


12/6/22

Item #6



Council and Authorities Concurrent Meeting

Item #6 - Action on FY 2021/22 Budget Year-End Report and Approve the Related Budget Amendments

December 6, 2022

Agenda

- Overview
- Year-End Results
- Next Steps
- Recommended Actions

Overview

- General Fund revenues of **\$242.2 million** were below General Fund expenditures of **\$262.6 million** as planned; one-time funds used to balance the FY 2021/22 budget
- General Fund ended the year with additional fund balance due to slightly higher revenues and expenditure savings compared to estimates
- Transient Occupancy Tax receipts continued to be the most impacted by COVID-19
- Other funds generally ended FY 2021/22 within estimated levels with some adjustments necessary
- Ended FY 2021/22 with heightened economic uncertainty



Overview

2021/22 Year-End Report

- Detailed summary of General Fund and other funds performance
- General Fund reconciling budget actions and allocation of modest fund balance
- Itemization of FY 2021/22 budget ratifications to address limited number of expenditure overages
- Itemization of FY 2022/23 budget amendments, including reconciliations of CIP carryovers, donations, grants, other fund carryovers, and fund balance adjustments



Year-End Results – General Fund

General Fund

- Revenues of \$242.2 million ended 2.2% above budget or **\$5.2 million**
- Expenditures of \$262.6 million were 5.1% below budget or **\$14.2 million**
- Advanced Planning Fee Reserve and Technology Fee Reserve adjustments total **\$2.0 million** (excess revenue and expenditure savings)
- Additional fund balance of **\$19.8 million** over the estimate used to develop FY 2022/23 Adopted Budget; allocated to technical adjustments to close out FY 2021/22 (\$8.7 million) and to meet Council policies, plan for FY 2023/24, and address high priority needs (\$11.1 million)
- No surplus funds available for other reserves (Pension Trust and Budget Stabilization Reserve)

General Fund Revenues

- Revenues above budget by **\$5.2 million (2.2%)**
- Higher revenue performance in the Property Tax, Silicon Valley Power (SVP) Transfer, Transient Occupancy Tax, and Licenses and Permits categories
- Portions of the higher revenues will be allocated to the Advanced Planning Fee Reserve and the Technology Fee Reserve
- Lower revenue performance in the Sales Tax, Fines and Penalties, and Interest categories (lower interest earnings due to losses in the Pension Trust Fund that will result in a reduction to the Pension Stabilization Reserve)

FY 2021/22 General Fund Revenues

	FY 2018/19 Actual	FY 2019/20 Actual	FY 2020/21 Actual	FY 2021/22 Actual	Outlook
Property Tax	\$58.4 M	\$65.5 M	\$68.8 M	\$74.6 M	↔
Sales Tax	\$58.5 M	\$55.3 M	\$56.2 M	\$56.9 M	↓
Silicon Valley Power Transfer	\$21.3 M	\$22.7 M	\$24.5 M	\$27.3 M	↑
Transient Occupancy Tax	\$22.5 M	\$16.0 M	\$2.9 M	\$10.8 M	↑

General Fund Expenditures

Expenditures below budget by **\$14.2 million** (5.1%)

- All departments remained within budget
- Salaries and Benefits generated savings of **\$10.3 million** (6.0%)
 - Cost control measures and vacancy savings
- Non-personnel generated savings of **\$3.9 million** (3.7%)
 - Savings in the materials/services/supplies category
 - Adopted budget assumed carryover of unspent funds (\$1.2 million)
 - Two additional carryovers recommended (\$0.5 million)

Year-End Results – Other Funds

Convention Center Fund

- Revenues of \$10.4 M ended \$0.2 M above budget; expenditures of \$9.7 M were \$1.7 M below budget
- FY 2021/22 ending balance of \$2.6 million exceeded expectations

Electric Utility Fund

- Revenues of \$542.3 M ended \$18.4 M above budget; higher customer service charges and wholesale revenues
- Expenditures of \$555.1 M were \$46.7 M above budget; higher sales volume required additional market purchases at a higher cost due to an increase in natural gas prices (2-3 times higher than in 2021)
- Required reserves remain at expected levels; infrastructure reserve defunded

