



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: May 19, 2020

Subject

Approve the Third Quarter Financial Report and recommended budget adjustments for Fiscal Year 2019-20

Recommended Action

1. Accept the City Manager's Third Quarter Financial Report for FY 2019-20
2. Approve Budget Modification 1920-XXX for Third Quarter adjustments as described in the Third Quarter Financial Report
3. Adopt a resolution 20-XXX approving Third Quarter budget adjustments

Background

On June 18, 2019, the City Council adopted the Fiscal Year (FY) 2019-20 Budget, a \$150,532,151 spending plan for the City of Cupertino. On November 19, 2019, Council received an update on the City's spending plan as part of the City Manager's First Quarter Financial Report, which revised the budget to account for encumbrances of \$10,718,669 and carryover appropriations of \$35,250,910 from FY 2018-19. Encumbrances represent funds for valid obligations related to unfilled purchase orders or unfilled contracts that are rolled over from one year to the next until those obligations are fulfilled or terminated. Carryover appropriations are unencumbered funds for unfinished projects that are carried over for use in the following fiscal year in order to complete those projects.

In the first three quarters of FY 2019-20, Council approved \$55,304,706 in additional appropriations mostly related to a \$22.1 million increase for Vallco, \$20 million increase for a transfer out to the Capital Reserve, \$2.5 million for Regnart Creek Trail, \$1.7 million for salary and benefit increases due to labor negotiations, \$1.3 million for Orange & Byrne Ave Sidewalk project, and \$3.7 million for the Library Expansion Project.

This resulted in an amended budget of \$251,806,436. These FY 2019-20 budget adjustments are summarized in the following table:

Third Quarter Financial Report Summary of Budget Adjustments by Fund

Fund	FY 19-20 Adopted	Carryovers	Encumbrances	Adjustments Approved in 1st-3rd Quarters	FY 19-20 Amended Budget as March 31, 2020
General	\$80,104,468	\$8,478,803	\$1,962,541	\$46,005,762	\$136,551,574
Special Revenue	9,837,377	15,746,048	4,075,806	\$1,589,528	\$31,248,759
Debt Service	3,172,838	-	-	-	\$3,172,838
Capital Projects	37,944,918	9,906,136	4,179,420	\$7,506,598	\$59,537,072
Enterprise	11,524,189	804,884	30,265	\$94,073	\$12,453,411
Internal Service	7,948,361	315,039	470,637	\$108,745	\$8,842,782
Total All Funds	\$150,532,151	\$35,250,910	\$10,718,669	\$55,304,706	\$251,806,436

Discussion

The Third Quarter Financial Report focuses on the status of the City's budget as of March 31, 2020 and recommends adjustments to ensure the budget reflects the City's current revenue outlook and is responsive to changing spending priorities. As a result of COVID-19's impact on the local, national, and global economies, the City can be sure of (1) sharp revenue drops; (2) an impending recessionary period, estimated at two-years; and, (3) unprecedented levels of uncertainty as the COVID-19 situation continues to evolve. The City is moving forward with the assurance that the City's current position is built on a strong fiscal foundation and with healthy reserves and tempered historical growth, the City is well positioned for FY 2020-21.

As shown in the chart below, the only budget adjustment requested is a \$10 million transfer from the Capital Reserve to the General Fund. Prior to COVID-19 and as part of the Mid-Year Financial Report, Council approved a \$20 million transfer of excess fund balance from the General Fund to the Capital Reserve. Given the impacts of COVID-19 and the extreme uncertainty of future periods, staff are recommending that \$10 million be transferred back to the General Fund to ensure any potential shortfalls in COVID-19 impact estimates can be sufficiently absorbed and funded. If approved, the City's new spending plan would total \$261,806,436 across all funds.

