



## ADMINISTRATIVE SERVICES DEPARTMENT

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### CITY COUNCIL STAFF REPORT

Meeting: May 17, 2022

#### Subject

Consider accepting the Third Quarter Financial Report for Fiscal Year 2021-22; consider adopting Resolution 22-XXX approving Budget Modification #2122-198 increasing appropriations by \$529,935 and revenues by \$9,448,487.

#### Recommended Action

1. Accept the City Manager's Third Quarter Financial Report for FY 2021-22.
2. Adopt Resolution 22-XXX approving Budget Modification #2122-198 increasing appropriations by \$529,935 and revenues by \$9,448,487.

#### Background

On June 15, 2021, the City Council adopted the Fiscal Year (FY) 2021-22 Budget, a \$148,845,235 spending plan funded by \$132,850,958 of revenues and \$15,994,277 of fund balance. On November 16, 2021, Council received the City Manager's First Quarter Financial Report, which revised the budget to account for encumbrances of \$16,868,361 and carryover appropriations of \$53,863,626 from FY 2021-22. The carryover appropriations included \$18.5 million for capital projects, \$19 million for Vallco Town Center (renamed The Rise), and \$5.9 million for Transportation projects. Encumbrances represent funds for obligations related to unfilled purchase orders or unfilled contracts rolled over from one year to the next until those obligations are fulfilled or terminated. Carryover appropriations are unencumbered funds for unfinished projects carried over to the following fiscal year to complete those projects.

In the first three quarters of FY 2021-22, Council approved \$19.0 million in additional appropriations, mostly related to the American Rescue Plan Act of 2021 (\$4.9 million), I-280 Trail (\$1.9 million), First Quarter Adjustments (\$1.6 million), and Mid-Year Adjustments (\$10.0 million).

With carryovers, encumbrances, and Council-approved adjustments, the amended budget is \$238,620,305. The FY 2021-22 budget adjustments are summarized in the following table:

### Third Quarter Financial Report Summary of Budget Adjustments by Fund

Fund	FY 2021-22			Adjustments	FY 2021-22
	Adopted Budget	Carryovers	Encumbrances	Approved in 1st-3rd Quarter	Amended Budget as of March 31, 2021
General	\$ 89,767,034	\$ 22,657,533	\$ 4,906,141	\$ 17,138,606	\$ 134,469,314
Special Revenue	18,597,024	11,749,252	2,414,116	1,122,681	33,883,073
Debt Service	2,676,000	-	-	-	2,676,000
Capital Projects	19,540,048	18,540,682	9,149,571	88,301	47,318,602
Enterprise	9,417,117	855,369	189,833	477,450	10,939,769
Internal Service	8,848,012	60,790	208,700	216,045	9,333,547
<b>Total All Funds</b>	<b>\$ 148,845,235</b>	<b>\$ 53,863,626</b>	<b>\$ 16,868,361</b>	<b>\$ 19,043,083</b>	<b>\$ 238,620,305</b>

#### Discussion

The Third Quarter Financial Report focuses on the City's budget as of March 31, 2022. It recommends adjustments to ensure the budget reflects the City's current revenue outlook and is responsive to changing spending priorities.

The chart below shows that \$529,935 in additional appropriations are requested, offset by \$9,448,487 in additional revenue. If approved, the City's new spending plan would total \$239,150,240 for all funds.

