



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255
TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109
CUPERTINO.ORG

CITY COUNCIL STAFF REPORT

Meeting: November 20, 2018

Subject

Approve the First Quarter Financial Report for Fiscal Year 2018-19

Recommended Action

1. Accept the City Manager's First Quarter Financial Report for Fiscal Year 2018-19
2. Approve the First Quarter adjustments for Fiscal Year 2018-19 as described in the First Quarter Financial Report
3. Adopt a draft resolution approving First Quarter budget adjustments

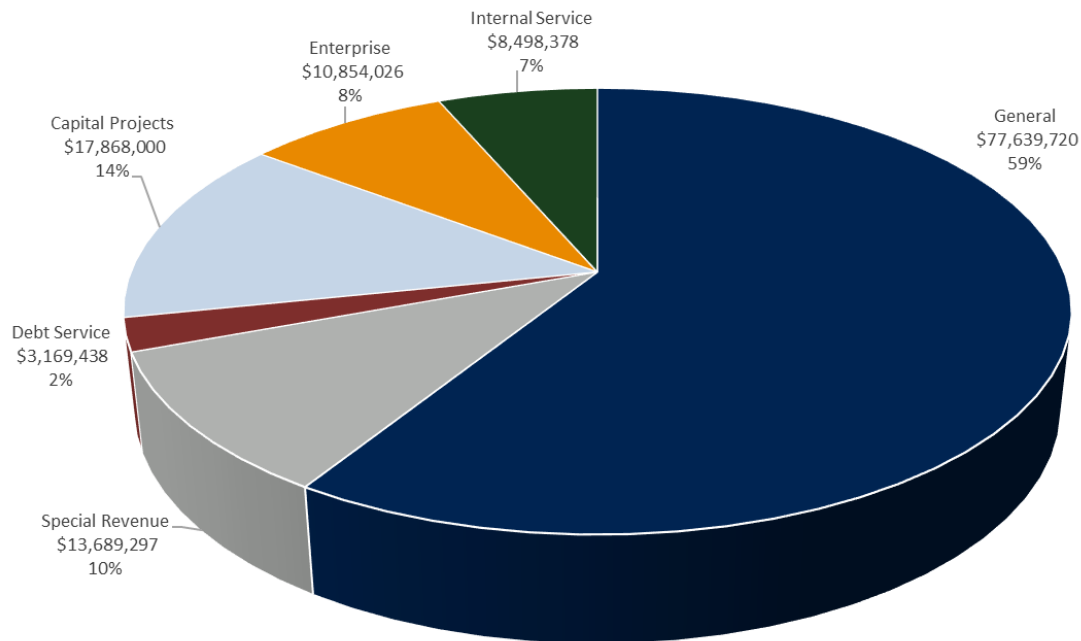
Fiscal Impact

On June 5, 2018, as part of the Final Budget Hearing and Adoption, the City Council approved the following changes to the FY 2018-19 Proposed Budget:

BUDGET ACTIONS	AMOUNT
Proposed Budget	131,401,229
Final Budget Hearing & Adoption	
General Fund Appropriation for Conceptual Study of 85 Transit Guideway	150,000
General Fund Appropriation for transfer out to fund the BMR Linkage Fees Update	175,000
General Fund Appropriation for Senior Mobility RYDE Program	22,000
General Fund Appropriation for Sheriff Costs for Tournament of Bands	3,500
General Fund Defunding of Risk Manager Position	(186,770)
General Fund Reduced Funding for Community Funding Programs	(21,100)
Housing Special Revenue Fund Appropriation for BMR Linkage Fees Update	175,000
Final Budget Hearing & Adoption	
FY 2018-19 Adopted Budget	\$131,718,859

The FY 2018-19 Adopted Budget was adopted at \$131,718,859, is balanced with the use of \$116,043,293 in revenue, and \$15,675,566 in fund balance. The availability of fund balance is \$71.6M. This is primarily due to the use of savings in the Capital Reserve to fund Capital Improvement Projects and the CalPERS reserve. Additionally, savings set aside for the Lawrence Mitty property acquisition are planned to be used in this fiscal year.