Third Quarter Financial Report Summary by Fund

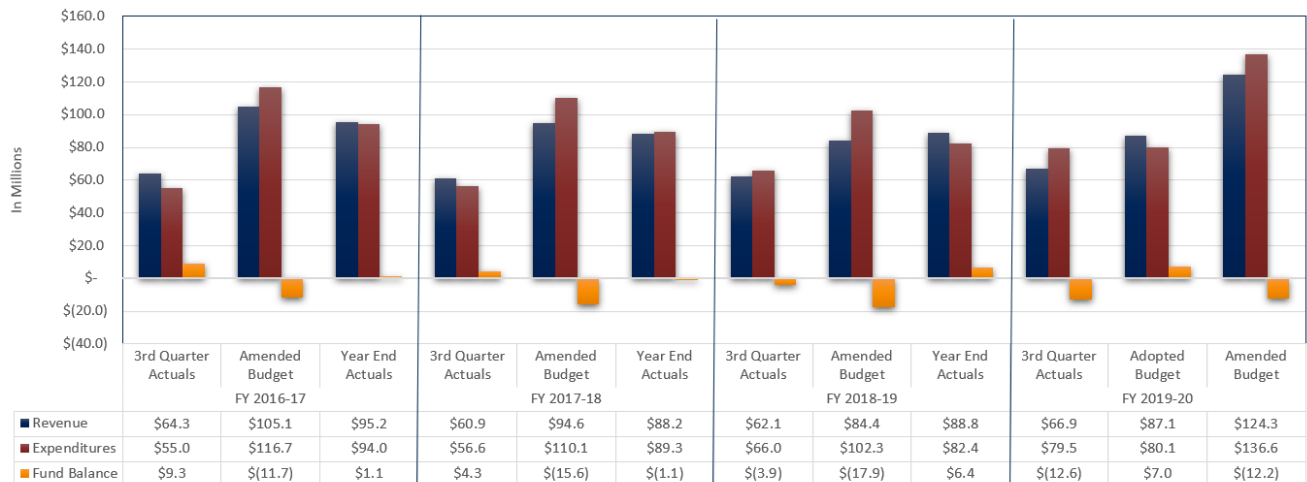
Fund	Amended Budget as of March 31, 2020	Requested 3 rd Quarter Adjustments	Year End Projections
General	\$136,551,574	\$0	\$136,551,574
Special Revenue	\$31,248,759	\$0	\$31,248,759
Debt Service	\$3,172,838	\$0	\$3,172,838
Capital Projects	\$59,537,072	\$10,000,000	\$69,537,072
Enterprise	\$12,453,411	\$0	\$12,453,411
Internal Service	\$8,842,782	\$0	\$8,842,782
Total All Funds	\$251,806,436	\$10,000,000	\$261,806,436

There would be no impact to unassigned fund balance across all funds as summarized in the table below:

Fund	Department	Expense	Revenue	Fund Balance	Proposal
GENERAL FUND					
100 General Fund	Non-Departmental	\$ -	\$ 10,000,000	\$ 10,000,000	Transfer from Capital Reserve (COVID-19 mitigation)
TOTAL GENERAL FUND		\$ -	\$ 10,000,000	\$ 10,000,000	
CAPITAL PROJECT FUNDS					
429 Capital Reserve	Non-Departmental	\$ 10,000,000	\$ -	\$ (10,000,000)	Transfer to General Fund (COVID-19 mitigation)
TOTAL CAPITAL PROJECT FUNDS		\$ 10,000,000	\$ -	\$ (10,000,000)	
TOTAL ALL FUNDS		\$ 10,000,000	\$ 10,000,000	\$ -	

General Fund Update

4-Year Comparison of Revenues, Expenditures and Changes to Fund Balance



In reviewing the City's General Fund historical revenue, expenditures and fund balance, you will note that although the City has historically budgeted the use of fund balance, this use 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 one time use policy. Due to the City's encumbrance and budget carryover process, excess fund balance resulted as part of the year end actuals.