### Third Quarter Financial Report Summary by Fund

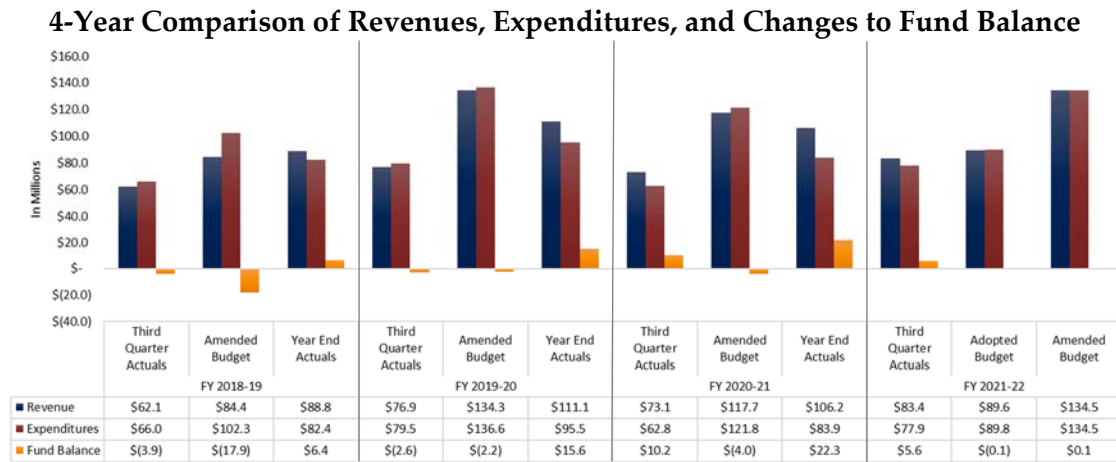
Fund	FY 2021-22	Requested	FY 2021-22
	Amended Budget as of March 31, 2021	3rd Quarter Adjustments	Year-End Projection
General	\$ 134,469,314	\$ 327,600	\$ 134,796,914
Special Revenue	33,883,073	-	33,883,073
Debt Service	2,676,000	-	2,676,000
Capital Projects	47,318,602	130,235	47,448,837
Enterprise	10,939,769	72,100	11,011,869
Internal Service	9,333,547	-	9,333,547
<b>Total All Funds</b>	<b>\$ 238,620,305</b>	<b>\$ 529,935</b>	<b>\$ 239,150,240</b>

Approval of these requests would increase the projected ending fund balance for all funds by \$8,918,552, as summarized in the table below:

### Third Quarter Requests by Department

Department	Expense	Revenue	Change in Fund Balance
Community Development	\$ 200,642	\$ 261,815	\$ 61,173
CIP	130,235	130,235	-
Parks and Recreation	72,100	-	(72,100)
Public Works	(3,277)	-	3,277
Non-Departmental	130,235	9,056,437	8,926,202
<b>Total All Departments</b>	<b>\$ 529,935</b>	<b>\$ 9,448,487</b>	<b>\$ 8,918,552</b>

## General Fund Update



The General Fund's historical revenue, expenditures, and fund balance demonstrate that amended expenditures have exceeded revenues, leading to the use of fund balance. However, it was not due to a structural deficit but due to the transfer out of excess fund balance from the General Fund to the Capital Reserve per the City's use of one-time funds policy. Due to the City's encumbrance and budget carryover process, fund balance increased as part of year-end actuals.

### Revenue

As of Third Quarter, General Fund revenue is \$83.4 million, an increase of \$10.4 million (or 14%) from last year due to a one-time transfer related to the American Rescue Plan Act. Additionally, transient occupancy tax revenue is \$1.0 million, or 81%, higher than last year as travel rebounds due to the relaxation of pandemic-based restrictions.

### Comparison of FY 2020-21 and FY 2021-22 General Fund Third Quarter Revenues

Revenue Category	3rd Quarter 2021		3rd Quarter 2022		Variance	% Change
05 - Sales tax	\$	33,009,456	\$	33,222,420	\$ 212,964	1%
10 - Property tax		17,078,696		17,987,045	908,349	5%
15 - Transient occupancy		1,257,976		2,276,564	1,018,587	81%
20 - Utility tax		2,053,658		2,135,032	81,374	4%
25 - Franchise fees		1,486,102		1,521,067	34,965	2%
30 - Other taxes		2,156,548		1,482,448	(674,100)	-31%
35 - Licenses and permits		3,099,012		3,096,601	(2,411)	0%
40 - Use of money and property		1,427,530		1,710,744	283,214	20%
45 - Intergovernmental revenue		1,139,709		3,594,821	2,455,112	215%
50 - Charges for services		8,207,298		9,786,625	1,579,328	19%
55 - Fines and forfeitures		83,408		193,836	110,428	132%
60 - Miscellaneous		1,167,244		1,491,835	324,591	28%
65 - Transfers in		507,831		4,862,387	4,354,556	857%
70 - Other financing sources		391,475		77,537	(313,938)	-80%
<b>Grand Total</b>	<b>\$</b>	<b>73,065,944</b>	<b>\$</b>	<b>83,438,962</b>	<b>\$ 10,373,018</b>	<b>14%</b>