Adopted Budget by Fund, \$131,718,859



As part of the FY 2017-18 year-end close, additional funds were carried forward through encumbrances of \$11,061,145, and carryforward appropriations from fiscal year 2017-18 of \$37,177,851. Encumbrances represent valid obligations related to unfilled purchase orders or unfilled contracts and carryovers are unencumbered balance of budget appropriations both continue to be available for expenditure in the year(s) subsequent to approval. Lastly, Council approved budget amendments between July 1 and September 30, 2018 totaling \$900,378 as described in the table below:

Fund	Budget Amendment Description	Budget Amendment Amount
100	Don Burnett Bicycle-Pedestrian Bridge Inspection and Maintenance	\$219,945
	Increase Janitorial Services (\$400/month at Cupertino Library)	\$4,800
260	CDBG Allocation	\$295,633
420	Regnart Creek Trail Project to prepare design document and conduct environmental review	\$380,000
Total City Council Approved Amendments July-September 2018		\$900,378

The Amended Budget at the end of the first quarter is \$180,858,233 and is funded with \$120,285,115 in revenue and \$60,573,118 in fund balance. Budget amendments are summarized in the chart below:

Appropriation Changes since the FY 2018-19 Adopted Budget

Fund	FY 18-19 Adopted	Carryovers	Encumbrances	Adjustments Approved in 1st Quarter	FY 18-19 Amended Budget as of September 30, 2018
General	\$ 77,639,720	\$ 9,486,150	\$ 5,168,152	\$ 224,745	\$ 92,518,767
Special Revenue	13,689,297	15,827,938	4,459,499	295,633	34,272,367
Debt Service	3,169,438	-	-	-	3,169,438
Capital Projects	17,868,000	11,202,852	1,025,302	380,000	30,476,154
Enterprise	10,854,026	160,707	135,974	-	11,150,707
Internal Service	8,498,378	500,204	272,218	-	9,270,800
Total All Funds	\$ 131,718,859	\$ 37,177,851	\$ 11,061,145	\$ 900,378	\$ 180,858,233

For detailed descriptions of budget amendments, please refer to Attachment C.

2017-18 Fiscal Year End

The City of Cupertino is expected to end FY 2017-18 with total expenditures of \$150.7M - \$19.5M lower than budgeted. This decrease in expenditures is due to various savings achieved over several expense categories as summarized below:

FY 2017-18 Year End Actuals versus Amended Budget by Expense Category

Expenditure Category	Amended Budget	Actual Expenditures	(Savings)/ Deficit
Salary and Benefits	\$ 32,518,693	\$ 30,987,806	\$ (1,530,887)
Materials	7,605,734	6,982,196	(623,538)
Contracts	28,863,956	24,495,838	(4,368,118)
Cost Allocation	9,856,846	9,856,846	-
Capital Outlays and Special Projects	44,603,300	29,061,180	(15,542,120)
Contingencies	1,625,701	911	(1,624,790)
Debt Service, Transfers Out and Other Financing Uses	45,092,298	49,331,483	4,239,185
Total	\$ 170,166,528	\$ 150,716,260	\$ (19,450,268)

Salary and Benefits

Year-end expenditures were \$1.5M lower than budget estimates due to full time vacancy savings and part-time salary savings.

Materials

Year-end expenditures were \$0.6M lower than budget estimates due to:

Material Account	Savings
600.613 - General Supplies	(221,424)
600.601 - General Office Supplies	(62,636)
600.629 - Conference and Meeting	(42,242)
600.641 - Electrical Service	(40,969)
600.606 - Software	(40,589)
600.618 - Utilities and Phone	(34,642)
600.602 - Printing and Duplication	(32,889)
600.643 - Water Services	(31,780)
600.612 - Fuel	(31,178)
600.605 - Meeting Expenses	(30,408)
600.646 - Program Admission & Parking Fees	(29,434)
600.616 - Haz Material Mgmt	(24,417)
Total	(\$622,608)

Contracts

Year-end expenditures were \$4.4M lower than budget estimates due to savings in Recreation contracts of \$828,000, City Attorney \$551,000, Innovation and Technology \$440,000, Public Works \$1.3M primarily due to savings in the resource recovery contract, Administrative Service insurance programs \$385,000 and Community Development at \$316,000 primarily related to BMR projects that did not materialize.