Revenue

COVID-19 will undoubtedly have an impact on the City's revenue sources which is further estimated in the table below. However, the Third Quarter Financial Report is as of and for the fiscal year year-to-date March 31, 2020. As a result, the vast majority of the COVID-19 impacts will not be realized/reported until the Fourth Quarter of FY 2019-20.

Revenue Category	Description	Amount
FY 20 Year End Revenue Estimates Pre-COVID 19		\$93.4
Transient Occupancy Tax (TOT)	COVID 19 related 38% loss	-\$3.7
Charges for Services	COVID 19 related loss in revenue	-\$4.0
Miscellaneous Revenue	COVID 19 related loss in revenue	-\$2.5
Fines and Forfeitures, and Other Financing Sources	COVID 19 related loss in revenue	-\$1.0
COVID-19 Revenue Impacts Total		-\$11.2
Transfer In	COVID 19 related transfer in from Capital Reserve to offset Revenue Losses	\$10.0
FY20 Year End Revenue Estimates COVID-19 Impact Mitigated		\$ 92.2

As of Third Quarter, General Fund revenue is tracking at \$66.9 million or 7.6% higher than the same time last year due to changes in the City's in various revenue sources as shown in the table and described in greater detail below.

Comparison of FY 2018-19 General Fund Third Quarter Revenues to FY 2019-20

Revenue Category	3rd Qtr 2019	3rd Qtr 2020	Variance	% Change
05 - Sales tax	\$ 20,882,227	\$ 23,030,624	\$ 2,148,397	10%
10 - Property tax	15,523,753	15,818,537	294,784	2%
15 - Transient occupancy	5,194,252	6,291,592	1,097,341	21%
20 - Utility tax	2,130,970	2,247,616	116,646	5%
25 - Franchise fees	1,646,502	1,591,598	(54,904)	-3%
30 - Other taxes	1,227,762	1,068,099	(159,663)	-13%
35 - Licenses and permits	2,934,950	4,046,025	1,111,074	38%
40 - Use of money and property	1,488,044	1,703,481	215,437	14%
45 - Intergovernmental revenue	213,721	275,393	61,671	29%
50 - Charges for services	8,057,162	8,875,157	817,994	10%
55 - Fines and forfeitures	297,513	254,611	(42,903)	-14%
60 - Miscellaneous	962,638	1,370,907	408,268	42%
65 - Transfers in	10,000	12,000	2,000	20%
70 - Other financing sources	\$ 1,534,317	\$ 265,295	\$ (1,269,022)	-83%
Grand Total	\$ 62,103,812	\$ 66,850,933	\$ 4,747,121	8%

Sales Tax revenue is received six months in arrears, with dollars received for the most recent quarter (Jan-Mar 2020) relating to revenue collected in the first quarter of the last fiscal year (Jul-Sep 2019). Sales tax received as of third-quarter was \$2.1 million, or 10%, more than last year due to a double payment from Apple as well as an increase in the County Pool allocation resulting from implementation and effect of the AB 147 (Wayfair Decision). While year-over-year growth in industry groups such as autos and transportation, building and construction, food and drugs, and general consumer growth experienced slight declines, these were positively and significantly offset with increases in the business and industry and county pool groups. As of March 31, 2020, the City's sales tax is approximately 89% of the annual budget. At this time, City staff are not requesting an adjustment and will continue to monitor the activities for the remainder of the fiscal year.

Effective October 1, 2019, companies such as Amazon, eBay and Google who provide sales tax related services to other retailers are required to assume the obligation for collecting and remitting their client's sales and use tax. The Marketplace provision was part of AB 147 which was adopted to implement California's approach to the U.S. Supreme Court decision in *South Dakota v. Wayfair Inc.* AB 147 requires out-of-state retailers with annual combined sales of \$500,000 or more to now collect and remit this state's sales and use tax from its customers. Applying the \$500,000 threshold to the sum total of all the third-party transactions that facilitators process for their clients, is hoped to produce moderate gains in previously uncollected revenues for the state, cities,

counties, and local transaction tax districts. Facilitator tax remittances from merchandise inventoried in California will be allocated to specific jurisdictions while receipts from deliveries outside of the state will be distributed via the pools based on respective share of the pool. As of the last reporting quarter Cupertino's share of the County pool was 9.3%.

