



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
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CITY COUNCIL STAFF REPORT

Meeting: March 1, 2022

Subject

Accept the Mid-Year Financial Report for Fiscal Year 2021-22; Consider Adopting Resolution No. 22-XXX approving Budget Modification #2122-189 increasing appropriations by \$9,457,951 and revenues by \$10,220,000.

Recommended Action

1. Consider Accepting the City Manager's Mid-Year Financial Report for FY 2021-22.
2. Consider Adopting a draft resolution 22-XXX approving Budget Modification #2122-189 increasing appropriations by \$9,457,951 and revenues by \$10,220,000.
3. Consider Approving the Conversion of (One) Limited-Term Project Manager Position to Full-Term Position.
4. Consider Approving Amendments to City's Committed, Unassigned Fund Balance, and Use of One Time Funds Policy which includes the following changes:
 - a. Consider Approving \$2,000,000 contribution from the General Fund to the City's Section 115 Pension Trust.
 - b. Consider Increasing the City's General Fund Economic Uncertainty Committed Reserve by \$5,000,000.
 - c. Consider Establishing a General Fund Capital Project Committed Reserve in the amount of \$10,000,000.

Background

On June 15, 2021, the City Council adopted the Fiscal Year (FY) 2021-22 Budget, a \$148,845,235 spending plan for the City of Cupertino that was funded by \$132,850,958 of revenues and \$15,994,277 of fund balance. On November 16, 2021, 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 \$16,868,361 and carryover appropriations of \$53,863,626 from FY 2021-22. These carryover appropriations included \$18.5 million in capital projects, \$19 million for Vallco Town Center, and \$5.9 million for Transportation projects. Encumbrances represent funds for

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 two quarters of FY 2021-22, Council approved \$9.6 million in additional appropriations mostly related to the American Rescue Plan Act of 2021 (\$4.9 million), Junipero Serra Trail (\$1.9 million) and First Quarter Adjustments (\$1.6 million).

This resulted in an amended budget of \$229,162,354. These FY 2021-22 budget adjustments are summarized in the following table:

Mid-Year Financial Report Summary of Budget Adjustments by Fund

Fund	FY 21-22 Adopted	Carryovers	Encumbrances	Adjustments Approved in 1st & 2nd Quarters	FY 21-22 Amended Budget as of December 31, 2021
General	\$ 89,767,034	\$ 22,657,533	\$ 4,906,141	\$ 7,138,606	\$ 124,469,314
Special Revenue	18,597,024	11,749,252	2,414,116	212,681	32,973,073
Debt Service	2,676,000	-	-	-	2,676,000
Capital Projects	19,540,048	18,540,682	9,149,571	1,936,000	49,166,301
Enterprise	9,417,117	855,369	189,833	107,800	10,570,119
Internal Service	8,848,012	60,790	208,700	190,045	9,307,547
Total All Funds	\$ 148,845,235	\$ 53,863,626	\$ 16,868,361	\$ 9,585,132	\$ 229,162,354

Discussion

The Mid-Year Financial Report focuses on the status of the City’s budget as of December 31, 2021 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, \$11.3 million in budget adjustments are being requested that are offset with \$1.8 million in budget reductions and \$10.2 million in revenue. Included in the requested budget adjustments is a \$10,000,000 transfer of excess unassigned fund balance from the General Fund to the Capital Reserve in accordance with the City’s Reserve and One Time Use Policy. Also included is the fourth of five annual \$2 million contributions to the Section 115 Pension Trust, increase in Economic Uncertainty Reserve, and establishment of Capital Projects Reserve. If approved, the City’s new spending plan would total \$238,620,305 across all funds.

