



# **FY 2021-22 Budget Adjustments & Initial ARPA Designation**

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City of Fullerton, CA  
October 5, 2021



# Budget Adjustment Decisions

- City Council to take formal action to chose from the presented budget adjustment scenarios or provide another directive.
- City Council selection will modify the budget, initially use ARPA monies for Revenue Replacement for government operations, and determine a resulting level of contingency reserve.



# City Council Strategic Priorities by Rank Order Consensus

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



# 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.



# Budget Scenarios (with ARPA) Fiscal / Service Level Impacts

Scenario	Financial Impacts	Service Impacts
Scenario 1: \$3.8M Vacancy Savings	<ul style="list-style-type: none"><li>• Status quo per adopted budget</li><li>• Does not achieve structural balancing but provides five years to identify revenue source or additional efficiencies</li><li>• Results in ~13% contingency reserve level</li><li>• Provides ~\$13.3M of \$32.7M ARPA funds for new projects; remainder for Revenue Replacement</li></ul>	<ul style="list-style-type: none"><li>• Continuation of current reduced service levels with ~37 positions held vacant</li><li>• Minimizes bargaining group impacts</li></ul>
Scenario 2: \$3.8M + Addtl 2% Cuts	<ul style="list-style-type: none"><li>• Provides ~13%+ contingency reserve level</li><li>• Addresses structural deficit by FY 2025-26</li><li>• Provides use of ~\$24.0M of \$32.7M ARPA for new projects; remainder for Revenue Replacement</li><li>• Provides greater availability of funds for one-time pay increases</li></ul>	<ul style="list-style-type: none"><li>• ~51 position reductions results in significant negative impact on City service levels</li><li>• MOA/Union negotiations will require increased timeframe for implementation</li><li>• Significant public/business complaints with little ability to address issues</li><li>• Unintended/unknown multiplier consequences of shutting down parts of organization</li><li>• Precipitate potential staff exodus</li></ul>
Scenario 3: \$3.8M + Addtl 5% Cuts	<ul style="list-style-type: none"><li>• Provides substantial contingency reserve levels over time: 13%-17%+</li><li>• Address structural deficit by FY 2022-23</li><li>• Provides use of nearly all ARPA (~\$30.0M) for new projects</li><li>• Allows greater ability to provide one-time and/or possible base-building pay increases</li></ul>	<ul style="list-style-type: none"><li>• ~72 position reductions results in extreme/debilitating impact to all City departments; essentially whole divisions/services will be cut in several areas</li><li>• Intense MOA/union negotiations with significant delays in implementation</li><li>• Precipitate potential staff exodus</li><li>• Large unintended/unknown multiplier consequences of shutting down large swaths of City government; may not recover and reopen some services once gone</li><li>• Potential loss of businesses/residents due to cut impact</li></ul>

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. The words "CITY OF FULLERTON" are arched across the top, and "CALIFORNIA" is arched across the bottom.

# **General Fund Financial Forecasts**

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## Status Quo:

## 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	-	-	-	-	-
<b>Beginning Fund Balance</b>	<b>\$14,482,261</b>	<b>\$8,211,368</b>	<b>\$2,938,953</b>	<b>(\$806,622)</b>	<b>(\$3,318,711)</b>	<b>(\$4,896,381)</b>
<b>Revenues</b>	<b>101,071,718</b>	<b>104,846,572</b>	<b>107,534,430</b>	<b>110,281,194</b>	<b>110,342,102</b>	<b>112,722,283</b>
<b>Expenditures w/ Budget Balancing-Vacancy Savings</b>	<b>(107,061,923)</b>	<b>(109,990,646)</b>	<b>(111,066,942)</b>	<b>(112,491,089)</b>	<b>(111,523,852)</b>	<b>(113,162,260)</b>
<b>Operating Surplus/(Deficit)</b>	<b>(5,990,205)</b>	<b>(\$5,144,074)</b>	<b>(\$3,532,513)</b>	<b>(\$2,209,894)</b>	<b>(\$1,181,750)</b>	<b>(\$439,977)</b>
Total Net Transfers In and Out	(280,688)	(128,342)	(213,062)	(302,195)	(395,921)	(243,607)
<b>Net Change in Fund Balance</b>	<b>(6,270,893)</b>	<b>(\$5,272,416)</b>	<b>(\$3,745,575)</b>	<b>(\$2,512,089)</b>	<b>(\$1,577,671)</b>	<b>(\$683,584)</b>
<b>Ending Fund Balance</b>	<b>\$8,211,368</b>	<b>\$2,938,953</b>	<b>(\$806,622)</b>	<b>(\$3,318,711)</b>	<b>(\$4,896,381)</b>	<b>(\$5,579,965)</b>
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>						