COVID-19 is not anticipated to have an impact on the City's sales tax in FY 2019-20 because of the timing for which sales tax collections are actually received. Impacts on sales tax transactions for the period January-June 2020 will be received during FY 2020-21 and are estimated to decline approximately \$4.7 million. Great uncertainty remains and depending on shelter-in-place extensions as well as the economical recovery time from the virus and triggered recession, impacts may exceed estimations. As information and data becomes available, staff will inform City Council and recommend adjustments as necessary.

Property Tax revenue has come in higher than the same time last year by \$294,784, or 2%. Residential use values increased 5.8%, or \$881.5 million and represented 38% of all growth experienced in the City. Commercial properties posted an increase of \$20.9 million or a year-over-year increase of 0.3%. Unsecured assets in Cupertino decreased 7.8% or \$138 million on forty (40) fewer bills that were reported this year. Many of the additions and movements between sites of assets owned by Apple Inc. contributed to this shift. At this time, staff do not recommend an adjustment to the annual property tax estimation. Due to timing for which property values are assessed (January of a respective year) and are incorporated into the property tax roll (subsequent July of a respective year), the City anticipates seeing impacts from COVID-19 in FY 2021-22. As discussed in the FY 2020-21 Proposed Budget, the City does not anticipated declines in this category; rather, a flattening of growth, similar to what was experienced during the Great Recession.

Transient Occupancy Tax has come in \$1,097,341, or 21%, higher than last year's third quarter point. Increases in Transient Occupancy Tax (TOT) revenues are a result of the Hyatt House that opened in April 2019. Additionally, the City's voluntary collection agreement with Airbnb to collect TOT, which began in August 2018, has continued to experience growth (approximately \$450,000 annually). The Cupertino Village Hotel and De Anza Hotel were approved by City Council do not have an anticipated opening date; however, would likely generate an estimated \$2.2 million in additional annual TOT revenue for the City. Staff will continue to monitor and report back as part of the third-quarter financial report. Staff have estimated total TOT revenues for FY 19-20 at \$9.7 million; however, due to COVID-19 and the shelter-in-place mandates that have been in effect since March are anticipated to have a tremendous impact on the City's

TOT. Assuming approximately 10% occupancy rate for the last four months of the fiscal year, the City is anticipating an approximate \$3.7 million decline. For FY 2020-21, the City is anticipating a \$2.5 million decline; however, great uncertainty remains and as such, City staff will continue to monitor the activities surrounding COVID-19 and inform City Council as information becomes available.

Utility Tax is up approximately \$116,646 or 5% mainly due to a large increase in utility revenue coming from Silicon Valley Clean Energy Authority and 3 Phases Renewables.

Other Taxes have decreased by approximately \$160,000, or 13%, primarily due to receiving penalties and interests related to late payment penalties from Apple Inc. received last fiscal year as well as an overall decrease in Property Tax Transfer taxes.

Franchise Fees have increased by \$50,000, or 8%, primarily due to an increase in Recology franchise fees collected.

Licenses and Permits increased by \$1.1 million, or 38%, due to permit fees for Vallco Town Center.

Use of Money and Property increased by approximately \$215,000, or 14%, due to increased interest earnings from the City's investment portfolio.

Intergovernmental Revenue has increased by approximately \$62,000, or 29%, due primarily to an increase of State Mandated Cost reimbursements received.

Charges for Services have increased by approximately \$818,000, or 10%, primarily due to increases in Engineering fees for Public Works' plan reviews and increases to cost allocation charges over the previous fiscal year.