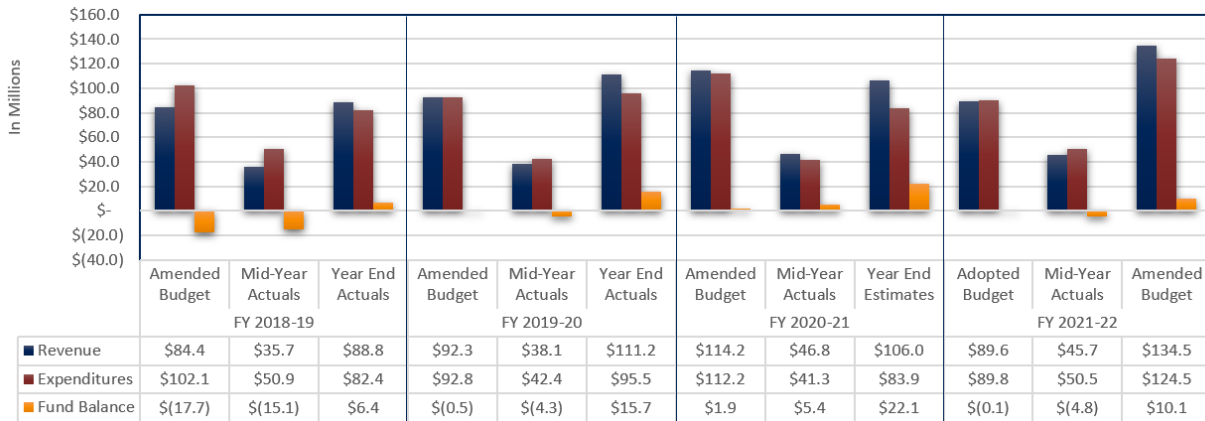
Fund	Amended Budget as of December 31, 2021	Requested Mid-Year Adjustments	Year-End Projections
General	\$ 124,469,314	\$ 10,000,000	\$ 134,469,314
Special Revenue	32,973,073	910,000	33,883,073
Debt Service	2,676,000	-	2,676,000
Capital Projects	49,166,301	(1,847,699)	47,318,602
Enterprise	10,570,119	369,650	10,939,769
Internal Service	9,307,547	26,000	9,333,547
Total All Funds	\$ 229,162,354	\$ 9,457,951	\$ 238,620,305

A projected increase to unassigned fund balance in the amount of \$740,119 across all funds would occur as summarized in the table below.

Recommended Adjustments					
Fund	Department	Expenditure	Revenue	Fund Balance (Use of)	Description
PARKS & RECREATION DEPARTMENT					
560	P&R	10,300	-	(10,300)	Tree Maintenance
560	P&R	9,350	220,000	210,650	Additional Revenue Estimate and Bank Charges
	TOTAL PARKS & RECREATION DEPARTMENT	19,650	220,000	200,350	
PUBLIC WORKS DEPARTMENT					
280	Public Works - CIP	910,000	-	(910,000)	Lawrence-Mitty Park Debris Removal, Clean Up, and Tree Removal
420	Public Works - CIP	(1,847,699)	-	1,847,699	All-Inclusive Play Area Budget Reduction
520	Public Works	350,000	-	(350,000)	New Landfill Agreement and Solid Waste Consulting Services
630	Public Works	26,000	-	(26,000)	Leaf Blower Replacement
	TOTAL PUBLIC WORKS DEPARTMENT	(561,699)	-	561,699	
NON-DEPARTMENTAL					
100	Non-Departmental	10,000,000	-	(10,000,000)	Transfer from General Fund to Capital Reserve
429	Non-Departmental	-	10,000,000	10,000,000	Transfer from General Fund to Capital Reserve
	TOTAL NON-DEPARTMENTAL	10,000,000	10,000,000	-	
	TOTAL ALL DEPARTMENTS	9,457,951	10,220,000	762,049	

General Fund Update

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



The City's General Fund historical revenue, expenditures and fund balance demonstrates the City has historically budgeted the use of fund balance. This means the General Fund's amended budget estimated appropriations to exceed revenues. 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 in accordance with the City's One-time use policy. Due to the City's encumbrance and budget carryover process, actual expenditures in FY 2020-21 came in lower than expected which resulted in additional excess fund balance.

Revenue

As of mid-year, General Fund revenue is tracking at \$46 million or 2% lower than the same time last year due to changes in the City's in various revenue sources as shown in the following table.

Comparison of FY 2020-21 and FY 2021-22 General Fund Mid-Year Revenues

Revenue Category	Mid-Year 2021	Mid-Year 2022	Variance	% Change
05 - Sales tax	\$ 24,060,027	\$ 13,818,656	\$ (10,241,371)	-43%
10 - Property tax	7,887,124	8,331,800	444,676	6%
15 - Transient occupancy	879,019	1,336,855	457,837	52%
20 - Utility tax	1,291,056	1,276,177	(14,879)	-1%
25 - Franchise fees	627,465	684,498	57,033	9%
30 - Other taxes	1,704,385	1,056,602	(647,783)	-38%
35 - Licenses and permits	1,951,667	2,188,177	236,511	12%
40 - Use of money and property	891,614	926,372	34,758	4%
45 - Intergovernmental revenue	1,022,927	3,433,481	2,410,554	236%
50 - Charges for services	5,230,311	6,905,845	1,675,534	32%
55 - Fines and forfeitures	53,744	105,865	52,121	97%
60 - Miscellaneous	1,048,256	989,591	(58,665)	-6%
65 - Transfers in	15,000	4,862,387	4,847,387	32316%
70 - Other financing sources	87,567	52,224	(35,342)	-40%
Grand Total	\$ 46,750,161	\$ 45,968,532	\$ (781,629)	-2%