## Scenario Status Quo: 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
<b>Beginning Fund Balance</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>
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)
<b>Operating Surplus/(Deficit)</b>	<b>(5,990,205)</b>	<b>(5,144,074)</b>	<b>(3,532,513)</b>	<b>(2,209,894)</b>	<b>(1,181,750)</b>	<b>(439,977)</b>
Total Net Transfers In and Out	(280,688)	(128,342)	(213,062)	(302,195)	(395,921)	(243,607)
<b>Net Change in Fund Balance</b>	<b>(6,270,893)</b>	<b>(\$5,272,416)</b>	<b>(\$3,745,575)</b>	<b>(\$2,512,089)</b>	<b>(\$1,577,671)</b>	<b>(\$683,584)</b>
<b><u>Budget Balancing Adjustments-Options</u></b>						
ARPA Revenue Replacement for Budgeted Services	6,270,893	5,272,416	3,745,575	2,512,089	1,577,671	-
<b>Adjusted Net Change in Fund Balance w/ ARPA Scenario</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(683,584)</b>
<b>Ending Fund Balance</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$13,798,677</b>
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
<b>ARPA Funding Available for Designation</b>	<b>\$13,286,659</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
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

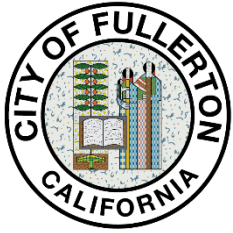
## 2% Addt'l Cuts & ARPA

	Adjusted FY 21-22	Projected FY 22-23	Projected FY 23-24	Projected FY 24-25	Projected FY 25-26
<b>Beginning Fund Balance</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>
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)
<b>Operating Surplus/(Deficit)</b>	<b>(5,990,205)</b>	<b>(\$5,144,074)</b>	<b>(\$3,532,513)</b>	<b>(\$2,209,894)</b>	<b>(\$1,181,750)</b>
Total Net Transfers In and Out	(280,688)	(128,342)	(213,062)	(302,195)	(395,921)
<b>Net Change in Fund Balance</b>	<b>(6,270,893)</b>	<b>(\$5,272,416)</b>	<b>(\$3,745,575)</b>	<b>(\$2,512,089)</b>	<b>(\$1,577,671)</b>
<b>Budget Balancing Adjustments-Options</b>					
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	-
<b>Adjusted Net Change in Fund Balance w/ ARPA Scenario</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>716,334</b>
<b>Ending Fund Balance</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$15,198,595</b>
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
<b>ARPA Funding Available for Designation</b>	<b>\$23,945,464</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
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