Cost Allocation

This expense category came in at budget.

Capital Outlays and Special Projects

Year-end expenditures were \$15.5M lower than budget estimates due to the closeout or defunding of several CIP projects and savings in special projects including the following:

30 - Capital outlays

060 Storm Drain Improv-Byrne & SCB	(1,500,000.00)
885 Golf Irrigation Upgrades	(962,418.00)
015 Tennis Court Resurfacing Parks	(474,088.83)
055 Outfall Rpr/Slope Stblz-Regnart	(400,000.00)
983 Monta Vista Storm Drainage	(322,828.00)
982 Bubb Rd Elm Ct Sd Improv	(178,255.00)
005 Memorial Park MP and Parking	(150,000.00)
028 Traffic Signal Foothill-I280 SB	(100,000.00)

31 - Special projects

750.002 - Housing Projects	(7,840,000.00)
900.940 - Oaks	(441,000.00)
750.035 - Monte Vista Specific Plan	(175,000.00)

900.943 - Climate Action Plan	(119,000.00)
750.018 - Climate Action Plan	(81,907.16)
900.945 - Fixed Asset Acquisition (Vehicle and IT fixed asset capitalization)	(1,678,848.46)
TOTAL	(14,423,345.45)

Contingencies

Year-end expenditures were \$1.6M lower than budget estimates due to these funds only being used when an unexpected expense occurs requiring the use of these funds.

Debt Service, Transfers Out and Other Financing Sources

Year-end expenditures were \$4.2M higher than budget estimates due to defunded CIP projects funded outside of the Capital Reserve transferring funding back to the reserve.

FY 2017-18 Year End Actuals versus Amended Budget by Revenue Category

Revenue Category	Amended Budget	Actual Amount	(Surplus)/ Shortage
05 - Sales tax	\$ 23,790,000	\$ 26,164,531	\$ (2,374,531)
10 - Property tax	22,357,000	22,433,806	(76,806)
15 - Transient occupancy	6,708,000	6,810,718	(102,718)
20 - Utility tax	3,200,000	3,146,398	53,602
25 - Franchise fees	3,040,000	3,563,820	(523,820)
30 - Other taxes	4,200,000	1,943,651	2,256,349
35 - Licenses and permits	2,145,000	2,757,929	(612,929)
40 - Use of money and property	1,880,990	1,642,899	238,091
45 - Intergovernmental revenue	2,479,590	3,337,078	(857,488)
50 - Charges for services	26,993,682	22,764,889	4,228,793
55 - Fines and forfeitures	606,000	602,934	3,066
60 - Miscellaneous	3,439,889	3,705,494	(265,605)
65 - Transfers in	40,093,130	44,655,951	(4,562,821)
70 - Other financing sources	9,803,888	5,996,341	3,807,547
Grand Total	\$ 150,737,169	\$ 149,526,438	\$ 1,210,731

Total revenue of \$149.5M is expected. This is \$1.2M lower than estimated, primarily due to the following:

Sales Tax

At fiscal year-end Sales Tax revenue materialized at \$26.2M, \$2.4M higher than the amended budget due to, but not limited to the following:

- \$1.6M one-time “clean-up” payment received in September 2017 (subsequent to the City’s sixty (60) day accrual period).
- Increase at the pump, mostly due to global crude oil and the implementation of SB-1 increased service station receipts; and
- Overall increases in local point of sale revenue and increased capital and online purchases of items shipped into the region boosted allocations from the countwise use tax pool.

Charges for Services

At fiscal year-end Charges for Services revenue materialized at \$22.8M, \$4.2M lower than the amended budget due to reduced fee revenue from Planning of approximately \$1.6M and \$1.2M in reduced fee revenue in the Recreation and Community Services enterprise budgets.