Sales Tax received as of mid-year was \$10.2 million (or 43%) less than last year due to the timing for which payments from the State Board of Equalization are received. Staff anticipate the final second quarter allocation will result in comparable performance year-over-year. Since the start of the pandemic, the City's business-to-business industry group and its County Pool allocation share has increased substantially. HdL, the City's sales tax consultant, recently provided a report on sales tax performance during the period July-September 2021. Restaurants and Hotels, General Consumer Goods, Fuel and Service Stations, Building and Construction, and Autos and Transportation were up 71%, 16%, 75%, 3%, and 4%, respectively, representing substantial recovery from conditions experienced earlier in the pandemic. This strong recovery was vastly overshadowed activities in the business to business and pool allocations. Since the start of the pandemic, the City's business-to-business and county pool allocations have vaulted and as has been expected, we are seeing some tapering of those trends as the State continues to recover and open businesses to the public.

Property Tax revenue has come in higher than the same time last year by \$445,000 (or 6%). Residential use values increased \$829.9 million (or 5%) and represented 84.1% of all growth experienced in the City. Commercial properties posted an increase of \$572.8 million or a year-over-year increase of 7.6%. Unsecured assets in Cupertino decreased \$700 million (or 28.9%) and were primarily attributable to assets owned by Apple Inc. that were transferred to commercial. Overall, the FY 21-22 property tax revenues are anticipated to increase by 3.5% over the previous fiscal year. There is still uncertainty around post-pandemic impacts to property values, such as expanded and/or permanent

telecommuting. 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:

FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
\$29,627,822	\$30,897,951	\$32,223,088	\$33,616,114	\$35,072,217

Transient Occupancy Tax continued to be impacted by COVID-19 and the shelter-in-place orders. As of December 31, 2021, the City recognized \$1.3 million in transient occupancy tax, which represents 45% of the total amount budgeted in FY 21-22. It also represents an increase of 52% over the Mid-Year point of FY 2020-21 and indicates recovery consistent with the City’s estimations.

Utility Tax decreased approximately \$15,000 (or 1%) representing consistent performance over the previous year.

Franchise Fees have increased by \$57,000 (or 9%) primarily due to an increase in Recology franchise fees collected.

Other Taxes have decreased by approximately \$648,000 (or 38%) primarily due to a one-time construction tax payment received from PSI Storage in FY 20-21.

Licenses and Permits increased by \$237,000 (or 12%) due to increased volume in building inspection fees.

Use of Money and Property increased by \$35,000 (or 4%) due to increased interest earnings from the City’s investment portfolio.

Intergovernmental Revenue has increased by \$2.4 million (or 236%) due to the American Rescue Plan Act funding received.

Charges for Services have increased by \$1.7 million (or 32%) driven mainly by increases in cost allocation charges. Additionally, charges for services experienced increases due to plan check fees.

Fines and Forfeitures have increased \$52,000 (or 97%) primarily due to increases in citations administered over the prior year.

Miscellaneous revenue has decreased by \$59,000 (or 6%) due primarily to an increase to an ongoing donation from Apple Inc. to fund additional law enforcement services that were offset with decreases in miscellaneous development agreement contributions.

Transfers In have increased by \$4.8 million (or 32,316%) due to a \$4.8 million transfers related to the American Rescue Plan Act.

Other Financing Sources decreased \$35,000 (or 40%) due to a reduction in refundable deposit administrative fees collected over the previous fiscal year.

Expenditures

As of mid-year, overall expenditures in the General Fund are up \$9.2 million (or 22%) when compared to the same time last year due primarily to increases in transfers out for the American Rescue Plan Act. The following table shows the differences between General Fund expenditures as of the mid-year in the current fiscal year and the prior fiscal year:

Comparison of FY 2020-21 and FY 2021-22 General Fund Mid-Year Expenditures

Expenditure Category	Mid-Year 2021	Mid-Year 2022	Variance	% Change
05 - Employee compensation	\$ 8,829,205	\$ 10,018,381	\$ 1,189,176	13%
10 - Employee benefits	4,117,014	4,701,573	584,559	14%
15 - Materials	1,926,628	1,826,518	(100,110)	-5%
20 - Contract services	10,271,661	10,595,937	324,275	3%
25 - Cost allocation	5,236,770	5,974,031	737,261	14%
30 - Capital outlays	23,470	32,700	9,230	N/A
31 - Special projects	658,758	953,489	294,731	45%
45 - Transfer out	10,148,689	16,099,371	5,950,682	59%
50 - Other financing uses	101,433	336,005	234,572	231%
Grand Total	\$ 41,313,629	\$ 50,538,005	\$ 9,224,377	22%

