



ADMINISTRATIVE SERVICES

CITY HALL

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CITY COUNCIL STAFF REPORT

Meeting: March 7, 2017

Subject

Approval of the Mid-Year Financial Report and recommended budget adjustments for Fiscal Year 2016-17

Recommended Action

1. Accept the City Manager's Mid-Year Financial Report for FY 2016-17
2. Approve the Mid-Year adjustments for FY 2016-17 as described in the Mid-Year Financial Report
3. Adopt a resolution approving Mid-Year budget adjustments

Background

On June 6, 2016, the City Council adopted the Fiscal Year (FY) 2016-17 Budget, a \$133.2 million spending plan for the City of Cupertino. On November 15, 2016, 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 and carryover expenditure appropriations from FY 2015-16 of \$38,091,854. Council approved \$10,239,848 in additional expenditures in the first two quarters of the FY mostly related to Apple Campus 2 contracts and negotiated salary and benefit increases. This resulted in an amended budget of \$181,564,052. These FY 2016-17 budget adjustments are summarized in the table below:

Fund	FY 16-17 Final Adopted	Carryovers	Encumbrances	Adjustments Approved in 1st-2nd Quarters	FY 16-17 Amended Budget as Dec 31, 2016
General	\$77,222,454	\$9,832,658	\$3,783,570	\$8,935,635	\$99,774,317
Special Revenue	\$16,981,094	\$15,287,664	\$4,123,770	\$479,074	\$36,871,602
Debt Service	\$3,167,538	-	-	-	\$3,167,538
Capital Projects	\$15,072,000	\$2,089,910	\$1,115,890	\$50,000	\$18,327,800
Enterprise	\$10,312,537	\$658,872	\$67,472	\$152,572	\$11,191,453
Internal Service	\$10,476,727	\$677,073	\$454,975	\$622,567	\$12,231,342
Total All Funds	\$133,232,350	\$28,546,177	\$9,545,677	\$10,239,848	\$181,564,052

Discussion

The Mid-Year Financial Report focuses on the status of the City's budget as of December 31, 2016, and recommends adjustments to ensure the budget reflects the

City's current revenue outlook and is responsive to changing spending priorities. As shown in the chart below, \$17,088,519 in budget adjustments are being requested, of which \$15,000,000 involves a transfer of excess fund balance to the Capital Reserve per the City's Reserve and One Time Use Policy. If approved, the City's new spending plan would total \$198,652,571 across all funds.

Mid-Year Financial Report Summary by Fund

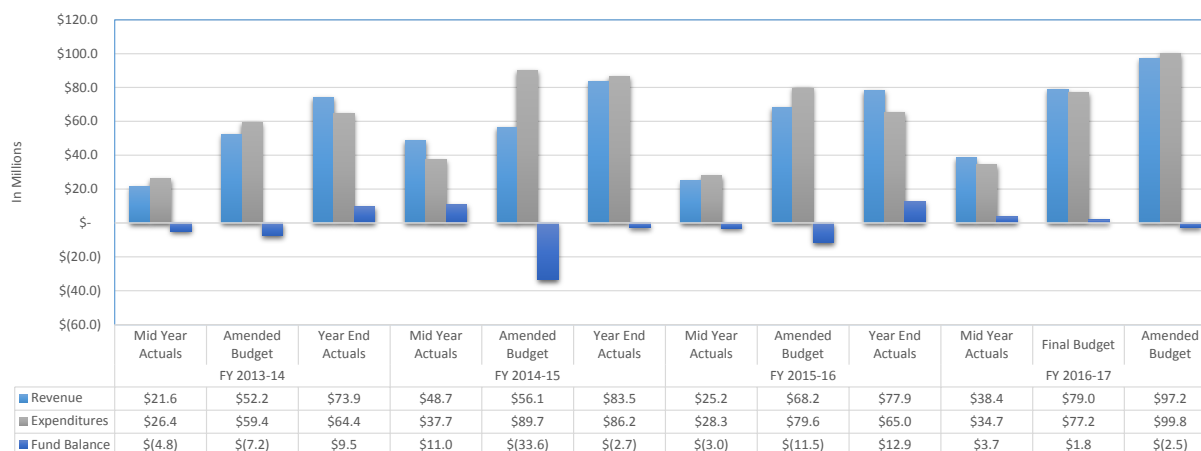
Fund	Amended Budget as of Dec 31, 2016	Requested Mid-Year Adjustments	Year End Projections
General	\$99,774,317	\$16,951,882	\$116,726,199
Special Revenue	\$36,871,602	\$46,963	\$36,918,565
Debt Service	\$3,167,538	-	\$3,167,538
Capital Projects	\$18,327,800	-	\$18,327,800
Enterprise	\$11,191,453	-	\$11,191,453
Internal Service	\$12,231,342	\$89,674	\$12,321,016
Total All Funds	\$181,564,052	\$17,088,519	\$198,652,571