*Sales Tax* received as of the third quarter was \$0.2 million (or 1%) higher than last year due to increases in Business and Industry, Restaurants and Hotels, General Consumer Goods, and Fuel and Service Stations, offset by a decrease in the county pool allocation.

HdL, the City's sales tax consultant, recently reported sales tax performance from October 2021 to December 2021. Business and Industry increased from last year. As the economy reopened, Restaurants and Hotels, General Consumer Goods, Fuel and Service Stations, and Autos and Transportation were up 68%, 22%, 78%, and 9%, respectively. The increases were offset by a decrease in the county pool allocation.

The City's gross sales tax receipts for October 2021 to December 2021 increased from last year. The holiday shopping season saw increased online and in-person shopping. Family apparel and specialty store sales boosted general consumer goods results. With capacity restrictions fading away, restaurant-hotel receipts jumped 68% as people enjoyed dining experiences outside the home. The return to the office also added to the surge in casual and fast-casual receipts. Similarly, service station revenues skyrocketed as high gas prices and increased travel propelled receipts up. Conversely, the City's share of the county pool allocation declined, driven by taxpayer reporting changes and a shift as other agencies in the county realized larger quarterly growth. Nonetheless, e-commerce and the countywide pool remain a reliable source of revenue.

As prior pandemic-based restrictions are relaxed, the City's major industry groups are returning to normalcy. As of March 31, 2022, the City's sales tax revenues were approximately 119% of the budget estimate. Staff recommends a \$9,056,437 increase in the City's sales tax estimate to align with year-end projections.

While sales tax was anticipated to decrease during the pandemic, it increased significantly due to positive impacts from online sales. The City continues to closely monitor the situation as it is believed to be a one-time increase due to the pandemic. In addition, the California Department of Tax and Fee Administration (CDTFA) is currently auditing the City's sales tax revenues. The impact of this audit is unknown, but it has the potential to have a significant effect on the City's sales tax revenues.

*Property Tax* revenue is \$0.9 million (or 5%) higher than last year. The largest category, Residential properties, increased by \$829.9 million (or 5%). Commercial properties increased \$572.8 million (or 7.6%). Unsecured assets in Cupertino decreased by \$699.7 million (or 28.9%). Overall, the FY 2021-22 property tax revenues are anticipated to increase by 3.7% from the previous fiscal year. The County Assessor's Office will apply a 2% inflator to the 2022-23 roll. The impact of telecommuting on property values is still uncertain. Despite the uncertainty, the City's property tax base remains strong, and HdL is currently projecting property taxes over the next five years, as presented below:

<b>FY 2022-23</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>
\$29,628,266	\$30,898,414	\$32,223,572	\$33,616,619	\$35,072,745

*Transient Occupancy Tax* continued to be affected by the pandemic. While the City anticipates moderate recovery as the economy reopens, much of the transient occupancy tax's recovery will be driven by whether business travel resumes. Staff estimates a recovery to 75% of pre-pandemic levels in FY 2023-24. As of the third quarter, the City recognized \$2.3 million in transient occupancy tax, a \$1.0 million (or 81%) increase from last year.

*Utility Tax* is up approximately \$81,000 (or 4%), mainly due to increases in utility tax revenue from PG&E.

*Other Taxes* decreased by approximately \$0.7 million (or 31%) primarily due to a decrease in construction tax, partially offset by an increase in property transfer tax.

*Franchise Fees* increased by \$35,000 (or 2%) primarily due to Recology franchise fees.

*Licenses and Permits* are relatively unchanged from the last fiscal year.

*Use of Money and Property* increased by \$0.3 million (or 20%) due to rental revenues from City properties and antenna sites.

