



Agenda Report

Fullerton City Council

MEETING DATE: OCTOBER 19, 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 options for City Council selection 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
<p>F. Council Alternate Scenarios 5, 7, 9, 11, 13, 15, or 17</p> <p>5: \$0.0M Vacancy Savings; Addt'l 0.0%; \$32.7M ARPA 7: \$3.8M Vacancy Savings; Addt'l 1.0%; \$13.7M ARPA 9: \$3.8M Vacancy Savings; Addt'l 1.5%; \$11.0M ARPA 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</p>	<ul style="list-style-type: none"> Contingency Reserve Level of 10% minimum See Attachment 2 for remaining ARPA funds to non-budgeted projects / programs
<p>G. Council Alternate Scenarios 6, 8, 10, 12, 14, 16, or 18</p> <p>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</p>	<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	

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 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.

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


At its October 5, 2021 meeting, City Council did not reach consensus on the selection of a budget adjustment option. Staff has reagendized this item for consideration at the October 19, 2021 meeting.

If City Council achieves consensus, the Acting 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 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.

From 100521 Presentation – Slide 4

 <h3>Summary of Scenarios with Corresponding Contingency Reserve Level Impacts</h3>			
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 12% & 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.			
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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.

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.


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 + Add'l 12% 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 + Add'l 15% 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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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.

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
- Budget Adjustments and ARPA Designation: October 19, 2021

Attachments:

- Attachment 1 - 101921 Presentation
- Attachment 2 - Summary of Scenarios and Alternate Scenarios