Transfers In

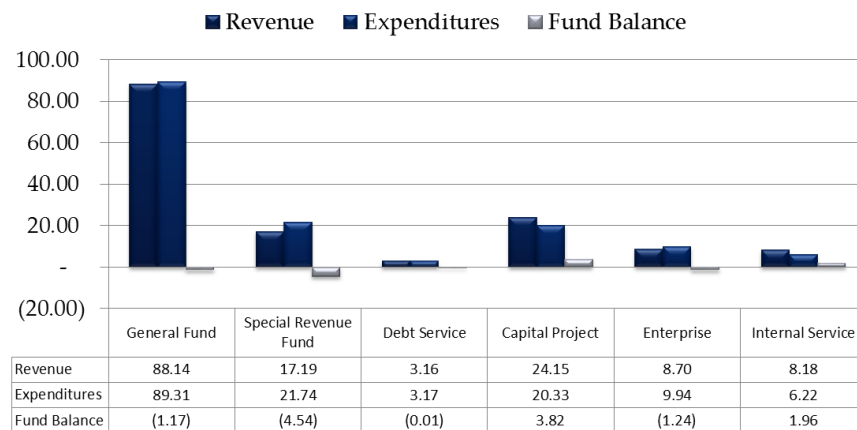
At fiscal year-end Transfer In revenue materialized at \$44.7M, \$4.6M higher than the amended budget due to the defunding of several Capital Improvement Projects at year-end and the transfer in of funds allocated for those projects to the Capital Reserve fund.

Other Financing Sources

At fiscal year-end Other Financing Sources revenue materialized at \$4.5M, \$4.7M lower than the amended budget due to \$4.8M in pass-thru revenue for refundable deposits that did not materialize. Expenditures associated with the special project expense type also came in under budget due to the reduction in this pass thru expense. The decrease in revenue was offset by an increase due to the sale of a property. The City received \$931,000 in fixed asset proceeds due to the sale of a home associated with the Housing Assistance Program.

The table below compares by fund, total budgeted and actual revenue and expenditures, and the resulting changes to the fund balance effective as of FY 2017-18 year-end close.

FY 2017-18 Year End Estimates (Revenue, Expenditures and Fund Balance in millions)



Discussion

The primary focus of the First Quarter Financial Report is to provide an update on the current status of the City budget; the report also reviews current revenue and expenditure patterns to ensure that budgets are on track to end the year in a positive fiscal position, and reviews any significant variances in expenditures from the prior fiscal year.

General Fund Update

Revenue

As of first quarter, overall revenue is tracking at \$143,000 or 1% higher than the same time last year due to changes in the City's top three revenue categories Transient Occupancy Tax, Sales and Property Taxes.

As of the end of September, TOT has come in \$541,896, or 54%, higher than last year. Increases in Transient Occupancy Tax (TOT) revenues are a result of the Residence Inn by Marriott opening at Main Street in early 2018, which was not open during first quarter last fiscal year. The City also signed a voluntary collection agreement with Airbnb to collect TOT, which began in August and has resulted in additional TOT collection of \$37,000 in the first quarter that was not included as part of the final budget. In early 2018, the City switched from a manual TOT collection process to an automated process through the City's revenue consultant firm, HdL, which contributed to more consistent collection from hotels. This new process also delays monthly TOT payments by one month to accommodate the third-party collection. The final budget had also anticipated the opening of the Hyatt House Hotel in September of 2018, this opening has now been delayed to February 2018. This may have an impact on TOT revenue of \$350,000, staff will continue to monitor and report back as part of the mid-year financial report.

Sales tax revenue received in first quarter was \$306,214, or 5%, less than last year due to reduced sales tax localization of approximately \$200,000. Sales tax localization was included as part of the development agreement with Apple Campus 2. Apple would require in its contracts with its general contractors performing work at the project site that would result in sales tax

from the purchase of materials, fixtures or equipment for the project would be allocated to the City, to the extent allowable by law. Software changes at the California Department of Tax and Fee Administration (CDTFA) resulted in June, July and August remittance to be short by about \$132,000 (combined). These decreases were offset by overall increased receipts for sales tax of approximately \$26,000. Lastly, sales tax revenue projection may need to be revised due to the Supreme Court decision in *South Dakota v. Wayfair, Inc.* in June that requires out-of-state online retailers to collect sales taxes on sales to in-state residents. The impacts of this decision are still to be determined as the actual implementation of the ruling is unknown.

As of first quarter, property tax revenue has come in higher than the same time last year by \$9,965, or 27%, due to a 5.5% increase in residential property values. Staff will continue to monitor all revenue categories, and as part of the Mid-Year proposal make any necessary revenue projection adjustments.