The recommended budget adjustments would be funded through the use of department revenue of \$22,974,932, of which \$15,000,000 is a movement of cash from the General Fund to the Capital Reserve. A projected increase to unassigned fund balance in the amount of \$5,886,413 across all funds would occur as summarized in the table below:

Fund	Department	Recommended Adjustments			Description
		Expenditure	Revenue	Fund Balance	
General Fund	Administrative Services	\$ (22,912.00)	\$ -	\$ 22,912.00	Transfer out salary savings to Non-Departmental to fund full-time Business Systems Analyst
General Fund	Administrative Services	\$ 80,000.00	\$ -	\$ (80,000.00)	New Auditor Contract
General Fund	Administrative Services	\$ 50,000.00	\$ -	\$ (50,000.00)	Purchase and implementation of Business License Module
General Fund	Commissions	\$ 30,000.00	\$ -	\$ (30,000.00)	TICC Cellular Capacity/Coverage Study
General Fund	Community Development	\$ 20,000.00	\$ -	\$ (20,000.00)	Bank Service Charges
General Fund	Public Works	\$ 410,000.00	\$ 410,000.00	\$ -	Irrigation controller settlement
General Fund	Public Works	\$ 20,900.00	\$ 20,900.00	\$ -	Soundwall damage reimbursement
General Fund	Public Works	\$ 62,160.00	\$ -	\$ (62,160.00)	Ash Whitefly treatment at Rancho Rinconada
General Fund	Public Works	\$ 9,665.00	\$ -	\$ (9,665.00)	City Hall elevator repair
General Fund	Public Works	\$ 15,000.00	\$ -	\$ (15,000.00)	Linda Vista park pump repair and control panel replacement
General Fund	Public Works	\$ 1,187,395.00	\$ 1,187,395.00	\$ -	Contribution in lieu for Planned Transportation Project
General Fund	Non-Departmental	\$ -	\$ 6,220,000.00	\$ 6,220,000.00	Increases in Sales Tax, Property Tax, Construction Tax, and Use of Money and Property
General Fund	Non-Departmental	\$ 22,192.00	\$ -	\$ (22,192.00)	Transfer out salary savings to Information Services to fund full-time Business Systems Analyst
General Fund	Non-Departmental	\$ 67,482.00	\$ -	\$ (67,482.00)	Transfer out to fund remaining portion of Business Systems Analyst cost
General Fund	Non-Departmental	\$ 15,000,000.00	\$ -	\$ (15,000,000.00)	Transfer out excess fund balance to Capital Reserve
Total General Fund		\$16,951,882.00	\$ 7,838,295.00	\$ (9,113,587.00)	
Capital Fund	Non-Departmental	\$ -	\$ 15,000,000.00	\$ 15,000,000.00	Transfer in excess fund balance to Capital Reserve
Special Revenue	Public Works	\$ 21,104.00	\$ 21,104.00	\$ -	ABAG Grant for sidewalk repair
Special Revenue	Public Works	\$ 25,859.00	\$ 25,859.00	\$ -	Monument sign damage settlement & repair
Internal Service	Information Services	\$ 50,744.00	\$ 50,744.00	\$ -	Transfer in salary savings from Admin. Services to fund full-time Business Systems Analyst
Internal Service	Information Services	\$ 38,930.00	\$ 38,930.00	\$ -	Budget for full-time Business Systems Analyst position in IT/Application (Website)
Total Other Funds		\$ 136,637.00	\$ 15,136,637.00	\$ 15,000,000.00	
TOTAL ALL FUNDS		\$17,088,519.00	\$ 22,974,932.00	\$ 5,886,413.00	