Fines and Forfeitures have decreased \$43,000, or 14%, primarily due to fewer citations administered in the current year. Additionally, the City experienced a higher volume of administration citation appeal hearings last fiscal year compared to fiscal year 2019-20.

Miscellaneous revenue has increased by \$408,000, or 42%, due primarily to an increase to an ongoing donation from Apple Inc. to fund additional law enforcement services and collection of State reimbursement for Public Safety Power Shutoff in the amount of \$218,000. Although this category has increased, staff anticipate declines in respect to the fiscal year 2019-20 amended budget due to COVID-19.

Transfers In have increased by \$2,000, or 20% due to a transfer in from the Tree Fund.

Other Financing Sources has decreased by \$1.27 million, or 83%, due to last fiscal year's increase in refundable deposit administrative fees collected due to the Vallco Specific Plan. Staff anticipate declines in respect to the fiscal year 2019-20 amended budget due to COVID-19.

Expenditures

Revenue Category	Description	Amount
Salary and Benefits	Trend Analysis	- \$1.42
Materials	Trend Analysis	-\$2.10
Contracts	Trend Analysis	-\$1.80
Contingencies	Trend Analysis	-\$1.00
Other Financing Uses	Trend Analysis	-\$0.60
FY 20 Year-End Expenditure Projection		\$108.3
Special Projects	COVID 19-related expenditure reduction	-\$5.50
Salary and Benefits	COVID 19-related expenditure reduction thru furloughs	-\$0.18
FY20 Year End Expenditure Estimates Post-COVID 19		\$ 102.6

As of third quarter, overall expenditures in the General Fund are up by \$13.4 million, or 20%, when compared to the same time last year due to a \$20 million transfer from the General Fund to the Capital Reserve approved as part of mid-year. The following table shows the differences between General Fund expenditures as of the third quarter in the current fiscal year and the prior fiscal year:

Comparison of FY 2018-19 General Fund Third Quarter Expenditures to FY 2019-20

Expenditure Category	3rd Qtr 2019	3rd Qtr 2020	Variance	% Change
05 - Employee compensation	\$ 12,907,492	\$ 13,616,045	\$ 708,552	5%
10 - Employee benefits	5,413,892	5,956,476	\$ 542,585	10%
15 - Materials	3,104,370	3,535,300	\$ 430,930	14%
20 - Contract services	14,505,260	16,394,327	\$ 1,889,067	13%
25 - Cost allocation	7,026,167	7,339,858	\$ 313,691	4%
30 - Capital outlays	-	-	\$ -	0%
31 - Special projects	3,505,049	1,557,998	\$ (1,947,052)	-56%
45 - Transfer out	19,358,912	30,892,276	\$ 11,533,364	60%
50 - Other financing uses	228,108	198,597	\$ (29,511)	-13%
Grand Total	\$ 66,049,250	\$ 79,490,916	\$ 13,441,666	20%

Salary and Benefits increases are approximately \$1.2 million, or 6.8%, due primarily to labor negotiations approved by Council on July 16, 2019. Increases in salary, driven by cost of living adjustments as well as equity adjustments, can be anticipated for the span of the negotiation term ending June 30, 2022.

Materials costs are up approximately \$431,000, or 14%, due primarily to the San Jose Water and PG&E service increases over the previous fiscal year. Additionally, the Innovation & Technology Department experienced increases in materials spending, primarily related to the acquisition of Accela, the City's new land use management system.

Contract Services have increased approximately \$1.9 million, or 13%, due primarily to increased costs for the City's contract with the Santa Clara County Sheriff. Administrative Services Department experienced an increase in insurance fees, claims, and premiums, specifically related to a settlement agreement. Additionally, contracting out of the City Attorney's Office contributed significantly to the increase over the prior year.

Cost Allocation increases are approximately \$314,000, or 4%, due primarily to increases in Administrative Services charges.