Salary and Benefits increases are approximately \$1.8 million (or 14%). Compensation increases are due primarily to labor negotiations approved by Council on July 16, 2019. Increases in salary, driven by cost-of-living adjustments and equity adjustments, can be anticipated for the span of the negotiation term ending June 30, 2022. Additionally, the FY 21-22 Adopted Budget included 6 new full-time benefitted positions (FTE). Shortly after the start of the fiscal year, the City Attorney’s Office moved from a contract service to in-house which also increased the FTE count. These classifications also experienced increases due to the timing of pay periods year-over-year. In FY 20-21, there were 12 pay periods in the first half of the year and 13 pay periods in FY 21-22. These increases

were offset by increases due to vacancy savings through attrition. Benefit increases were primarily due to retirement, health, and workers' compensation costs.

Materials costs are down approximately \$100,100 (or 5%) due primarily to decreases across Public Works materials accounts, specifically water and electrical charges.

Contract Services have increased approximately \$324,000 (or 3%) due primarily to increases in the City's sheriff contract with the County. The increases were offset by reductions due to the City Attorney function moving from contract to in-house.

Cost Allocation increases are approximately \$737,000 (or 14%) due primarily to increases in I&T and Human Resources charges.

Capital Outlay costs are up approximately \$9,000, due to capitalizable facilities costs that were not incurred in the previous fiscal year.

Special Projects increases are approximately \$295,000 (or 45%) due to fluctuations in one-time expenditures.

Transfers Out increases are approximately \$6.0 million (or 59%) and are due to a one-time transfer out within the General Fund for the American Rescue Plan Act.

Other Financing Uses have increased \$235,000 (or 231%) due to refundable deposit on-call contracts for the Community Development Department.

All Other Funds Update and Year End Projections

Revenue

As of mid-year, revenue in all other funds is tracking at \$40.2 million (or 91%) higher than the same time last year due primarily to an increase in transfers from the General Fund to the Capital Improvement Program and a one-time development agreement contribution to the City's Park Dedication Special Revenue Fund.

Revenue Category	Mid-Year 2021	Mid-Year 2022	Variance	% Change
30 - Other taxes	\$ 263,532	\$ 9,367,692	\$ 9,104,160	3455%
40 - Use of money and property	545,022	646,636	101,614	19%
45 - Intergovernmental revenue	1,706,607	1,689,213	(17,394)	-1%
50 - Charges for services	4,227,676	5,244,077	1,016,401	24%
55 - Fines and forfeitures	3,923	34,133	30,210	770%
60 - Miscellaneous	2,042,549	2,167	(2,040,382)	-100%
65 - Transfers in	12,138,138	23,040,032	10,901,894	90%
70 - Other financing sources	156,140	188,157	32,016	21%
Grand Total	\$ 21,083,588	\$ 40,212,106	\$ 19,128,518	91%

Other Taxes increased approximately \$9.1 million (or 3,455%) due to a one-time development agreement (Westport) received in the Park Dedication Special Revenue Fund.

Use of Money and Property increased by approximately \$102,000 (or 19%) due to increased interest earnings from the City's investment portfolio compared to the previous fiscal year.

Intergovernmental Revenue remained relatively consistent over the previous fiscal year.

Charges for services increased approximately \$1.0 million (or 24%) primarily due to increases in Youth, Teen, and Recreation and Sports Center compared to the previous fiscal year.

Fines and forfeitures increased approximately \$30,000 (or 770%) due to an increased volume in citations administered over the prior year.

Miscellaneous revenue decreased approximately \$2.0 million (or 100%) due primarily to a relative reduction year-over-year in Apple donations received for various City bike/ped capital projects as these projects near completion.

Transfers In increased approximately \$10.9 million (or 90%) due to an increase in new Capital Improvement Program projects in FY 21-22 require a transfer out of the Capital Reserve.

Other financing sources increased approximately \$32,000 (or 21%) due to an increase in cost allocation revenues received by Human Resources for Workers' Compensation.

Expenditures

As of mid-year, overall expenditures are tracking at \$28.0 million (or 40%) higher than the same time last year due primarily to increases in transfers out and contract services.