*Intergovernmental Revenue* increased by \$2.5 million (or 215%) due to American Rescue Plan Act (ARPA) funding. The increase was partially offset by Coronavirus Relief Funds received last year.

*Charges for Services* increased by \$1.6 million (or 19%), driven mainly by increases in Cost Allocation Plan revenues and revenues from the library to reimburse the City for library operational maintenance costs.

*Fines and Forfeitures* decreased by \$0.1 million (or 132%) primarily due to increased parking fines as pandemic restrictions were relaxed.

*Miscellaneous* revenue increased by \$0.3 million (or 28%) due to receipt of restitution from former City employee Jennifer Chang as a result of her criminal conviction. Decreases in miscellaneous development revenues partially offset the increase due to the restitution.

*Transfers In* increased by \$4.4 million (or 857%) due to transfers to allocate American Rescue Plan Act funding to departments.

*Other Financing Sources* decreased by \$0.3 million (or 80%) due to a decrease in refundable deposit administrative fees received by the Community Development Department.

#### *Expenditures*

As of Third Quarter, General Fund expenditures are \$77.9 million, an increase of \$15.0 million (or 24%) compared to last year. Transfers increased due to transfers to allocate American Rescue Plan Act funding to departments and transfers to the Capital Reserve. The following table shows the differences between General Fund expenditures as of the third quarter in the current and prior fiscal years:

### Comparison of FY 2020-21 and FY 2021-22 General Fund Third Quarter Expenditures

Expenditure Category	3rd Quarter 2021	3rd Quarter 2022	Variance	% Change
05 - Employee compensation	\$ 14,025,160	\$ 14,648,204	\$ 623,045	4%
10 - Employee benefits	6,400,137	6,939,529	539,392	8%
15 - Materials	2,670,336	3,127,620	457,285	17%
20 - Contract services	15,384,032	15,723,904	339,872	2%
25 - Cost allocation	7,855,155	8,961,047	1,105,892	14%
30 - Capital outlays	171,322	32,700	(138,622)	-81%
31 - Special projects	988,806	1,842,843	854,037	86%
45 - Transfer out	15,148,689	26,099,371	10,950,682	72%
50 - Other financing uses	205,633	477,138	271,505	132%
<b>Grand Total</b>	<b>\$ 62,849,562</b>	<b>\$ 77,854,996</b>	<b>\$ 15,005,433</b>	<b>24%</b>

*Salary and Benefits* are increasing by approximately \$1.2 million (or 6%). Compensation increases are due primarily to cost-of-living adjustments (COLAs) approved by Council on July 16, 2019, the transfer of the City Attorney's Office in-house, and additional part-time staff for Outdoor Recreation. The most recent COLAs were effective July 2021. As the City's current labor agreements expire on June 30, 2022, the City is currently negotiating labor agreements. Transferring the City Attorney's Office in-house shifted the costs from Contract Services to Compensation and Benefits. Benefit increases were primarily due to increases in retirement, health, and workers' compensation costs. As part of the budget reduction strategies in FY 2020-21, savings through attrition of approximately \$0.8 million are anticipated, and current year-end projections are aligned.

*Materials* costs are up approximately \$0.5 million (or 17%). Materials costs are higher due to software, electricity, general supplies, and conference and training increases. Last year, Materials costs were lower due to budget reduction strategies. Many delayed projects due to budget reduction strategies resumed in FY 2021-22. Conference and training expenses increased as travel restrictions ended. Electricity costs increased due to higher rates.

*Contract Services* have increased by approximately \$0.3 million (or 2%). Contract Services costs are higher due to increased law enforcement costs per the Santa Clara County Sheriff's Office contract, increased insurance costs for Workers' Compensation and general liability insurance, and crossing guard services for Safe Routes 2 School. Crossing guard services, which were suspended due to COVID-19, resumed in August 2021 as schools reopened. Transferring the City Attorney's Office in-house shifted the costs from Contract Services to Compensation and Benefits.

*Cost Allocation* increases are approximately \$1.1 million (or 14%) primarily due to higher Innovation & Technology and Human Resources costs.

