



agenda Report

Fullerton City Council

MEETING DATE: OCTOBER 5, 2021

TO: CITY COUNCIL / SUCCESSOR AGENCY

FROM: STEVE DANLEY, ACTING CITY MANAGER

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

SUMMARY

At the direction of City Council, present Fiscal Year 2021-22 General Fund budget adjustment action items and formalize direction to initially obligate American Rescue Plan Act (ARPA) to budgeted government operations.

RECOMMENDATION

1. 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. Other	

2. Affirm consensus rank order of Strategic Priorities (i.e. Public Safety, Infrastructure, Community and Economic Development, Workforce, Parks and Recreation, Library, Arts, Other).
3. Authorize City Manager to pursue specific budget adjustments pursuant to City Council direction and rank order of Strategic Priorities.
4. Direct City Manager 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 for the October 19, 2021 City Council meeting.

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 agendize and item for the October 5, 2021 City Council meeting to provide 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 for 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.

The City Manager seeks authorization based on City Council's budget adjustment selection to prepare specific budget action items (e.g., position deletions, non-position cuts) for approval at a future City Council meeting.

Budget Adjustment Scenarios

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

From 100521 Presentation – Slide XX and From Attachment 3: 091421 Presentation – Slide 14

	<h2>Summary of Scenarios with Corresponding Contingency Reserve Level Impacts</h2>		
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)	\$24.1M	\$8.6M	~ 17%
* ~\$700,000 for Revenue Replacement and ~\$2M for unforeseen COVID-19 Expenditures and ARPA administration.			

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, the 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

City Council may take formal action to direct the City Manager to pursue other budget adjustment options.

Budget Adjustment Impacts

Staff presented the impacts of an across-the-board application of these scenarios at Study Session No. 1 and included them as *Attachment 2: 081721 Budget Reduction Scenarios*.

The following presents a summary of fiscal and service level impacts for Scenarios 1 through 3.



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 ~33% contingency reserve level Provides ~\$3.3M 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 + Add'l 19% Cuts	<ul style="list-style-type: none"> Provides ~33%+ 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 + Add'l 5% Cuts	<ul style="list-style-type: none"> Provides substantial contingency reserve levels over time: 33%-37%+ 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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Staff requests that City Council select a budget reduction scenario and affirm the initial use of ARPA monies for Revenue Replacement.

Staff has made all 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 21, 2021
- Budget Adjustments and ARPA Designation: October 5, 2021.

Attachments:

- Attachment 1 - 100521 Presentation
- Attachment 2 - 081721 Study Session No. 1 Agenda Report and Attachments
- Attachment 3 - 091421 Study Session No. 2 Agenda Report and Attachments