



FY 2021-22 Budget Adjustments & Initial ARPA Designation

City of Fullerton, CA
October 19, 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 of 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
Scenario Status Quo: \$3.8M Vacancy Savings w/o Use of ARPA (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.



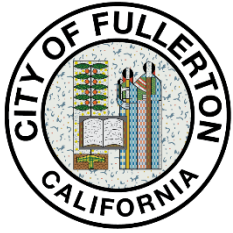
Budget Scenarios (with ARPA)

Fiscal / Service Level Impacts

Scenario	Financial Impacts	Service Impacts
Scenario 1: \$3.8M Vacancy Savings	<ul style="list-style-type: none"> 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 seal of the City of Fullerton, California, is a circular emblem. It features a central shield with a green and white checkered pattern, a red and white checkered pattern, and a blue and white checkered pattern. Above the shield is a green and white striped banner. The shield is flanked by two green and white striped banners. The entire seal is surrounded by a circular border containing the text "CITY OF FULLERTON" at the top and "CALIFORNIA" at the bottom.

General Fund Financial Forecasts



Scenario Status Quo:

FY 2021-22 Adjusted General Fund Forecast

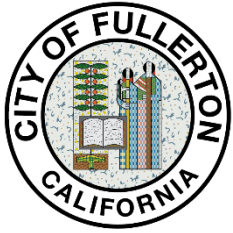
- Adjusted
Beginning
Fund Balance
- Increased
Development
User Fees

	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	-	-	-	-	-
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>						



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

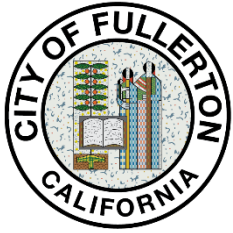
\$3.8M & ARPA

	Adjusted FY 21-22	Projected FY 22-23	Projected FY 23-24	Projected FY 24-25	Projected FY 25-26	Projected FY 26-27
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

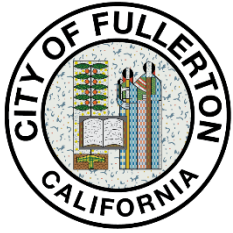
2% Addt'l Cuts & ARPA

	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

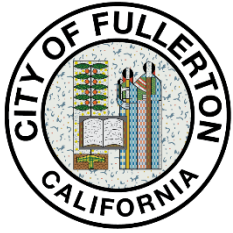
5% Addt'l Cuts & ARPA

	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.



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 ~\$24.1M 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.



Alternate Scenarios 5, 7, 9, 11, 13, 15, 17 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 6, 8, 10, 12, 14, 16, 18 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.



Recommendations

1. City Council choose one of the following budget adjustment directives:
 - A. Scenario Status Quo: \$3.8M Reduction – No ARPA for Revenue Replacement
 - Contingency Reserve depleted by FY 2022-23; Negative General Fund Balance by FY 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. Alternative Scenario 5, 7, 9, 11, 13, 15, or 17
 - G. Alternative Scenario 6, 8, 10, 12, 14, 16, or 18
 - H. 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 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.