*Capital Outlay* costs are decreasing by approximately \$0.1 million (or 81%). Last year, the City made a \$0.1 million deposit for the 10455 Torre Avenue property acquisition.

*Special Projects* increases are approximately \$0.9 million (or 86%) due to increased one-time expenditures. Spending on Special Projects varies from year to year. Last year, Special Projects costs were lower due to budget reduction strategies.

*Transfers Out* are increasing by approximately \$11.0 million (or 72%) due to transfers to allocate American Rescue Plan Act funding to departments and a mid-year transfer to the Capital Reserve.

*Other Financing Uses* have increased by \$0.3 million (or 132%) due to refundable deposit on-call contracts and special contracts for the Community Development Department.

### **All Other Funds Update and Year-End Projections**

#### *Revenue*

As of Third Quarter, revenue in all other funds is \$55.7 million, \$1.2 million (or 2%) lower than last year. Other Taxes increased due to increased park dedication fees, and Transfers increased due to American Rescue Plan Act funding. Last year, Other Financing Sources were higher due to refinancing the City's debt.

Revenue Category	3rd Quarter 2021	3rd Quarter 2022	Variance	% Change
30 - Other taxes	\$ 316,965	\$ 9,166,712	\$ 8,849,747	2792%
40 - Use of money and property	811,589	760,208	(51,382)	-6%
45 - Intergovernmental revenue	2,926,799	3,782,723	855,924	29%
50 - Charges for services	7,453,156	8,568,039	1,114,883	15%
55 - Fines and forfeitures	3,923	36,154	32,231	822%
60 - Miscellaneous	2,042,549	86,803	(1,955,747)	-96%
65 - Transfers in	17,138,138	33,040,032	15,901,894	93%
70 - Other financing sources	26,193,470	277,364	(25,916,106)	-99%
<b>Grand Total</b>	<b>\$ 56,886,590</b>	<b>\$ 55,718,034</b>	<b>\$ (1,168,556)</b>	<b>-2%</b>

*Other Taxes* increased by approximately \$8.8 million (or 2,792%) due to increased park dedication fees related to the Westport development.

*Use of Money and Property* decreased by approximately \$51,000 (or 6%) due to reduced interest earnings from the City's investment portfolio compared to the previous fiscal year.

*Intergovernmental Revenue* increased by approximately \$0.9 million (or 29%) due to Valley Transportation Authority (VTA) Measure B funding for the I-280/Junipero Serra Trail project.



*Charges for services* increased by approximately \$1.1 million (or 15%) due to increased Youth and Teen Recreation, Outdoor Recreation, and Sports Center revenues. The Parks and Recreation Department was able to resume programs as pandemic restrictions eased.

*Fines and forfeitures* increased by approximately \$32,000 (or 822%) due to increased citations. Last year, citations were lower due to shelter-in-place restrictions.

*Miscellaneous* revenue decreased by approximately \$2.0 million (or 96%). Last year, revenue was higher due to an Apple grant to fund Capital Improvement Program projects for bikeways, trails, and sidewalks.

*Transfers In* increased by approximately \$15.9 million (or 93%) due to a mid-year transfer to the Capital Reserve and transfers to fund Capital Improvement Program projects.

*Other financing sources* decreased by approximately \$25.9 million (or 99%). Last year, one-time revenue increases were due to the refinancing of the City's debt.

#### *Expenditures*

As of Third Quarter, expenditures in all other funds are \$36.5 million, a decrease of \$18.4 million (or 33%) from last year. Last year, debt service expenditures were higher due to refinancing the City's debt. This year, transfers increased to fund Capital Improvement Projects. Contract services also increased due to a new Recology agreement and the resumption of in-person programs at the Sports Center.

