



## DISCUSSION CALENDAR

### Agenda Item # 7

## AGENDA REPORT SUMMARY

**Meeting Date:** March 10, 2020

**Subject:** Resolution No. 2020-05: Approving Fiscal-year 2019/20 Mid-year Financial Update, budget adjustments, and updated Salary Schedule

**Prepared by:** Sharif Etman, Administrative Services Director

**Approved by:** Chris Jordan, City Manager

**Attachment(s):**

1. Resolution No. 2020-05
2. Updated Salary Schedule

**Initiated by:**

Staff

**Previous Council Consideration:**

N/A

**Fiscal Impact:**

The proposed budget amendments for the Operating Budget total \$630K.

**Environmental Review:**

Not applicable

**Policy Question(s) for Council Consideration:**

- Does the Council concur with the Mid-year Financial Update and budget adjustments?

**Summary:**

- Revenue in all areas is trending as expected. The current economy continues to be strong and provide solid revenues. Expenses City-wide are projected to be under budget at the mid-year point
- Only minor adjustments are recommended to the Operating Budget at this time. These adjustments total \$630K for the General Fund and are discussed later in this report. One limited term (two-year) position is being recommended – Management Analyst Fellow for the Recreation Department.
- An adjustment of \$40K in the Equipment Replacement Fund and \$500K in the Sewer Fund are also being proposed.
- FY 2018/19 closed out with \$6.8M in fund balance. The recommended appropriation back to our Operating reserve and CIP fund is also highlighted



**Subject:** Resolution No. 2020-05: Approving Fiscal-year 2019/20 Mid-year Financial Update, budget adjustments, and updated Salary Schedule

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**Staff Recommendation:**

Adopt Resolution No. 2020-05, approving the Fiscal-year 2019/20 Mid-year Financial Update, budget adjustments, and updated Salary Schedule, including assignment of fund balance as outlined



**Subject:** Resolution No. 2020-05: Approving Fiscal-year 2019/20 Mid-year Financial Update, budget adjustments, and updated Salary Schedule

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### **Purpose**

To review estimated revenues and expenses for the first half of FY 2019/20 in comparison to the Adopted FY 2019/20 Budget and adjust, if necessary. The mid-year review is also when the Council assigns fund balance when applicable and reviews its reserves.

### **Background**

The City Council-approved Operating Budget serves as the annual plan and resource allocation that guides and ensures implementation of City Council policies and priorities. The budget implements the vision and direction for the range of services that meet the needs of the community.

A high-level financial review, as of December 31, 2019, provides the mid-year budget update to the City Council for the current fiscal year. Analysis of the revenues collected and all expenditures through December 31, 2019 measures the budget's adherence to the established resource allocation plan. Proposed budget amendments make the necessary adjustments identified during the mid-year financial review.

### **Discussion/Analysis**

City finances are trending positively at the mid-year point. Overall, City revenues especially property tax continue to show solid growth, with others trending as expected. City expenditures demonstrate prudent fiscal management as departments are operating within their allocated budget amounts when adjusting for anomalies.

### **General Fund**

Revenues are expected to trend below the 50% mark at mid-year due to timing delays in the receipt of major revenues, such as property tax. Expenditures are expected to trend below the 50% mark at mid-year as well.

### **General Fund Revenue**

Revenue items of note are:

- Sales tax revenues remain flat but are expected to achieve the current year budget levels. UUT revenues are expected to be close to budget at year-end; however, staff continues to monitor this category closely.
- Transient Occupancy Tax revenues will continue to rise as we receive increased revenues based on the increase in TOT from 11% to 14% which is being phased in over three fiscal years.



**Subject:** Resolution No. 2020-05: Approving Fiscal-year 2019/20 Mid-year Financial Update, budget adjustments, and updated Salary Schedule

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- Interest income is projected to exceed estimates at mid-year based on the timing of actual payments and fluctuate greatly this year due to consistently changing market conditions.
- Community Development fees and revenues continue to remain strong due to robust construction and various projects throughout the City.

### **General Fund Expenditures**

- All Departments are currently spending within their approved budgets and trending as expected at the mid-year point.

### **Other Funds**

- The Sewer Fund revenues typically lag at mid-year along with expenses. A more detailed analysis will be made after the third quarter of the year.
- The Solid Waste fund and the Self Insurance Funds (Worker's Comp and Liability) are all trending as expected.

### **Proposed Mid-year Budget Adjustments**

#### **Operating Budget (General Fund):**

The proposed budget adjustments are recommended to be funded by existing budgeted revenues. The recommended adjustments total \$630K for the General Fund.