Expenditure Category	Mid-Year 2021	Mid-Year 2022	Variance	% Change
05 - Employee compensation	\$ 2,187,881	\$ 2,347,874	\$ 159,993	7%
10 - Employee benefits	1,592,695	1,719,788	127,093	8%
15 - Materials	933,459	928,387	(5,072)	-1%
20 - Contract services	1,513,681	2,577,781	1,064,100	70%
25 - Cost allocation	1,095,270	1,210,435	115,165	11%
30 - Capital outlays	6,282,774	5,109,770	(1,173,005)	-19%
31 - Special projects	2,348,076	1,609,569	(738,507)	-31%
40 - Debt services	1,726,694	398,000	(1,328,694)	-77%
45 - Transfer out	2,004,449	11,803,048	9,798,599	489%
Grand Total	\$ 19,974,936	\$ 27,991,803	\$ 8,016,867	40%

Salary and Benefits increases are approximately \$287,000 (or 7.6%). Compensation increases are due primarily to labor negotiations approved by Council on July 16, 2019. Increases in salary, driven by cost-of-living adjustments and equity adjustments, can be anticipated for the span of the negotiation term ending June 30, 2022. These classifications also experienced increases due to the timing of pay periods year-over-year. In FY 20-21, there were 12 pay periods in the first half of the year and 13 pay periods in FY 21-22.

Materials have remained relatively consistent over the previous fiscal year.

Contract Services have increased approximately \$1.1 million (or 70%) due, but not limited, to increased services provided at the Sports Center.

Cost Allocation increased approximately \$115,000 (or 11%) due primarily to increases in Innovation & Technology, Human Resources, and Finance charges.

Capital Outlays decreased approximately \$1.2 million (or 19%) due to a relative reduction in the number of projects progressing compared to last year including, but not limited to, the Library Expansion and the acquisition of Lawrence Mitty Park.

Special Projects decreased approximately \$739,000 (or 31%) due to decreases in annual asphalt project spending.

Debt Service decreased approximately \$1.3 million (or 77%) due to the refinancing of the City's Certificates of Participation.

Transfers Out increased \$9.8 million (or 489%) due to an increase in new Capital Improvement Program projects in FY 21-22 that require a transfer out of the Capital Reserve.

Budget Adjustment Requests

As of the mid-year 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	Expenditure	Recommended Adjustments		Description
			Revenue	Fund Balance (Use of)	
GENERAL FUND					
100	Non-Departmental	10,000,000	-	(10,000,000)	Transfer from General Fund to Capital Reserve
TOTAL GENERAL FUND		10,000,000	-	(10,000,000)	
SPECIAL REVENUE FUND					
280	CIP	910,000	-	(910,000)	Lawrence-Mitty Park Debris Removal, Clean Up, and Tree Removal
TOTAL SPECIAL REVENUE FUND		910,000	-	(910,000)	
CAPITAL PROJECTS FUND					
420	CIP	(1,847,699)	-	1,847,699	All-Inclusive Play Area Budget Reduction
429	Non-Departmental	-	10,000,000	10,000,000	Transfer from General Fund to Capital Reserve
TOTAL CAPITAL PROJECTS FUND		(1,847,699)	10,000,000	11,847,699	
ENTERPRISE FUND					
520	Public Works	350,000	-	(350,000)	New Landfill Agreement and Solid Waste Consulting Services
560	Parks & Recreation	10,300	-	(10,300)	Tree Maintenance
560	Parks & Recreation	9,350	220,000	210,650	Additional Revenue Estimate and Bank Charges
TOTAL ENTERPRISE FUND		369,650	220,000	(149,650)	
INTERNAL SERVICE FUND					
630	Public Works	26,000	-	(26,000)	Leaf Blower Replacement
TOTAL INTERNAL SERVICE FUND		26,000	-	(26,000)	
TOTAL ALL FUNDS		9,457,951	10,220,000	762,049	

Lawrence-Mitty Park (CIP) (280-99-009)

The future site of the Lawrence Mitty Park is a vacant parcel of land that is easily accessible and attracted numerous trespassers to congregate on the property. Although the Lawrence Mitty Park and Trail Master plan is underway, some pre-development work is necessary to secure the site and make it less attractive to trespassers until construction commences. Since the site was mainly used by the County as a storage yard, there are stockpiles of construction and demolition debris on site which create barriers for trespassers to be fully obstructed from Lawrence Expressway. The removal

of the debris and enhancing security measures would make it less attractive for those trespassers currently residing on the property. The pre-development work includes coordination efforts to relocate the trespassers, removal, and disposal of approximately 3,300 cubic yards of debris, clean-up of the materials left onsite by trespassers, and tree trimming. The total cost is estimated to be approximately \$910,000.

