adjusted Forecast with \$3.8M Vacancy Savings & ARPA

- Continues to hold ~37 positions vacant (~4% vacancy savings) but avoids further impacts to already reduced service levels.
- ARPA first applied to Revenue Replacement to support government operations. Resulting impact is maintenance of ~13% contingency reserves.
- ~\$13.3M of \$32.7M of ARPA remain for City Council designation towards non-budgeted projects / programs.



Scenario 2

FY 2021-22 General Fund

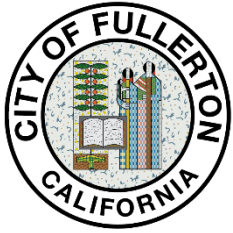
2% Addt'l Cuts & ARPA

	Adjusted FY 21-22	Projected FY 22-23	Projected FY 23-24	Projected FY 24-25	Projected FY 25-26
Beginning Fund Balance	\$14,482,261	\$14,482,261	\$14,482,261	\$14,482,261	\$14,482,261
Revenues	101,071,718	104,846,572	107,534,430	110,281,194	110,342,102
Expenditures w/ Budget Balancing-Vacancy Savings	(107,061,923)	(109,990,646)	(111,066,942)	(112,491,089)	(111,523,852)
Operating Surplus/(Deficit)	(5,990,205)	(\$5,144,074)	(\$3,532,513)	(\$2,209,894)	(\$1,181,750)
Total Net Transfers In and Out	(280,688)	(128,342)	(213,062)	(302,195)	(395,921)
Net Change in Fund Balance	(6,270,893)	(\$5,272,416)	(\$3,745,575)	(\$2,512,089)	(\$1,577,671)
Budget Balancing Adjustments-Options					
Expenditure Reductions - Add'l 2% Budget Cuts	2,217,238	2,263,648	2,285,634	2,314,614	2,294,004
ARPA Revenue Replacement for Budgeted Services	4,053,654	3,008,768	1,459,940	197,475	-
Adjusted Net Change in Fund Balance w/ ARPA Scenario	-	-	-	-	716,334
Ending Fund Balance	\$14,482,261	\$14,482,261	\$14,482,261	\$14,482,261	\$15,198,595
10% Contingency Reserve (Minimum)	10,706,192	10,999,065	11,106,694	11,249,109	11,152,385
17% Contingency Reserve (Goal)	18,200,527	18,698,410	18,881,380	19,123,485	18,959,055
ARPA Funding Available for Designation	\$23,945,464	\$ -	\$ -	\$ -	\$ -
Over/(Under) 10% Contingency Reserve	3,776,069	3,483,196	3,375,567	3,233,152	4,046,210
Over/(Under) 17% Contingency Reserve	(3,718,266)	(4,216,149)	(4,399,119)	(4,641,224)	(3,760,460)
<i>*Updated as of 8/13/21</i>					



Scenario 2: Key Points - \$3.8M Vacancy Savings + 2% Additional Cuts & ARPA

- Reduction of ~14 additional positions for total of ~51 position cuts (37+14; ~6% vacancy level), resulting in significant reductions to public service levels.
- 2% budget cuts followed by ARPA funds first applied to Revenue Replacement to support government operations with gradual reversal of General Fund structural deficit. Resulting impact is maintenance of ~13%+ contingency reserves.
- ~\$24.0M of \$32.7M of ARPA remain for City Council designation towards non-budgeted projects / programs.



Scenario 3

FY 2021-22 General Fund

5% Addt'l Cuts & ARPA

	Adjusted FY 21-22	Projected FY 22-23	Projected FY 23-24	Projected FY 24-25	Projected FY 25-26
Beginning Fund Balance	\$14,482,261	\$14,482,261	\$14,868,965	\$16,837,477	\$20,111,922
Revenues	101,071,718	104,846,572	107,534,430	110,281,194	110,342,102
Expenditures w/ Budget Balancing-Vacancy Savings	(107,061,923)	(109,990,646)	(111,066,942)	(112,491,089)	(111,523,852)
Operating Surplus/(Deficit)	(5,990,205)	(\$5,144,074)	(\$3,532,513)	(\$2,209,894)	(\$1,181,750)
Total Net Transfers In and Out	(280,688)	(128,342)	(213,062)	(302,195)	(395,921)
Net Change in Fund Balance	(6,270,893)	(\$5,272,416)	(\$3,745,575)	(\$2,512,089)	(\$1,577,671)
<u>Budget Balancing Adjustments-Options</u>					
Expenditure Reductions - Add'l 5% Budget Cuts	5,543,096	5,659,120	5,714,086	5,786,535	5,735,011
ARPA Revenue Replacement for Budgeted Services	727,796	-	-	-	-
Adjusted Net Change in Fund Balance w/ ARPA-Scenario	-	386,704	1,968,511	3,274,446	4,157,340
Ending Fund Balance	\$14,482,261	\$14,868,965	\$16,837,477	\$20,111,922	\$24,269,262
10% Contingency Reserve (Minimum)	10,706,192	10,999,065	11,106,694	11,249,109	11,152,385
17% Contingency Reserve (Goal)	18,200,527	18,698,410	18,881,380	19,123,485	18,959,055
ARPA Funding Available for Designation	\$31,937,505	\$ -	\$ -	\$ -	\$ -
Over/(Under) 10% Contingency Reserve	3,776,069	3,869,900	5,730,783	8,862,813	13,116,877
Over/(Under) 17% Contingency Reserve	(3,718,266)	(3,829,445)	(2,043,903)	988,437	5,310,207



Scenario 3: Key Points - \$3.8M Vacancy Savings + 5% Additional Cuts & ARPA

- Reduction of ~35 additional positions for total of ~72 position cuts (37+35; ~9% vacancy level), resulting in severe reductions to public service levels.
- 5% budget cuts followed by ARPA funds minimally applied to Revenue Replacement with gradual reversal of General Fund structural deficit. Resulting impact is increase of contingency reserves from 13% to 17%+ over time.
- ~\$30.0M of \$32.7M of ARPA remain for City Council designation towards non-budgeted projects / programs.