- **Engineering Services Department**
  - **Professional Services (\$100K)** – Increase in professional fees to assist the Engineering Services Department in various engineering tasks and support such as for traffic planning/engineering and land surveyors.
- **Recreation Department**
  - **Management Analyst Fellow (\$30K, 110K full fiscal year)** – A limited two-year term Management Analyst Fellow position to assist the Recreation Department with its transition into the new Community Center. The position will assist with programming, staff support and analyses as needed.
- **City Attorney**



**Subject:** Resolution No. 2020-05: Approving Fiscal-year 2019/20 Mid-year Financial Update, budget adjustments, and updated Salary Schedule

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- **Legal Expenses (\$500K)** - Increase in legal fees is anticipated due to a requested increase in the level of services provided by the City Attorney's Office, as directed by the City Council, and by continuing litigation expenses and labor relations.
- **Updated Salary Schedule (No fiscal impact)**
  - An updated salary schedule for the current fiscal year is included as Attachment 2 in this report. The updated schedule incorporates any changes and reclasses made to date. Any costs are offset by current vacancy savings. Changes of note are:
    - New classification of Public Information Officer
    - New classification of Police Records Supervisor
    - Updated the City Manger's pay based on the latest contract approved by City Council

**Equipment Replacement Fund:**

- **Police Department Vehicle Modifications (\$40K)** – to account for specific modifications needed for police rescue vehicle and patrol vehicle after purchase.

**Sewer Fund:**

- **Adobe Creek Sewer Main (\$500K)** - This new project would replace, and for some segments realign, up to approximately 50 sanitary sewer main segments (6,580 linear feet) located along or near Adobe Creek. The sewer line segments identified for this project are located near the City's border with the Town of Los Altos Hills, north of Manresa Avenue and south of Edith Avenue. City staff has determined that the Adobe Creek sewer main is at capacity and has significant structural and maintenance issues. There are approximately 13 or more locations in the project area where sewer mains cross under Adobe Creek. The proximity of these lines to the creek causes a high potential for contamination in the event of sewer line failures or overflow. Replacement of these pipes is important to maintain the structural integrity of pipes in these high-risk locations. Likewise, realignment, where possible, would improve access for maintenance and reduce the risk of creek contamination in the event of an overflow. The funds allocated would pay for initial planning and design.

**Allocation of Unassigned Fund Balance (\$6.8M):**

Currently the City has \$6.84M in unassigned fund balance from the revenue over expenses achieved in FY 2018/19. Our recommendation is to assign this amount to our reserves as follows:

- Emergency and Operating Reserve – \$2.85M to replenish the amount spent on the purchase of 999 Fremont Ave; an additional \$1.0M to reach 20% reserved per policy.



**Subject:** Resolution No. 2020-05: Approving Fiscal-year 2019/20 Mid-year Financial Update, budget adjustments, and updated Salary Schedule

- Approximately \$3.0M to Capital Improvement Projects (CIP) fund – to fund CIP costs for this year and future projects.
- No additional funds are available for the PERS reserve or Community Center at this time.

<b>Assigned Fund Balance</b>	<b>As of June 30, 2019</b>	<b>Proposed Allocation</b>	<b>Reserves after allocation</b>
Emergency and Operating*	\$ 7,250,645	3,850,000	\$ 8,250,374
OPEB	1,500,000	-	\$ 1,500,000
PERS Reserve	5,000,000	-	\$ 5,000,000
Technology Reserve	1,574,089	-	\$ 1,574,089
CIP Reserve	416,263	2,991,453	\$ 3,407,716
Community Center Reserve	23,695,425	-	\$ 23,695,425
Equipment Reserve	1,078,044	-	\$ 1,078,044
<b>Total Unassigned Fund Balance</b>	<b>\$ 40,514,466</b>	<b>\$ 6,841,453</b>	<b>\$ 47,355,919</b>

\*Includes 999 Fremont Payment of \$2.85M and \$1.0M to achieve 20% of Expenditure Budget

### Capital Improvement Program and 10-year plan

The City's Capital Improvement Program (CIP) consists of a multitude of projects at varying phases of the project cycle. The Five-year CIP Budget and 10-year plan will be reviewed and discussed in detail at the joint Financial Commission and City Council meeting scheduled for April 28, 2020.



**Subject:** Resolution No. 2020-05: Approving Fiscal-year 2019/20 Mid-year Financial Update, budget adjustments, and updated Salary Schedule

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## Options

- 1) Adopt Resolution No. 2020-05, approving the mid-year report and proposed budget adjustments and updated salary schedule

**Advantages:** Adjustments made will ensure proper funding and spending within budgeted amounts. The additional positions will ensure projects and deadlines are completed for Council and staff. Reserves will be properly assigned

**Disadvantages:** None identified

- 2) Do not adopt Resolution No. 2020-05 approving the mid-year report and proposed budget adjustments and updated salary schedule

**Advantages:** None identified

**Disadvantages:** Expenditures may not be properly aligned with current budget. Projects and deadlines may not be met without further staff support. Fund balances will remain unassigned

## Recommendation

The staff recommends Option 1.