All-Inclusive Play Area (CIP) (420-99-051)

All-Inclusive Play Area Budget Reduction – On February 19, 2021, staff issued a memorandum to City Council to provide an update on Jollyman Park All-Inclusive Playground and Grant. As stated, a Request for Proposals (RFP) was issued in December 2019 for professional fundraising services for the Jollyman Park Playground. Three firms were found qualified to provide services. Further evaluation following this process concluded that the fundraising goal for the Playground was too high. During this time, the COVID-19 pandemic shutdowns commenced and it was not appropriate to proceed with designing a project that might substantially exceed the available funding. Experiences by other similar all-inclusive projects elsewhere in the County indicated that the greater than \$2 million donation goal was too high. After this conclusion, staff contacted the County to inquire about adjusting the project to structure it for success. Collaboration continued with County staff to identify lower, more realistic fundraising target, associated adjustment of project features to meet goals while reducing total project cost, and longer timeline for project delivery. As a result, staff are recommending a reduction to the fundraising goal of \$1 million and an associated reduction of the total project budget of \$1,847,699.

Resource Recovery (520-81-801)

New Landfill Agreement and Solid Waste Consulting Services – The City’s current landfill agreement expires in November 2023. All available options for waste disposition need to be considered, including renewing the current agreement, routing construction and demolition debris to a separate facility, and routing materials through a materials recovery facility. Additionally, the current Franchise Agreement with Recology requires a cost-based rate adjustment review process to inform the maximum rates for year four, which begins February 1, 2024, and recommends a performance review during rate year four. Originally anticipated to begin in July 2022, review of timelines and deadlines suggests an earlier start to this long process is advisable, so creation of this special project and one-time appropriations of \$350,000 are being requested as a mid-year adjustment to allow preliminary work to begin during FY 21-22.

Blackberry Farm Golf Course (560-63-616)

Tree Maintenance - \$10,300 in additional appropriations are being requested for tree maintenance, including preventative tree work to remove dense or dead trees at the

Blackberry Farm Golf Course. Due to the recent drought, more tree maintenance has been needed to reduce risk to the golf course users.

Additional Revenue Estimate and Bank Charges - The Blackberry Farm (BBF) Golf Course requires \$9,350 of additional appropriations for bank charges that have resulted due to unanticipated increases in program revenues. Due to the pandemic, golf continues to be popular and one of the safer outdoor activities available to the community. Revenue received from club and cart rentals, merchandise sold at the pro shop, and green fees have exceeded what was originally estimated. The program requires additional funds to continue to cover the excess bank charges from the additional revenue earned and the projected revenue (\$220,000) for the rest of the fiscal year.

Equipment Maintenance (630-85-849)

Leaf Blower Replacement – Staff are requesting \$26,000 in additional appropriations to replace the City’s numerous leaf blowers. These funds will be used to comply with Cupertino's new blower noise ordinance that goes into effect November 2022 and reduce noise pollution in the community. This request will replace 55 blowers for service center maintenance staff. Due to supply shortages, staff are recommending the request at this time as opposed to waiting to include in the FY 22-23 Proposed Budget.

Non-Departmental (100-90-001 & 420-90-001)

Transfer to Capital Reserve – Staff are recommending a \$10,000,000 transfer of excess General Fund fund balance to the Capital Reserve for purpose of funding current and future capital projects. This request does not appropriate these dollars for specific projects; rather, it simply moves the cash out of the General Fund and into the Capital Reserve.

Section 115 Trust (PRSP) – Staff are recommending an additional contribution of \$2,000,000 to the City’s Section 115 Trust (Pension Rate Stabilization Program). The City established this trust with PARS in 2018 for purposes of 1) maintaining local control over assets, 2) mitigating impact of large pension cost fluctuations, 3) potential for higher investment returns than General Fund, and 4) asset diversification. The trust’s assets are required to be used to pay CalPERS for related retirement costs; however, at this time, staff do not anticipate drawing down from this trust in the near future. In 2018, the City made an additional contribution of \$8,000,000 and had recommended funding \$2 million annually for five (5) years. With this strategy, the trust would accumulate sufficient funds to pay the difference between a 7% and 6.25% discount rate, or approximately \$42 million. With a total principal contribution amount of \$14 million to date, approving this \$2 million additional contribution will allow the City to be on schedule to address this funding gap by 2037. This transfer request moves

funds from the General Fund's unassigned fund balance classification to the restricted fund balance classification and therefore does not require a budget adjustment or appropriation. Per the City's Committed, Unassigned Fund Balance, and Use of One Time Funds Policy, funds in this trust may be used only at the discretion of City Council.

Staffing

The Amended Budget as of December 31, 2021, has a total of 203.75 FTEs (208.75 including City Council). Staff are recommending the following changes which will have no fiscal impact for the remainder of FY 21-22.