Special Projects decreases are approximately \$1.9 million, or 56%, primarily due to costs associated with the Water System Assessment, Apple Campus 2 and Vallco Specific Plan in fiscal year 2018-19 that were not incurred in fiscal year 2019-20. Staff anticipate continued decreases in Special Project spending throughout the remainder of fiscal year 2019-20 due to COVID-19.

Transfers Out increases are approximately \$11.5 million, or 60%, due to a \$20 million transfer from the General Fund to the Capital Reserve as part of Mid-Year in fiscal year 2019-20 and in accordance with the City's one-time fund balance policy.

Other Financing Uses have decreased slightly due to refundable deposit on-call contracts for Community Development Department.

All Other Funds Update and Year End Projections

Revenue

As of Third Quarter, revenue in all other funds is tracking at \$62.9 million, or 29%, higher than the same time last year due primarily to a \$20 million transfer into the Capital Reserve as part of Mid-Year in fiscal year 2018-19 and in accordance with the City's one-time fund balance policy.

Revenue Category	3rd Quarter 2019	3rd Quarter 2020	Variance	% Change
30 - Other taxes	\$ 613,402	\$ 280,003	\$ (333,398)	-54%
40 - Use of money and property	780,213	1,151,172	370,959	48%
45 - Intergovernmental revenue	2,097,445	2,280,315	182,870	9%
50 - Charges for services	8,372,319	8,450,416	78,097	1%
55 - Fines and forfeitures	19,441	14,091	(5,350)	-28%
60 - Miscellaneous	60,487	3,518,522	3,458,035	5717%
65 - Transfers in	36,511,162	46,949,995	10,438,833	29%
70 - Other financing sources	373,715	250,589	(123,126)	-33%
Grand Total	\$ 48,828,182	\$ 62,895,102	\$ 14,066,920	29%

Other Taxes decreased approximately \$333,000, or 54%, due to decreases in storm drain fees, park dedication fees, and housing mitigation fees.

Use of Money and Property increased by approximately \$371,000, or 48%, due to increased interest earnings from the City's investment portfolio.

Intergovernmental Revenue increased by approximately \$183,000, or 9%, due primarily to an increase in our Transportation Fund collections of Vehicle Registration Fees, Highway User's Tax, and SB1 Road Maintenance and Rehabilitation funding. The City anticipates reductions in the fourth quarter of fiscal year 2019-20 of up to 30% as a result of COVID-19.

Charges for services increased approximately \$78,000, or 1%, representing a relatively flat year-over-year change. Since COVID-19's

Fines and forfeitures decreased approximately \$5,400, or 28%, due to a decreased volume in citations administered over the prior year.

Miscellaneous revenue increased approximately \$3,500,000, or 5,717%, due primarily to an Apple Grant received to fund various CIP projects for bikeways, trails, and sidewalks.

Transfers In decreased approximately \$10.4 million, or 29%, primarily due to a \$20 million transfer into the Capital Reserve from the General Fund.

Other financing sources decreased approximately \$123,000, or 33%, due to a reduction in workers' compensation cost allocation plan charges offset by an increase in proceeds received from the sale of vehicles and equipment that had reached their useful lives.

Expenditures

As of first quarter, overall expenditures are tracking at \$5.4 million or 15% higher than the same time last year due primarily to increases in compensation and capital outlays.

Expenditure Category	3rd Quarter 2019	3rd Quarter 2020	Variance	% Change
05 - Employee compensation	\$ 3,054,548	\$ 3,459,557	\$ 405,008	13%
10 - Employee benefits	2,005,023	2,254,178	249,154	12%
15 - Materials	1,244,531	1,235,092	(9,439)	-1%
20 - Contract services	4,146,904	4,767,728	620,824	15%
25 - Cost allocation	1,544,174	2,238,985	694,811	45%
30 - Capital outlays	2,435,627	7,538,305	5,102,677	210%
31 - Special projects	4,576,300	3,989,040	(587,260)	-13%
40 - Debt services	474,719	441,419	(33,300)	-7%
45 - Transfer out	17,162,250	16,069,719	(1,092,531)	-6%
Grand Total	\$ 36,644,076	\$ 41,994,021	\$ 5,349,945	15%

Salary and Benefits increases are approximately \$654,000 or 13% due primarily to labor negotiations approved by Council on July 16, 2019. Increases in compensation, driven by cost of living adjustments as well as equity adjustments, can be anticipated for the span of the negotiation term ending June 30, 2022.