The following table shows the differences between General Fund revenues collected as of the first quarter in the current fiscal year and the prior fiscal year: Comparison of FY 2017-18 General Fund First Quarter Revenue to FY 2018-19

Revenue Category	First Quarter 2018	First Quarter 2019	Variance	% Change
05 - Sales tax	6,666,889	6,360,674	(306,214)	-5%
10 - Property tax	36,740	46,705	9,965	27%
15 - Transient occupancy	1,003,046	1,544,942	541,896	54%
20 - Utility tax	422,586	515,368	92,781	22%
25 - Franchise fees	205,058	201,652	(3,406)	-2%
30 - Other taxes	299,865	296,975	(2,890)	-1%
35 - Licenses and permits	719,647	894,703	175,056	24%
40 - Use of money and property	404,678	459,966	55,288	14%
45 - Intergovernmental revenue	26,563	33,873	7,310	28%
50 - Charges for services	2,476,766	2,578,719	101,953	4%
55 - Fines and forfeitures	72,214	68,362	(3,852)	-5%
60 - Miscellaneous	151,170	203,109	51,938	34%
65 - Transfers in	500,001	10,000	(490,001)	-98%
70 - Other financing sources	506,776	420,756	(86,019)	-17%
Grand Total	13,491,999	13,635,804	143,805	1%

Expenditures

As of first quarter, overall expenditures are tracking at \$17.6M or 57% higher than the same time last year due to increases in salary and benefits, Contracts, Cost Allocation, Special Projects and Transfers Out.

Salary and Benefits increases are approximately \$732,000 or 24% due primarily to an increased number of pay periods this year versus last. In FY18, 6 pay periods had been processed and 7 pay periods have been processed in the current year. The City only processes 26 biweekly pay periods in a fiscal year.

Contracts have increases of approximately \$334,000, or 7%, due primarily to increased costs for the City's contract with the Santa Clara County Sheriff of \$189,000 and increased general liability insurance costs of \$113,000.

Cost Allocation increases are approximately \$316,000, or 16%, due primarily to increases in Information Technology charges from additional one-time project expenses in this year over last year.

Special Projects increases are approximately \$501,000, or 83%, due primarily to costs associated with the Vallco specific plan and various other special projects that differ in scope from year to year. Costs associated with the Vallco Specific Plan have pass-thru revenues that completely offset the cost of the project in addition to revenue associated with a 15% administrative fee.

Transfers Out increases are approximately \$8.2M, or 257%, higher and are the cause of the bulk of the increase in costs over first quarter last fiscal year. This is due to a change in methodology for recording operating transfers. The City elected to record them at the beginning of the fiscal year rather than on a monthly basis. This change was made to improve accuracy in balancing transfers in and out once a year as opposed to a quarterly basis.

The following table shows the differences between General Fund revenues collected as of the first quarter in the current fiscal year and the prior fiscal year: Comparison of FY 2017-18 General Fund First Quarter Expenditures to FY 2018-19

Expenditure Category	First Quarter 2018	First Quarter 2019	Variance	% Change
05 - Employee compensation	3,932,849	4,505,318	572,469	15%
10 - Employee benefits	1,800,537	1,960,331	159,795	9%
15 - Materials	1,054,183	1,025,836	(28,347)	-3%
20 - Contract services	4,882,303	5,216,591	334,288	7%
25 - Cost allocation	2,025,460	2,342,056	316,596	16%
30 - Capital outlays	68,235	73,736	5,501	8%
31 - Special projects	603,938	1,105,755	501,817	83%
35 - Contingencies	0	0	0	0%
45 - Transfer out	3,182,343	11,358,912	8,176,569	257%
50 - Other financing uses	75,267	57,891	(17,377)	-23%
Grand Total	17,625,116	27,646,427	10,021,311	57%

As of the first quarter a few departments are requesting budget adjustments to operational needs. The recommended adjustments are summarized in the table below:

Fund	Department	Recommended Adjustments			Description
		Expenditure	Revenue	Fund Balance Used	
GENERAL FUND					
100	City Manager's Office	67,661	-	67,661	Position Reclassification; Converting PT Front Desk Staff to FT Senior Office Assistant; PT Community Coordinator for Disaster Preparedness
100	Administrative Services	123,473	-	123,473	Position Reclassification and HR Manager Double Fill
100	Law Enforcement	2,972	-	2,972	Animal Services Contract Increases
100	Public Works	289,247	-	289,247	Facility/Grounds/Bridge Maintenance and Repair; Blesch Property Improvements; Seivert Property Improvements
100	Recreation & Community Services	(20,000)	-	(20,000)	Defunding Neighborhood Events Projector and Screen
TOTAL GENERAL FUND		459,853	-	459,853	
SPECIAL REVENUE FUND					
270	Public Works	28,778	-	28,778	Roadway Striping and Legends; Position Reclassification
TOTAL SPECIAL REVENUE FUND		28,778	-	28,778	
CAPITAL IMPROVEMENT FUND					
420	CIP	(1,800,000)	(1,800,000)	-	Defunding Bike Improvement appropriation that was replaced by a carryover
429	CIP Reserve	(1,925,000)	-	(1,925,000)	Defunding CIP Reserve transfers for Bike Improvement project and Aquatic Habitat project
TOTAL CAPITAL IMPROVEMENT FUND		(3,725,000)	(1,800,000)	(1,925,000)	
ENTERPRISE FUND					
580	Recreation & Community Services	27,864	-	27,864	Sexual Abuse and Molestation Insurance Fees
TOTAL ENTERPRISE FUND		27,864	-	27,864	

Fund	Department	Recommended Adjustments			Description
		Expenditure	Revenue	Fund Balance Used	
INTERNAL SERVICE FUND					
610	Innovation & Technology	4,800	-	4,800	Position Promotion
TOTAL INTERNAL SERVICE FUND		4,800	-	4,800	
TOTAL ALL FUNDS		(3,203,705)	(1,800,000)	(1,403,705)	

Adjustments for FY 2017-18 Reclassifications/Promotions Occurring After the Budget Process

Between March and June last fiscal year, there were three reclassifications and one promotion that took place after the proposed budget for FY 2018-19 had been established. These included:

Action	Previous Position	New Position	Department	Costs
Promotion	GIS Technician	Business System Analyst	Innovation & Technology	\$4,800
Reclassification	Maintenance Worker II	Public Works Inspector	Public Works	\$16,535
Reclassification	Executive Assistant to City Manager	Management Analyst	City Manager	\$9,353
Reclassification	Human Resources Analyst II	HR Manager	Administrative Services	\$29,550
Total				\$60,238

While these were existing positions, they were budgeted based on their classification prior to March and not at the higher compensation level. To account for this difference, \$60,238 is being proposed in increases to the salary and benefit budgets for these positions.

Converting Two Part-Time Customer Service Attendants to One Full-Time Senior Office Assistant

Currently, the City Hall reception desk is staffed with part-time employees. When the public comes to City Hall, the front desk receptionist is the first point of contact to the City. This is a critical position as it is considered the face of the City. However, there is often high turnover in this position given that it is part-time making it difficult to train and ensure excellent customer service. Staff proposes to convert two part-time positions into a full-time position. This position will take on a larger role than that of just meet and greet, they will be taking on office tasks, will be trained on City operations to ensure they can answer public inquiries, direct the public to the correct staff contact, and provide additional support to Public Affairs. At the final budget \$40,969 was budgeted for part-time front desk staff. As of first quarter, the costs incurred for the part-time front desk staff totaled \$10,475. Assuming a full-time Senior Office Assistant would come on board in February 2019, total estimated part-time costs would be \$23,900 resulting in part-time budget savings of \$17,070. Estimated salary and benefit costs for the Senior Office Assistant for five months of FY 2018-19 (Feb-June) are \$42,225, and \$107,758 in

ongoing annual costs. Part-time salary saving will offset the costs in the current fiscal year resulting in net increased costs of \$25,156.

Converting Limited-Term Office Assistant to Permanent Senior Office Assistant

The Office Assistant position in the City Manager's Office is currently limited-term and scheduled to end in October 2020. This position provides ongoing administrative support to the Council, City Clerk, and City Manager. The need is ongoing and additional duties such as records management and supporting commissions assigned to the City Manager's Office support this position be permanent and staffed at a higher classification. The increased costs associated with funding this position at a higher level are \$2,225 for FY 2018-19. Annual ongoing cost associated with this full-time position if it were to be made permanent is estimated to be \$107,758.