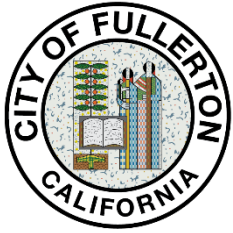
## 5% Addt'l Cuts & ARPA

	Adjusted FY 21-22	Projected FY 22-23	Projected FY 23-24	Projected FY 24-25	Projected FY 25-26
<b>Beginning Fund Balance</b>	<b>\$14,482,261</b>	<b>\$14,482,261</b>	<b>\$14,868,965</b>	<b>\$16,837,477</b>	<b>\$20,111,922</b>
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)
<b>Operating Surplus/(Deficit)</b>	<b>(5,990,205)</b>	<b>(\$5,144,074)</b>	<b>(\$3,532,513)</b>	<b>(\$2,209,894)</b>	<b>(\$1,181,750)</b>
Total Net Transfers In and Out	(280,688)	(128,342)	(213,062)	(302,195)	(395,921)
<b>Net Change in Fund Balance</b>	<b>(6,270,893)</b>	<b>(\$5,272,416)</b>	<b>(\$3,745,575)</b>	<b>(\$2,512,089)</b>	<b>(\$1,577,671)</b>
<b><u>Budget Balancing Adjustments-Options</u></b>					
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	-	-	-	-
<b>Adjusted Net Change in Fund Balance w/ ARPA-Scenario</b>	<b>-</b>	<b>386,704</b>	<b>1,968,511</b>	<b>3,274,446</b>	<b>4,157,340</b>
<b>Ending Fund Balance</b>	<b>\$14,482,261</b>	<b>\$14,868,965</b>	<b>\$16,837,477</b>	<b>\$20,111,922</b>	<b>\$24,269,262</b>
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
<b>ARPA Funding Available for Designation</b>	<b>\$31,937,505</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
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.



## 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
<b>Beginning Fund Balance</b>	<b>\$14,482,261</b>	<b>\$18,200,527</b>	<b>\$18,698,410</b>	<b>\$18,881,380</b>	<b>\$19,123,485</b>	<b>\$19,123,485</b>
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)
<b>Operating Surplus/(Deficit)</b>	<b>(5,990,205)</b>	<b>(5,144,074)</b>	<b>(\$3,532,513)</b>	<b>(\$2,209,894)</b>	<b>(\$1,181,750)</b>	<b>(\$439,977)</b>
Total Net Transfers In and Out	(280,688)	(128,342)	(213,062)	(302,195)	(395,921)	(243,607)
<b>Net Change in Fund Balance</b>	<b>(6,270,893)</b>	<b>(\$5,272,416)</b>	<b>(\$3,745,575)</b>	<b>(\$2,512,089)</b>	<b>(\$1,577,671)</b>	<b>(\$683,584)</b>
<b><u>Budget Balancing Adjustments-Options</u></b>						
ARPA Revenue Replacement to Achieve 17% Reserves	9,989,159	5,770,299	3,928,545	2,754,194	1,577,671	
<b>Adjusted Net Change in Fund Balance w/ ARPA Scenario</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(683,584)</b>
<b>Ending Fund Balance</b>	<b>\$18,200,527</b>	<b>\$18,698,410</b>	<b>\$18,881,380</b>	<b>\$19,123,485</b>	<b>\$19,123,485</b>	<b>\$18,439,901</b>
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
<b>ARPA Funding Available for Designation</b>	<b>\$8,645,435</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
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 ~\$24.1M 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.



# Recommendations

1. City Council take formal action to choose one of the following budget adjustment directives:
  - A. Scenario Status Quo: \$3.8M Reduction – No ARPA for Revenue Replacement
    - Contingency Reserve depleted by Fiscal Year 2022-23; Negative General Fund Balance by Fiscal Year 2023-24
  - B. Scenario 1: \$3.8M Reduction and Initial \$19.4M of ARPA for Revenue Replacement; ~13% Contingency Reserve; \$13.3M of remaining ARPA funds to non-budgeted programs/projects
  - C. Scenario 2: \$3.8M + Additional 2% Reduction and Initial \$8.7M of ARPA for Revenue Replacement; ~13%+ Contingency Reserve
  - D. Scenario 3: \$3.8M + Additional 5% Reduction and Initial \$2.7M ARPA for Revenue Replacement; ~17%+ Contingency Reserve; \$24M of remaining ARPA funds to non-budgeted programs/projects
  - E. Scenario 4: \$3.8M Reduction and Initial \$24.1M ARPA for Revenue Replacement; 17% Contingency Reserve; \$31.9M of remaining ARPA funds to non-budgeted programs/projects
  - F. F. Other



## Recommendations (continued)

2. Affirm consensus rank order of Strategic Priorities (i.e. Public Safety, Infrastructure, Community and Economic Development, Workforce, Parks & Recreation, Library, Arts, Other).
3. Authorize City Manager to pursue specific budget adjustments pursuant to City Council's formal direction and rank order of Strategic Priorities.
4. Direct City Manager to return on October 19, 2021 to receive City Council direction on the use of remaining ARPA monies not obligated for Revenue Replacement within allowable US Treasury categories.