Reclassify (One) Limited-Term Project Manager Position to Full Term Position - The majority of active projects residing with the CIP group are longer than 1 - 2 year projects. Presently there are two limited term CIP Project Manager positions, expiring November 2022 and June 2023, that we'd ask to convert into regular term positions. The project manager in this position is working on long term projects, as are all the Project Managers, and it would be a disruptive and financially ineffective to the progress of the projects if CIP were to lose this Project Manager positions. CIP Group staff strive to complete the numerous projects in the City's Work Plan and having talented, dependable, and experienced Project Managers is important. The reclassification of this position will allow the City to continue utilizing the Project Managers to complete their projects and take on additional projects without any disruption.

Fund Balance

The City's General Fund ended FY 2020-21 with \$96.9 million in total fund balance. As part of the FY 2021-22 Adopted Budget, the City projected ending the fiscal year with \$83.1 million in total fund balance. As of the First Quarter Report, the City updated its year-end projections for FY 2021-22 to \$111.9 million in total fund balance, an increase of \$28.8 million due to increases in revenues received and lower expenditures in FY 2020-21. Projected year-end fund balance as of mid-year FY 2021-22 is estimated to be \$101.8 million. The \$101.8 million projection includes a one-time transfer out of \$10 million to the Capital Improvement Program Reserve Fund, a \$2 million contribution to the Section 115 Pension Trust, an increase to the Economic Uncertainty Reserve from \$19 million to \$24 million, and the establishment of a \$10 million Committed Capital Projects Reserve. If approved, projected ending unassigned fund balance will be \$37.2 million.

General Fund Classification of Fund Balance

CLASSIFICATION	Actuals	Year End	Adopted	1st Quarter	Mid-Year End
	2019-20	Projection	Budget	Year End	Projection
	2019-20	2020-21	2021-22	2021-22	2021-22
Non Spendable	3.45	3.44	3.44	3.44	3.44
Restricted	14.32	20.14	21.87	21.92	22.20
Committed	19.13	19.13	19.13	19.13	34.13
Assigned	3.18	4.91	3.00	4.91	4.91
Unassigned	34.43	49.23	35.70	62.47	37.15
TOTAL FUND BALANCE	74.51	96.85	83.13	111.87	101.84

To date, the City’s external 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 to these figures.

Per the City’s Committed, Unassigned Fund Balance, and Use of One Time Funds 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 – **increasing from \$19 million to \$24 million**
2. PERS - **\$2 million contribution (4th of 5 contributions)**
3. Sustainability Reserve
4. **Capital Projects - \$10 million**
5. Unassigned

Staff recommend increasing the Economic Uncertainty Reserve from \$19 million to \$24 million. This increase more accurately reflects the formula stated in the City’s “Committed, Unassigned Fund Balance, and Use of One Time Funds Policy” (page 105 of the Adopted Budget).

	FY			Monthly Average	1.5 Month Average	Two Month Average
	2019	2020	2021			
General Fund Revenue	\$ 88,802,313	\$ 111,064,590	\$ 106,217,493	\$ 8,502,344	\$ 12,753,517	\$ 17,004,688.67
General Fund Expenditures	\$ 63,014,100	\$ 64,589,176	\$ 68,723,837	\$ 5,453,531	\$ 8,180,296	\$ 10,907,061.83
Economic Uncertainty Reserve Calculation						
\$	23,660,578.33					

Staff are also recommending the establishment of a Committed Capital Projects Reserve with a starting balance of \$10 million. The City’s Capital Improvement Program (CIP), while it has been funded with grants and donations, has primarily been funded with General Fund resources (\$68 million over the last 6 fiscal years). As a result, the CIP has

become heavily reliant on a funding source that may not always have similar levels of funding from one year to the next. Establishing a Committed Reserve will provide financial planning support to ensure resources are readily available to fund future CIP projects. This reserve will be established at \$10 million and, only with City Council authority, will be used to fund future capital projects.

Performance Measures & Workload Indicators

Updated performance measures and workload indicators that align with government and private industry best practices have been included in the Mid-Year Financial Report. Attachment C represents the status of the performance measures as of Mid-Year.

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 December 31, 2021, \$2,400 was used to assist with funding a Tripepi Smith contract for the Housing Op-Ed.