General Fund Update

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



Revenue

The City received a one-time payment of \$3.5 million dollars in sales tax due to the close out of the Triple Flip as discussed as part of the First Quarter report. In addition, revised estimates on property taxes from the County anticipate that the City will receive an additional \$2 million dollars in FY 2016-17. The City also received construction tax revenue for numerous buildings at Apple Campus 2, thus resulting in an additional \$600,000 in revenue. Lastly, an additional \$120,000 in Use of Money and Property revenue was received due to proactive investing by the City in addition to an increase in interest rates. In total, staff is recommending to increase budgeted revenues in the General Fund by \$7.8 million.

Expenditures

As of Mid-Year, several General Fund departments are requesting adjustments totaling \$16.95 million. These requests include staffing, an auditor contract, a business license module, a cellular capacity/coverage study, bank service charges, an irrigation controller settlement, soundwall damage reimbursement, Ash Whitefly treatment in Rancho Rinconada, City Hall elevator repair, park pump repair and control panel replacement, and a contribution in lieu for planned transportation project. These requests would be funded by increases in revenue and General Fund unassigned fund balance. The bulk of the request involves the transfer of \$15 million in excess fund balance to the Capital Reserve per the City's Reserve and One Time Use Policy. These requests are summarized in the table below:

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		Expenditure	Revenue	Fund Balance	
General Fund	Administrative Services	\$ (22,912.00)	\$ -	\$ 22,912.00	Transfer out salary savings to Non-Departmental to fund full-time Business Systems Analyst
General Fund	Administrative Services	\$ 80,000.00	\$ -	\$ (80,000.00)	New Auditor Contract
General Fund	Administrative Services	\$ 50,000.00	\$ -	\$ (50,000.00)	Purchase and implementation of Business License Module
General Fund	Commissions	\$ 30,000.00	\$ -	\$ (30,000.00)	TICC Cellular Capacity/Coverage Study
General Fund	Community Development	\$ 20,000.00	\$ -	\$ (20,000.00)	Bank Service Charges
General Fund	Public Works	\$ 410,000.00	\$ 410,000.00	\$ -	Irrigation controller settlement
General Fund	Public Works	\$ 20,900.00	\$ 20,900.00	\$ -	Soundwall damage reimbursement
General Fund	Public Works	\$ 62,160.00	\$ -	\$ (62,160.00)	Ash Whitefly treatment at Rancho Rinconada
General Fund	Public Works	\$ 9,665.00	\$ -	\$ (9,665.00)	City Hall elevator repair
General Fund	Public Works	\$ 15,000.00	\$ -	\$ (15,000.00)	Linda Vista park pump repair and control panel replacement
General Fund	Public Works	\$ 1,187,395.00	\$ 1,187,395.00	\$ -	Contribution in lieu for Planned Transportation Project
General Fund	Non-Departmental	\$ -	\$ 6,220,000.00	\$ 6,220,000.00	Increases in Sales Tax, Property Tax, Construction Tax, and Use of Money and Property
General Fund	Non-Departmental	\$ 22,192.00	\$ -	\$ (22,192.00)	Transfer out salary savings to Information Services to fund full-time Business Systems Analyst
General Fund	Non-Departmental	\$ 67,482.00	\$ -	\$ (67,482.00)	Transfer out to fund remaining portion of Business Systems Analyst cost
General Fund	Non-Departmental	\$ 15,000,000.00	\$ -	\$ (15,000,000.00)	Transfer out excess fund balance to Capital Reserve
Total General Fund		\$ 16,951,882.00	\$ 7,838,295.00	\$ (9,113,587.00)	

Fund Balance

The FY 2015-16 Amended Budget as of the third quarter anticipated the General Fund would end FY 2015-16 with \$31.27 million in total fund balance. As part of the FY 2016-17 First Quarter Report the City updated its year-end projections for FY 2015-16 to \$44.27 million in fund balance in the General Fund, an increase of \$13 million due to decreased actual expenditures and increased revenue received. The City, based on unaudited final numbers, is anticipated to end the 2015-16 Fiscal Year with \$52.2 million in fund balance in the General Fund. This results in an additional \$7.93 million over the first quarter projections and a total of \$20.93 million higher than projected as of the third quarter. As part of the First Quarter Report the City anticipated making the following recommendations at Mid-Year:

1. Transfer approximately \$3.5 million in fund balance to the Capital Reserve to fund future years of the Capital Improvement Plan
2. Use of approximately \$6 million in fund balance to cover year-end encumbrances, budget carryovers, and City Council approval on budget adjustments; including those related to the newly negotiated salary and benefit increases

At Mid-Year, staff has revised its recommendations as follows:

1. Transfer \$15 million in fund balance to the Capital Reserve to fund future years of the Capital Improvement Plan

2. Increase the assigned encumbrance reserve by \$5 million to account for an increase in encumbrances due to additional contract expenses and changes to existing contracts

If approved, the changes above would result in an anticipated year-end fund balance of \$40.54 million in the General Fund for FY 2016-17 as shown in the table below, of which \$6.57 million would be unassigned. Total projected fund balance is derived by taking actual fund balance as of year-end + (amended budget revenues minus expenses) + (recommended adjustments to revenues minus expenses in this staff report).

$$\$52.19 + (\$2.54) + (\$9.11) = \$40.54$$

CLASSIFICATION	Third Quarter Projections 2015-16	First Quarter Projections 2015-16	Unaudited Actuals 2015-16	Final Budget 2016-17	First Quarter 2016-17	Mid Year Projections 2016-17
Non Spendable	1.10	1.10	0.94	1.10	1.10	1.10
Restricted	0.76	0.76	0.89	0.76	0.76	0.76
Assigned	27.50	27.50	20.50	27.50	27.50	32.10
UnAssigned	1.91	14.91	29.87	3.69	27.08	6.57
TOTAL FUND BALANCE	31.27	44.27	52.19	33.05	56.44	40.54

Staffing

Currently, the city has a total of 186.75 FTEs. As of Mid-Year, staff is requesting one additional full-time position - the conversion of two part-time Business Systems Analysts to full-time positions for the Information Services Department. If approved, this would bring the full-time benefitted employee count to 187.75. It should be noted that the request would result in both existing Business Systems Analyst positions being benefitted.

Business Systems Analysts

Recently, Information Services (IS) was restructured to place enhanced focus on the City's software applications. A team of one full-time benefitted and two part-time Business Systems Analysts are responsible for research, analysis, user acceptance testing, implementation and maintenance of these applications. Recent success in enhancing business processes, implementing new applications and stabilizing once troublesome systems are results of this team's talents. The results this team has achieved can be seen not only in the gained efficiencies Citywide but also in the tangible cost savings of over \$400,000 in the current fiscal year alone. Due to this talented team, the City has been able to cut back significantly on contract assistance for applications and it has built a budget document preparation software from scratch. The team is making great strides, but requires additional resources to keep pace with current and projected workload. IS requests that both current part-time positions be converted to

full-time benefitted positions – resulting in a net gain of one FTE. The addition will continue the team’s success as the City implements new large scale systems for recreation and permitting, adds additional transparency to City data and creates a new website for the City.

Performance Measures

Updated performance measures that align with government and private industry best practices have been included in the Mid-Year Financial Report. Staff will continue to provide updates to Council on the performance measures as part of the quarterly budget reports and the proposed and final budgets. Attachment C represents the status of the performance measures as of Mid-Year.

Conclusion

City staff recommends adjustments of \$17,088,519 in appropriations and \$22,974,932 in projected revenue resulting in \$5,886,413 added to fund balance across all funds. Staff will continue to monitor the 2016-17 FY Amended Budget and be prepared to make recommendations and changes based on business needs and Council priorities before June 30, 2017 to ensure that the City ends the year within budgeted appropriations.

Prepared by: Karen Bernard-Guerin, Senior Management Analyst

Reviewed for submission by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: David Brandt, City Manager

Attachments:

A - Mid-Year Financial Report – FY 2016-17

B - Draft Resolution

C - Performance Measures for each Department

D - Mid-Year Budget Journals