Expenditure Category	3rd Quarter 2021	3rd Quarter 2022	Variance	% Change
05 - Employee compensation	\$ 3,452,686	\$ 3,402,273	\$ (50,413)	-1%
10 - Employee benefits	2,478,311	2,546,863	68,552	3%
15 - Materials	1,736,435	1,576,534	(159,901)	-9%
20 - Contract services	2,568,375	3,607,126	1,038,751	40%
25 - Cost allocation	1,642,905	1,815,652	172,747	11%
30 - Capital outlays	9,106,301	8,682,369	(423,932)	-5%
31 - Special projects	2,904,042	2,401,778	(502,264)	-17%
40 - Debt services	27,645,398	398,000	(27,247,398)	-99%
45 - Transfer out	2,497,280	11,803,048	9,305,768	373%
<b>Grand Total</b>	<b>\$ 54,890,745</b>	<b>\$ 36,520,794</b>	<b>\$ (18,369,951)</b>	<b>-33%</b>

*Salary and Benefits* are increasing by approximately \$18,000 (or 0%). Compensation decreased because Public Works staff stopped charging staff time to Capital Improvement Program project budgets. Staff time is charged to the Public Works department instead. Savings through attrition of approximately \$800,000 are anticipated, and current year-end projections are aligned.

*Materials* have decreased by approximately \$0.2 million (or 9%). Expenditures were higher last year due to COVID-19 grant expenditures in the Community Development Block Grant (CDBG) Fund. Telephone and data services increased due to the addition of Wi-Fi at three public parks.

*Contract Services* have increased by approximately \$1.0 million (or 40%). The increase is due to a new Recology franchise agreement in 2021 and increased in-person Sports Center programs due to the reopening of the Sports Center, which was closed during shelter-in-place. Also, Sports Center facility costs increased due to updates, including new windscreen panels for the tennis courts and new umbrellas for the outdoor tables.

*Cost Allocation* increased by approximately \$0.2 million (or 11%) due primarily to higher Innovation & Technology and Human Resources costs.

*Capital Outlays* decreased by approximately \$0.4 million (or 5%) due to lower Capital Improvement Program spending. CIP spending varies from year to year, depending on the approved projects and the progress of the projects.

*Special Projects* decreased by approximately \$0.5 million (or 17%) due to decreases in annual asphalt project spending.

*Debt Service* decreased by \$27.2 million (or 99%). Last year, one-time expenditure increases were due to refinancing the City's debt.

*Transfers Out* increased by \$9.3 million (or 373%) due to increased transfers from the Capital Reserve to fund Capital Improvement Program projects.

### **Budget Adjustment Requests**

As of the third quarter, departments are requesting budget adjustments to ensure they end the year within budget appropriations. The recommended adjustments are summarized in the table below:

Fund	Department	Expense	Revenue	Change in Fund Balance	Proposal
<b>GENERAL FUND</b>					
100 General Fund	CDD	120,642	138,738	18,096	On-Call Special Projects
100 General Fund	CDD	80,000	123,077	43,077	Canyon Crossing - Plan Review Consultant
100 General Fund	PW	(25,000)	-	25,000	Transfer for City Hall Improvements
100 General Fund	PW	7,390	-	(7,390)	Ballfield Fencing
100 General Fund	PW	20,000	-	(20,000)	Veterans' Memorial Maintenance
100 General Fund	PW	14,000	-	(14,000)	Emergency Elevator Repair
100 General Fund	PW	5,957	-	(5,957)	Lobby Monitor Electrical
100 General Fund	PW	58,471	-	(58,471)	Janitorial & Security Services
100 General Fund	PW	21,140	-	(21,140)	Wilson Park Tree Maintenance
100 General Fund	Non-Dept.	-	9,056,437	9,056,437	Sales Tax Estimate Increase
100 General Fund	Non-Dept.	25,000	-	(25,000)	Transfer for City Hall Improvements
<b>TOTAL GENERAL FUND</b>		<b>327,600</b>	<b>9,318,252</b>	<b>8,990,652</b>	
<b>SPECIAL REVENUE FUNDS</b>					
270 Transportation Fund	PW	(105,235)	-	105,235	Transfer for Regnart Road Improvements
270 Transportation Fund	Non-Dept.	105,235	-	(105,235)	Transfer for Regnart Road Improvements
<b>TOTAL SPECIAL REVENUE FUNDS</b>		<b>-</b>	<b>-</b>	<b>-</b>	
<b>CAPITAL PROJECTS FUNDS</b>					
420 Capital Improvement Fund	CIP	105,235	105,235	-	Transfer for Regnart Road Improvements
420 Capital Improvement Fund	CIP	25,000	25,000	-	Transfer for City Hall Improvements
<b>TOTAL CAPITAL PROJECTS FUNDS</b>		<b>130,235</b>	<b>130,235</b>	<b>-</b>	
<b>ENTERPRISE FUNDS</b>					
560 Blackberry Farm Golf Course	P&R	72,100	-	(72,100)	BBF Golf Course Netting Replacement
<b>TOTAL ENTERPRISE FUNDS</b>		<b>72,100</b>	<b>-</b>	<b>(72,100)</b>	
<b>TOTAL ALL FUNDS</b>		<b>\$529,935</b>	<b>\$ 9,448,487</b>	<b>\$ 8,918,552</b>	