The seal of the City of Fullerton, California, is a large, light gray circular emblem in the background. It features a central shield with a stylized figure holding a staff, a book, and a cross. The shield is surrounded by a wreath and the words "CITY OF FULLERTON" and "CALIFORNIA" are inscribed around the perimeter.

II. Contingency Reserve Levels



Scenario 4

FY 2021-22 General Fund with ARPA

17% Contingency Reserve Level

	Adjusted FY 21-22	Projected FY 22-23	Projected FY 23-24	Projected FY 24-25	Projected FY 25-26	Projected FY 26-27
Beginning Fund Balance	\$14,482,261	\$18,200,527	\$18,698,410	\$18,881,380	\$19,123,485	\$19,123,485
Revenues	101,071,718	104,846,572	107,534,430	110,281,194	110,342,102	112,722,283
Expenditures w/ Budget Balancing-Vacancy Savings	(107,061,923)	(109,990,646)	(111,066,942)	(112,491,089)	(111,523,852)	(113,162,260)
Operating Surplus/(Deficit)	(5,990,205)	(5,144,074)	(\$3,532,513)	(\$2,209,894)	(\$1,181,750)	(\$439,977)
Total Net Transfers In and Out	(280,688)	(128,342)	(213,062)	(302,195)	(395,921)	(243,607)
Net Change in Fund Balance	(6,270,893)	(\$5,272,416)	(\$3,745,575)	(\$2,512,089)	(\$1,577,671)	(\$683,584)
<u>Budget Balancing Adjustments-Options</u>						
ARPA Revenue Replacement to Achieve 17% Reserves	9,989,159	5,770,299	3,928,545	2,754,194	1,577,671	
Adjusted Net Change in Fund Balance w/ ARPA Scenario	-	-	-	-	-	(683,584)
Ending Fund Balance	\$18,200,527	\$18,698,410	\$18,881,380	\$19,123,485	\$19,123,485	\$18,439,901
10% Contingency Reserve (Minimum)	10,706,192	10,999,065	11,106,694	11,249,109	11,152,385	11,316,226
17% Contingency Reserve (Goal)	18,200,527	18,698,410	18,881,380	19,123,485	18,959,055	19,237,584
ARPA Funding Available for Designation	\$8,645,435	\$ -	\$ -	\$ -	\$ -	\$ -
Over/(Under) 10% Contingency Reserve	7,494,335	7,699,345	7,774,686	7,874,376	7,971,100	7,123,675
Over/(Under) 17% Contingency Reserve	-	-	-	-	164,430	(797,683)
<i>*Updated as of 8/26/21</i>						



Scenario 4: Key Points - \$3.8M Vacancy Savings & ARPA with resulting 17% Contingency Reserve Level

- Requires ~\$24.0M of ARPA funds for Revenue Replacement allowing for the achievement of ~17% contingency reserves.
- ~\$8.6M of \$32.7M of ARPA remain for City Council designation towards non-budgeted projects / programs.
- No additional 2% - 5% cuts are necessary for this scenario.



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 Addt'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 Addt'l Cuts)	\$19.4M	\$13.3M	~ 13%
Scenario 2: \$3.8M Vacancy Savings + Addt'l 2% & ARPA for Revenue Replacement	\$8.7M	\$24.0M	~ 13%+
Scenario 3: \$3.8M Vacancy Savings + Addt'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 Addt'l Cuts)	\$24.1M	\$8.6M	~ 17%

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



City Council Input on ARPA for Revenue Replacement and Contingency Reserve Level

- Provide input on confirming the use ARPA first for Revenue Replacement (Government Operations) allowing for acceptable contingency reserve levels; and
- Provide input on Contingency Reserve Level:
 - 10% minimum (per City Council Policy)
 - 17% goal (per City Council Policy)
 - Other

The background of the slide features a large, faint, circular seal of the University of California. The seal contains the text "UNIVERSITY OF CALIFORNIA" around the perimeter and a central emblem depicting a book, a ship, and a sun. The title "III. Budget Scenario Impacts" is centered over the seal.

III. Budget Scenario Impacts



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 2% 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 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

The background of the slide features a large, faint, circular seal of the University of Fullerton, California. The seal contains a central shield with various symbols, including a book and a building, surrounded by the text "UNIVERSITY OF FULLERTON" and "CALIFORNIA".

IV. Strategic Priorities



Identify City Council Priorities

- Public Safety
- Infrastructure maintenance (roads, water, sewer, IT, buildings)
- Workforce: employee attraction and retention
- Community & Economic Development
- Parks & Recreation
- Library
- Arts
- Other



Next Steps

City Council select meeting date to make following budget determinations:

- Budget Reduction Level: \$3.8M Vacancy Savings / \$3.8M + 2% Addt'l Cuts / \$3.8M + 5% Addt'l Cuts / Other
- Contingency Reserve Level: Minimum 10% / Goal 17% / Other
- Use of ARPA:
 - First use ARPA for Revenue Replacement for government operations resulting in acceptable contingency reserve levels
 - Specific selection of ARPA allocation to new projects / programs
- Determine level of City Manager discretion in implementation of budget reductions and application of ARPA for Revenue Replacement.