Part-Time Community Coordinator for Disaster Preparedness

The City Manager's Office is requesting \$37,828 to fund the part-time Community Coordinator position for the Disaster Preparedness program. This is an existing part-time position that was not included in the Adopted Budget as the request was received after the budget had been developed. The FY 2018-19 Adopted Budget references that this would be brought as a First Quarter Budget Adjustment. It is worth noting that while this request came from the Recreation and Community Services Department, this position will be moved to the City Manager's Office and the funds for the position, if approved, will be appropriated there during the reorganization described further in the section titled, "Functional Reorganization."

Human Resources Manager Double Fill

The Administrative Services Department is requesting to double fill the Human Resources (HR) Manager position for one year. The double fill will allow the department to build a training and development program that will assist citywide with training and succession planning. In addition, by double filling the position this will allow for historical knowledge transfer from the existing HR Manager. The second HR Manager will focus primarily on labor and employee relations. The cost to double fill this critical position for half of the fiscal year, assuming 3 months to recruit and hire would be approximately \$108,150. This increase cost would be offset by eliminating the part-time HR Manager who has been primarily focused on labor and employee relations as well as working on updating the City's HR policies and procedures, a savings of approximately \$19,000. Total cost of double filling the position in FY 2018-19 is \$89,246.

Transfer in of .50 Management Analyst from CMO to Administrative Services

The Administrative Services Department is requesting to transfer in the remaining 50% of a Management Analyst position currently shared with the City Manager's Office to assist in a full time capacity with the operating and capital budget functions. This will increase full time staffing in Administrative Service from 14.5 to 15 positions. No new budget appropriations are requested as this position is already fully budgeted.

Funding Transfers

The proposed First Quarter Budget Adjustments include defunding \$1.8M from the Capital Improvement Fund that was appropriated for the Stevens Creek Boulevard Class IV Bikeway Installation Phase I project and \$125,000 that was appropriated for the Environmental Education Center Aquatic Habitat project. The bikeway project funding for FY 2018-19 was covered by a carryover from the prior year and the aquatic habitat project will be funded with Park Dedication fees.

Defunding Projector/Screen for Neighborhood Events Pilot

As part of the FY 2018-19 Adopted Budget, \$20,000 was appropriated for the purchase of a projector and projector screen for the Neighborhood Events pilot. However, the projector and screen were purchased in FY 2017-18 and therefore the funds are proposed to be returned to General Fund fund balance.

City of San Jose Animal Services Contract

The costs of the City's contract with the City of San Jose's Animal Services include adjustments based on the increase in total compensation for Animal Control Officers. In prior years this increase has typically been 3% year to year and was budgeted assuming 3%. However, the contract isn't finalized until after the fiscal year begins and this year the actual adjustment was 5%. To account for this additional cost, the City Manager's Office is requesting a budget adjustment of \$2,972 in the Law Enforcement budget.

Public Works Facilities Repair

The Public Works Department is requesting a total of \$122,847 for repairs and improvements at the following facilities:

- Creekside Park – During a planned roofing project, dry rot was found that required immediate removal and repair, incurring a cost of \$38,550.
- Blesch Property – \$2,500 for building security.
- McClellan Ranch Park – During a routine project, asbestos was found in the duct work that required immediate removal, incurring a cost of \$22,697.
- Seivert Property – Improvements for safety and the protection of the building (exterior painting and hand rails) will require \$37,000.
- Traffic Operations Center – During a planned roofing project, dry rot was found that required immediate removal and repair, incurring a cost of \$22,100.

Public Works Grounds Maintenance and Repair

The Public Works Department is requesting \$32,900 for a fence replacement and concrete work at Blackberry Farm Park this is necessary due to damage caused by a fallen tree.

Roadway Striping and Legends

The Public Works Department is requesting \$12,243 for roadway striping and legends in order to complete paving projects that began in the prior year. This funding was approved in FY 2017-18; however, it was not carried over due to oversight.