### *On-Call Special Projects*

Staff requests to increase the on-call special projects budget. The request is funded by offsetting and administrative revenue. The funds will be used to obtain approval for the following projects: 20860 McClellan, 20865 McClellan, 22436 Regnart, 11611-11631 Upland, Target at Mainstreet, 21750 Rainbow, 10046 Bianchi, and 20638 Cleo.

### *Canyon Crossing - Plan Review Consultant*

The City expects to receive a building permit application for a new mixed-use development called Canyon Crossing, located at 10625 S. Foothill Blvd. The funds will be used to have a plan check consulting firm review the building permit application. The request is funded by offsetting and **administrative revenue**. The scope of work is a mixed-used project of eighteen (18) units consisting of five (5) single-family homes, eight (8) townhomes, and five (5) apartments over a 4,536 sq. ft. commercial building.

### *Transfer for City Hall Improvements*

Staff requests to transfer \$25,000 from the City Hall Alternatives project in Development Services (100-82-804 750-072) to the City Hall Annex project (420-99-248 700-702). The transfer is requested because the "Alternative to City Hall" project has been supplanted by the "10455 Torre Avenue Improvements" project.

#### *Ballfield Fencing*

The funds will be used to hire a consultant to initiate and study the fencing requirements at the Memorial Park softball field.

#### *Veteran's Memorial*

The funds will be used to have a contractor replace and install any future broken wall tiles at the Veteran's Memorial. The Veteran's Memorial was built with outside funding and contractors who donated labor and materials. During the last year, many tiles became detached from the wall due to improper installation. During the presentation of the project, the City committed to the maintenance of the project in perpetuity. The funding will be used to furnish and install tiles that may break in the future.

#### *Emergency Elevator Repair*

City Hall elevators failed a load test. This load test is State-mandated, and various repairs are required for the elevators to pass this test. Funding these repairs will allow the testing to resume and eventually pass the State's requirements for use. If the elevators are not repaired, the City could face fines for operating a non-ADA-compliant City Hall.

#### *Lobby Monitor Electrical*

As City Hall reopened, Information Technology requested that two monitors be mounted and powered to provide instructions to visitors. Currently, those monitors are powered using extension cords. By funding this proposal, the monitors will be fed by a unique circuit for an aesthetically pleasing appearance.

#### *Janitorial & Security Services*

The City's janitorial services contract was re-negotiated in December 2021, and rates increased by 12%. This adjustment will cover the increase from January 2022 to June 2022 for programs that do not have sufficient funds to cover the increase this fiscal year.

#### *Wilson Park Tree Maintenance*

Staff requests funds to remove several dead trees. 14 redwood and pine trees were removed from Wilson Park due to disease and decline from drought conditions. Several of these trees were near neighboring houses. Most of the trees were over 40 years old and were just showing signs of a bark beetle infestation. Other trees suffered from drought conditions and did not have dedicated irrigation.

#### *Sales Tax Estimate Increase*

Strong performance in the business-to-business industry and a rebound in Restaurants and Hotels, General Consumer Goods, and Fuel and Service Stations have continued increasing sales tax revenues. As of the third quarter, the City's sales tax was approximately 119% of the annual budget. Staff recommends increasing the City's sales tax estimate of \$9,056,437 to better align with year-end projections.