Materials have decreased approximately \$9,000, or 1%, and is due to various minor fluctuations. City staff performed a zero-base budget in fiscal year 2019-20 and as a result, minor reclassifications of expenditures were made and are attributed to the slight decrease.

Contract Services have increased approximately \$621,000, or 15%, due, but not limited, to increases for tennis camps and related activities within the Parks & Recreation Department. Innovation & Technology Department's Infrastructure Division experienced increases due to the re-engineering of the compute and applications infrastructure for the City.

Cost Allocation increased approximately \$695,000, or 45%, due primarily to increases in the Innovation & Technology charges due to additional one-time project expenses.

Capital Outlays increased approximately \$5.1 million, or 210%, due to a number of projects progressing including, but not limited to, McClellan West Parking Lot Improvements and 2016 Bike Plan Implementation.

Special Projects decreased approximately \$587,000, or 13%, due to decreases in annual asphalt project spending and IT asset acquisition, offset with an increase in vehicle/equipment spending or fixed asset acquisition.

Debt Service, Transfers Out decreased approximately \$1.1 million, or 6%, due to less capital project funding outside of the Capital Projects Fund in respect to the previous fiscal year.

Budget Adjustment Requests

As of the third quarter a few 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	Fund Balance	Proposal
GENERAL FUND					
100 General Fund	Non-Departmental	\$ -	\$ 10,000,000	\$ 10,000,000	Transfer from Capital Reserve (COVID-19 mitigation)
TOTAL GENERAL FUND		\$ -	\$ 10,000,000	\$ 10,000,000	
CAPITAL PROJECT FUNDS					
429 Capital Reserve	Non-Departmental	\$ 10,000,000	\$ -	\$ (10,000,000)	Transfer to General Fund (COVID-19 mitigation)
TOTAL CAPITAL PROJECT FUNDS		\$ 10,000,000	\$ -	\$ (10,000,000)	
TOTAL ALL FUNDS		\$ 10,000,000	\$ 10,000,000	\$ -	

Prior to COVID-19 and as part of the Mid-Year Financial Report, Council approved a \$20 million transfer of excess fund balance from the General Fund to the Capital Reserve. Given the impacts of COVID-19 and the extreme uncertainty of future

