



Agenda Report

Fullerton City Council

MEETING DATE: SEPTEMBER 14, 2021

TO: CITY COUNCIL / SUCCESSOR AGENCY

FROM: STEVE DANLEY, ACTING CITY MANAGER

SUBJECT: POTENTIAL ADJUSTMENTS TO FISCAL YEAR 2021-22
GENERAL FUND BUDGET

SUMMARY

At the direction of City Council, conduct a second study session (Study Session No. 2) to discuss the impact of potential budget reduction scenarios, the use of American Rescue Plan Act (ARPA) monies and any potential changes to the FY 2021-22 budget.

RECOMMENDATION

Consider information presented during August 17, 2021 and September 14, 2021 Study Sessions and return at a future City Council meeting to consider potential changes to the FY 2021-22 budget.

BUDGET POLICY PRIORITY STATEMENT

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

- Fiscal and Organizational Stability
- Public Safety
- Infrastructure and City Assets.

FISCAL IMPACT

Study Session discussions and decisions made by City Council at a future meeting may result in revisions to the FY 2021-22 budget.

DISCUSSION

Staff presented potential adjustment scenarios to the Fiscal Year 2021-22 General Fund budget at the August 17, 2021 City Council Study Session (Study Session No. 1).

At the conclusion of Study Session No. 1, City Council directed staff to schedule a second study session to provide City Council time to review the study session materials. The public can find the Study Session No. 1 agenda report and presentation materials on the City's website under the August 17, 2021 agenda date.

City Council also requested an additional forecast with the adjusted baseline General Fund forecast with use of ARPA for Revenue Replacement to support government operations with maintenance of 17% contingency reserves. Staff included this additional forecast in the presentation slides (Attachment 1) as Forecast Scenario 4.

Study Session No. 2 will provide a recap of General Fund financial forecasts reviewed at the first study session and presentation of forecasted impacts to contingency reserve levels and budget scenario impacts. The study session will also provide an opportunity for City Council to discuss and provide input on the various budgeted items under discussion.

At Study Session No. 2, staff will seek City Council direction on next steps and select a City Council meeting date to make budget determinations with respect to any budget adjustments, a contingency reserve level and specific uses of ARPA funds.

Attachment:

- Attachment 1 – Presentation

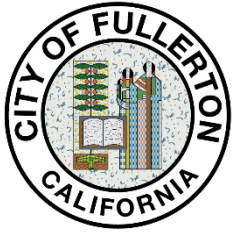


FY 2021-22 Budget Adjustments Study Session No. 2

City of Fullerton, CA
September 14, 2021



I. Recap of General Fund Financial Forecasts



FY 2021-22 Adjusted General Fund Forecast

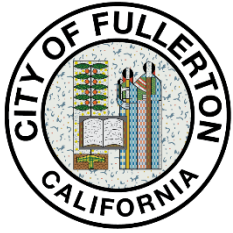
- Adjusted Beginning Fund Balance
- Increased Development User Fees

	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

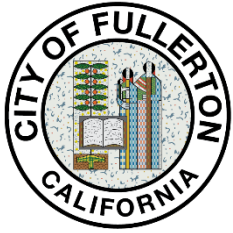
2% Addt'l Cuts & ARPA

	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

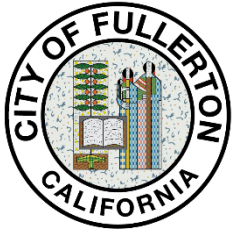


Scenario 3: Key Points - \$3.8M Vacancy Savings + 5% Additional Cuts & ARPA

- 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 book, a tree, and a figure, surrounded by the text "CITY OF FULLERTON" and "CALIFORNIA".

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

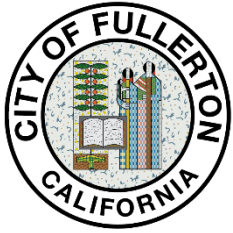
- Requires ~\$24.0M of ARPA funds for Revenue Replacement allowing for the achievement of ~17% contingency reserves.
- ~\$8.6M of \$32.7M of ARPA remain for City Council designation towards non-budgeted projects / programs.
- No additional 2% - 5% cuts are necessary for this scenario.



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, light gray watermark of the University of California seal. The seal is circular, with the words "UNIVERSITY OF CALIFORNIA" around the perimeter. The central shield contains a book, a miner, a miner's pickaxe, and a miner's shovel. The text "IV. Strategic Priorities" is overlaid on the seal in a bold, orange font.

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.