Don Burnett Bridge Fencing and Repair

Due to safety concerns identified in a recent survey, repairs are necessary for the Don Burnett Bridge. The Public Works Department is requesting \$30,000 to fence off the area to prevent public access and \$100,000 for the repairs identified in the survey.

Sexual Misconduct and Molestation Insurance (SAMS)

The Recreation and Community Services Department relies heavily on individual contractors to teach classes and provide services for events. Due to the increased costs of sexual misconduct and molestation insurance, it was becoming prohibitively expensive for individual contractors to procure it and the City risked losing their services. The City's risk management consultant, Bickmore, recommended that the City purchase the insurance to cover contractors for the Recreation and Community Services Department as well as some events held by the Public Works Department. Coverage levels are \$1M per occurrence, \$2M aggregate, with a liability limit of \$5M and retention of \$35,000. The annual cost for this insurance is \$27,864.

Functional Reorganization

Executive staff recently reviewed City functions and determined that reorganization was necessary to ensure optimal service delivery. Significant changes include economic development, emergency management, and neighborhood watch functions transitioning to the City Manager's Office from Recreation and Community Services. Code enforcement will also be moving from the Recreation and Community Services Department to the Community Development Department, the functional reorganization will re-focus on critical services such as a centralized purchasing, budget, CIP, real estate and smart cities among other changes. There are no changes in staffing costs or other operation expenditures. Aligning existing budgeted resources with these changes will occur during the second quarter and will be reflected in the Mid-Year report to Council.

Staffing

As part of the FY 2018-19 Adopted Budget, Council approved 196.75 FTEs. The City Manager's Office is requesting one full-time Senior Office Assistant to replace part-time staff at the City Hall reception desk. The City Manager's Office is also requesting for one Limited-Term Office Assistant position to be converted to a permanent Senior Office Assistant.

Fund Balance

The FY 2017-18 Amended Budget as of the third quarter anticipated the General Fund would end FY 2017-18 with \$52.42M in total fund balance, of which \$21.62M would be unassigned fund balance. Updated projections as of the first quarter anticipate the City will end FY 2018-19 with \$48.96M in General Fund fund balance - approximately \$3.75M higher than the Adopted Budget due to increased expenditure savings for 2017-18 Fiscal Year End as described previously.

General Fund Classification of Fund Balance

CLASSIFICATION	Actuals	Year End	Adopted	1st Quarter
	2016-17	Projection	Budget	Year End
	2016-17	2017-18	2018-19	2018-19
Non Spendable	0.88	0.46	0.47	0.47
Restricted	1.02	1.25	0.84	1.25
Committed	19.00	23.92	27.08	27.08
Assigned	4.64	5.17	7.93	7.93
Unassigned	28.06	21.62	8.89	12.23
TOTAL FUND BALANCE	53.59	52.42	45.21	48.96

To date, the City's outside auditors have not completed their review of the City's financials. Revenue, expenditure, and fund balance totals listed in this report are preliminary and subject to change after a full review by the City's auditors. City Staff does not anticipate many, if any, changes from the auditors.

Per the City's One Time Use and 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 placed in the Capital Reserve:

1. Economic Uncertainty
2. PERS
3. Sustainability Reserve
4. Unassigned

As of first quarter all of the funding priority areas are fully funded and staff anticipates transferring a large portion of the \$12.23M to the Capital Reserve at mid-year less any mid-year adjustments.

Conclusion

The First Quarter Financial Report shows the City is well-positioned to move forward. City staff recommends adjustments of \$541,295 in new appropriations funded by respective fund balance. This will be partially offset by \$20,000 in defunded General Fund appropriations which will increase fund balance. City staff also recommends defunding \$1,925,000 in transfers and related appropriations that were replaced by carryovers and Park Dedication funds, resulting in an increase of \$1,925,000 in fund balance. In total, if the recommendations are approved, appropriations would decrease by \$3,203,705, transfer in revenues would decrease by \$1,800,000, and estimated fund balance would increase by \$1,403,705.

Prepared by: Zach Korach, Finance Manager and Thomas Leung, Senior Management Analyst

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Amy Chan, Interim City Manager

Attachments:

A – Draft Resolution

B – First Quarter Financial Report for Fiscal Year 2018-19

C – Detailed Description of Year End and Adjustments made through 9/30/18