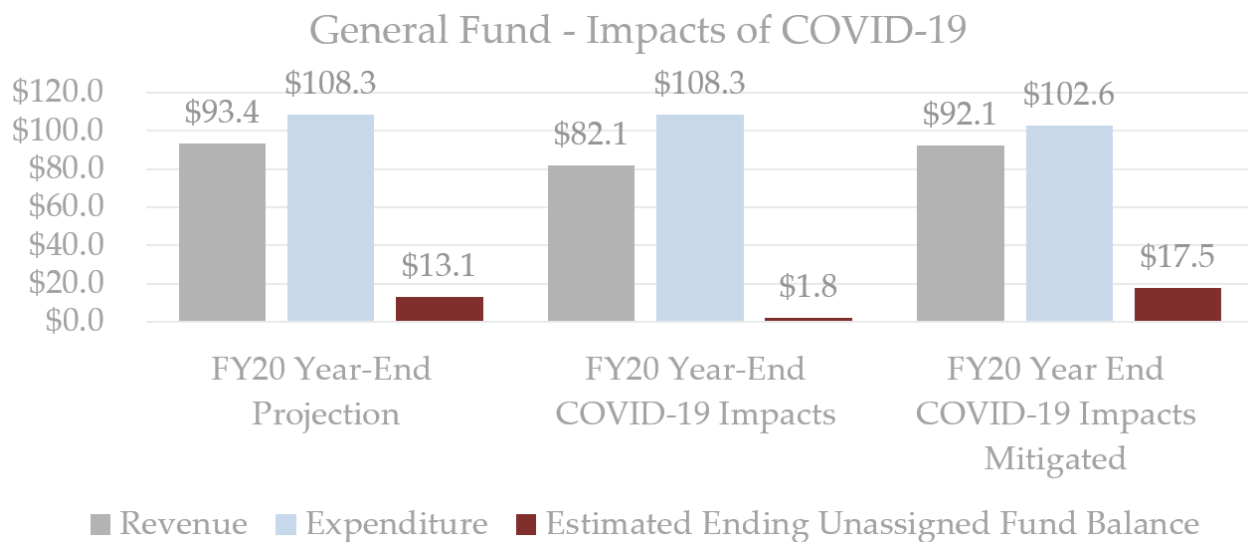
periods, staff are recommending that \$10 million be transferred back to the General Fund to ensure any potential shortfalls in COVID-19 impact estimates can be sufficiently absorbed and funded into the future.

Staffing

The Amended Budget as of March 2020 has a total of 203.75 FTEs. There are no proposed changes to staffing as part of the Third Quarter Report.

Fund Balance

The City's General Fund ended FY 2018-19 with \$58.92 million in total fund balance. As part of the FY 2019-20 Adopted Budget, the City projected ending the fiscal year with \$46.63 million in total fund balance. As of the First Quarter Report, the City updated its year-end projections for FY 2019-20 to \$63.21 million in total fund balance, an increase of \$16.6 million due to increases in revenues received and lower expenditures in FY 2018-19. Projected year-end fund balance as of mid-year FY 2019-20 estimated to be \$49.93, a reduction of \$13.28 million from the first quarter projections due primarily to a one-time transfer out of \$20 million to the Capital Improvement Program Reserve Fund. Given the impacts due to COVID-19 and the anticipated declines in sales tax, TOT, and charges for services, staff are recommending numerous mitigation measures be considered. At this time, staff anticipate a decline in spending for the remainder of the current fiscal year, primarily within the Special Projects category. Additionally, the recommended \$10 million transfer to the General Fund would fully absorb COVID-19's impact on FY 2019-20 and better position the City to address potential shortfalls in current estimates, extensions of shelter-in-place orders, and a second wave of COVID-19 during the winter of FY 2020-21.



General Fund Classification of Fund Balance

CLASSIFICATION	Actuals 2018-19	Adopted Budget 2019-20	1st Quarter		
			Year End Projection 2019-20	Mid-Year End Projection 2019-20	3rd Quarter Year End Projection 2019-20
Non Spendable	0.45	0.46	0.46	0.45	0.46
Restricted	9.47	9.24	9.47	14.02	13.58
Committed	19.12	19.12	19.12	19.12	19.12
Assigned	1.98	5.01	5.01	3.23	3.00
Unassigned	27.90	12.80	29.15	13.11	17.50
TOTAL FUND BALANCE	58.92	46.62	63.21	49.93	53.66

Per the City's one Fund Balance Policy, unassigned fund balance over \$500,000 are 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

Conclusion

The Third Quarter Financial Report shows the City is well-positioned to move forward, despite significant impacts from COVID-19. City staff recommends adjustments of \$10,000,000 in new appropriations funded by \$10,000,000 in revenues. If approved, there will be no impact on the City's total fund balance.

Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Dianne Thompson, Assistant City Manager

Attachments:

A – Draft Resolution

B – Third Quarter Financial Report for Fiscal Year 2019-20

C – Third Quarter Budget Adjustment Journal