American Rescue Plan Act of 2021 (ARP)

On September 7, 2021, City Council approved use of American Rescue Plan Act of 2021 funding allocation and approved budget modification #2122-162 increasing appropriations in the General Fund (100-90-001 page 583 of the FY 2021-22 Adopted Budget) by \$4,847,386.50 and revenues in the General Fund by \$4,847,386.50. Of the four (4) allowable uses of funds:

1. Public Health/Negative Economic Impacts,
2. Premium Pay,
3. Revenue Loss, and
4. Investments in Water, Sewer, and Broadband

Staff recommended, and City Council approved the allocation of use towards Revenue Loss. City staff anticipate realizing these "losses" before December 31, 2023, the end of the period of availability. This action allows the City to maintain current levels of operations and government services and affords City Council the continued ability to consider new projects and initiatives in the future. The budget modification moves dollars from the General Fund's Non-Departmental Department to all other Departments in the General Fund for purposes of substantiating and reporting the use of grant dollars received. As expenditures are incurred, and revenue losses are realized, the City will recognize the \$4,847,386.50 in revenues on a matching basis. As of

December 31, 2021, the City has recognized \$3,054,213 of ARP revenues (\$286,248 in Q2). Below is the status of the specific items as of December 31, 2021, that were approved by ARP funding.

Project Title	Budgeted Amount	Expenditures as of September 30, 2021*	Expenditures as of December 31, 2021*	Total Expenditures Life-to-Date	Budget Remaining
CWP - Climate Action Plan	\$ 78,000	\$ 40,465.94	\$ 37,534	\$ 78,000	\$ -
CWP - Personal Preparedness	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
Administration Overhead (Cost Allocation)	\$ 249,106	\$ 62,276.50	\$ 62,277	\$ 124,553	\$ 124,553
Administration Overhead (Cost Allocation)	\$ 134,039	\$ 33,509.75	\$ 33,510	\$ 67,020	\$ 67,020
Internal Audit	\$ 150,000	\$ -	\$ 50,425	\$ 50,425	\$ 99,575
General Liability Insurance	\$ 182,112	\$ 182,112.00	\$ -	\$ 182,112	\$ -
CWP - Homeless Jobs Program	\$ 200,000	\$ -	\$ 5,187	\$ 5,187	\$ 194,813
CWP - General Plan and Muni Code Update	\$ 250,000	\$ 8,264.74	\$ 10,787	\$ 19,052	\$ 230,948
CWP - RHNA	\$ 295,000	\$ -	\$ 59,645	\$ 59,645	\$ 235,355
CWP - Encouraging Dark Sky Compliance	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
CWP - Development Accountability	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
CWP - Sign Ordinance Update	\$ 25,000	\$ -	\$ -	\$ -	\$ 25,000
Regulating Diversified Retail Use	\$ 4,862	\$ -	\$ -	\$ -	\$ 4,862
Community Funding	\$ 82,396	\$ 82,396.00	\$ -	\$ 82,396	\$ -
Accela Business License	\$ 17,500	\$ -	\$ 17,500	\$ 17,500	\$ -
Customer Service Solution	\$ 65,000	\$ 42,180.00	\$ 7,163	\$ 49,343	\$ 15,658
ERP exploration	\$ 50,000	\$ -	\$ -	\$ -	\$ 50,000
Performance Management Application	\$ 13,808	\$ -	\$ -	\$ -	\$ 13,808
Law Enforcement Services (SCC)	\$ 972,987	\$ 972,987.00	\$ -	\$ 972,987	\$ -
CWP - Municipal Water System	\$ 10,000	\$ 10,000.00	\$ -	\$ 10,000	\$ -
CWP - Revisit 5G	\$ 250,000	\$ -	\$ -	\$ -	\$ 250,000
Replenish Transfer to Fund 270 for Pavement Maintenance	\$ 1,333,773	\$ 1,333,773.00	\$ -	\$ 1,333,773	\$ -
CWP - Mental Health Support	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
CWP - Senior Strategy	\$ 34,000	\$ -	\$ 2,221	\$ 2,221	\$ 31,779
CWP - Dogs Off Leash Area	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
CWP - Revamping Block Leader and Neighborhood Watch	\$ 1,500	\$ -	\$ -	\$ -	\$ 1,500
Library Services	\$ 403,304	\$ -	\$ -	\$ -	\$ 403,304
TOTAL	\$ 4,847,387	\$ 2,767,965	\$ 286,248	\$ 3,054,213	\$ 1,793,174

* To the extent of ARP allocations that have been budgeted.

Conclusion

The Mid-Year Financial Report shows the City is well-positioned to move forward. City staff recommend adjustments of \$9,457,951 in new appropriations funded by \$10,220,000 in revenues. If approved, the City's fund balance will increase by \$762,049.

Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Jim Throop, City Manager

Attachments:

A – Draft Resolution

B – Mid-Year Financial Report for Fiscal Year 2021-22

C – Mid-Year Performance Measures

D – Mid-Year Budget Adjustment Journal

E – Budget Transfers Detail as of 12.31.2021

F – Committed, Unassigned Fund Balance, and One Time Funds Policy (Clean)

G – Committed, Unassigned Fund Balance, and One Time Funds Policy (Redline)