#### *Transfer for Regnart Road Improvements*

Staff requests to transfer \$105,235 in the Streets Division for Street Paving Maintenance (270-85-821 900-990) to the Regnart Road Improvements project (420-99-068 900-905) to address extensive street and paving repairs associated with the improvement project.

#### *BBF Golf Course Netting Replacement*

Staff requests funding for new netting at holes 8 and 9, and replacement netting between the parking lot and hole 7. The City originally looked at performing this work under two separate contracts. By combining the work under one contract, the City will realize a savings of \$12,000 on the total contract price.

#### **Staffing**

As of March 31, 2022, the Amended Budget has a total of 211 FTEs (including City Council). There are no proposed changes to staffing as part of the Third Quarter Report.

#### **Fund Balance**

The City's General Fund ended FY 2020-21 with \$96.9 million in total fund balance. As of the First Quarter Report, the City updated its FY 2021-22 year-end projections to \$111.9 million in total fund balance, increasing \$28.8 million due to higher revenues and lower expenditures in FY 2020-21. As of the Mid-Year Financial Report, the City updated its FY 2021-22 year-end projections to \$101.8 million in total fund balance due to a one-time transfer of \$10 million to the Capital Reserve Fund. The City also transferred funds from unassigned to other classifications within the General Fund: \$2 million to the Section 115 Pension Trust (restricted), \$5 million to the Economic Uncertainty Reserve (committed), and \$10 million to a new Capital Projects Reserve (committed).

The year-end total fund balance as of Third Quarter FY 2021-22 is projected to be \$110.6 million, an increase of \$8.8 million (or 9%). The increase is mainly due to higher sales tax revenue estimates.

#### **General Fund Classification of Fund Balance**

	Actual	Actual	1st Quarter Year	Mid-Year End	3rd Quarter Year
CLASSIFICATION	2019-20	2020-21	End Projection	Projection	End Projection
	2021-22	2021-22	2021-22	2021-22	2021-22
Nonspendable	0.45	0.44	3.44	3.44	3.44
Restricted	14.32	19.92	21.92	22.20	22.20
Committed	19.13	19.13	19.13	34.13	34.13
Assigned	3.18	4.91	4.91	4.91	4.77
Unassigned	37.43	52.45	62.47	37.15	46.07
<b>TOTAL FUND BALANCE</b>	<b>74.51</b>	<b>96.85</b>	<b>111.87</b>	<b>101.84</b>	<b>110.61</b>

Per the City's one Fund Balance Policy, unassigned fund balance over \$500,000 is to be used in the following order to replenish committed fund balances with any remaining balances to be transferred to the Capital Reserve:

1. Economic Uncertainty
2. PERS
3. Sustainability Reserve
4. Capital Projects
5. Unassigned

#### **City Manager Discretionary Fund**

As part of the FY 2021-22 Adopted Budget, City Council recommended and approved the reduction of the City Manager Discretionary Fund to an annual amount of \$75,000. The quarterly budget reports will detail the City Manager's use of the discretionary fund and may include recommendations to replenish depending on the extent and nature of use. As of March 31, 2022, \$2,400 was used to assist with funding a Tripepi Smith contract. The City Manager Discretionary Fund was not used in the third quarter.

The City anticipates using the City Manager Discretionary Fund for the purchase of feminine sanitary product dispensers. The project is not yet complete, but staff will provide an update once the City Manager Discretionary Fund is used.

#### **Conclusion**

The Third Quarter Financial Report shows the City is well-positioned to move forward. City staff recommends adjustments of \$529,935 in new appropriations funded by \$9,448,487 in new revenues. If approved, the City's fund balance across all funds will increase by \$8,918,552.

#### **Sustainability Impact**

No sustainability impact.

Prepared by: Thomas Leung, Acting Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Jim Throop, City Manager

#### **Attachments:**

A – Draft Resolution

B – FY 2021-22 Third Quarter Financial Report

C – FY 2021-22 Third Quarter Budget Adjustment Journal

D – Amended Budget Detail as of March 31, 2022

E – Budget Transfers Detail as of March 31, 2022