Year-End Results – Other Funds

Sewer Utility Fund

- Revenues of \$54 M ended \$14.2 M above budget primarily due to return of funding from the City of San José for the Regional Wastewater facility project
- Expenditures of \$36 M were \$0.9 M below budget
- FY 2021/22 ending balance/reserves of \$47.7 M exceeded estimate by \$15.1 M
- Recommendation to use excess fund balance along with additional fund balance to transfer \$32.5 M to the Sewer Utility Capital Fund to avoid negative ending balance in the capital fund
- Capital fund below projected levels because debt proceeds not received in FY 2021/22 and technical adjustment to break out restricted/unrestricted balances
- Staff is evaluating timing of debt issuance to address sewer capital needs

Recommended Adjustments

- **FY 2021/22 Budget Adjustments**

- Appropriations in 12 funds (\$47.0 million) that exceeded the appropriation control limit; \$46.7 million in Electric Utility Fund due to unanticipated increased costs

- **FY 2022/23 Budget Adjustments**

- Adjustment of Beginning and Ending Fund Balances for all funds
- Complete critical city projects and contracts (carryovers)
- Close-out of projects
- True-up revenues/appropriations to reflect anticipated activity levels



Recommended Adjustments

- **General Fund Adjustments**

- Beginning Fund Balance and Reserves Reconciliation
- Advanced Planning Reserve (\$1.5 million) and Technology Reserve (\$0.5 million) reconciliation
- Recommended technical adjustments to close out FY 2021/22 (\$8.7 million)
- Recommended allocation of \$11.1 million in fund balance

- **CIP, Grants, Donations, and Other Funds Reconciliation**

- CIP carryover true-up – reduction of \$2.4 million
- Grants carryover – \$4.1 million
- Donations and reimbursements carryover funds – \$1.7 million
- Other expenditure carryovers – \$7.7 million



Recommended Adjustments

General Fund Recommended Use of Fund Balance	Unrestricted Ending Fund Balance
Fund Balance Reconciliation (adjusts for FY 2021/22 year-end revenues and expenditures)	\$19.8 M
FY 2021/22 Close-Out: Required Technical Adjustments	\$8.7 M
Recommended Adjustments	\$11.1 M
Available Fund Balance After Recommended Adjustments	\$0.0 M

Recommended Adjustments

General Fund Recommended Use of Fund Balance	Impact on Fund Balance
<i>FY 2021/22 Close-Out: Required Technical Adjustments</i>	
BSR Reconciliation to FY 2022/23 beginning estimate assumed in the Adopted Budget and other adjustments to close out FY 2021/22, including funding carryover)	\$0.4 M
Land Sale Reserve: replenish reserve used to cover additional labor costs in FY 2022/23 from bargaining unit agreements (intended to replenish with FY 2021/22 savings)	\$4.2 M
Development Fee Reserves: sets aside funding to establish new development fee funds (Fire, Public Works, Planning)	\$2.0 M

Recommended Adjustments

General Fund Recommended Use of Fund Balance	Impact on Fund Balance
<i>FY 2021/22 Close-Out: Required Technical Adjustments</i>	
Non-Departmental: Property Tax excess ERAF contingency funds to address potential legal challenge from school districts	\$1.7 M
Police contractual services carryover due to delayed invoicing for Axon Body Worn Cameras	\$0.3 M
Non-Departmental - IT cost/benefit organizational analysis carryover	\$0.1 M
Total Required Technical Adjustments	\$8.7M

Recommended Adjustments

General Fund Recommended Use of Fund Balance	Impact on Fund Balance
<i>Recommended Adjustments</i>	
Capital Projects Reserve (bring Reserve to Council policy level of \$5 M; separate actions will return project savings to CPR to bring to \$5 M)	\$4.8 M
Union Pacific Railroad Capital Project (design and construction) – storm drain portion of project (set aside funds in CPR)	\$1.7 M
Fire Truck Purchase	\$2.0 M

Recommended Adjustments

General Fund Recommended Use of Fund Balance	Impact on Fund Balance
<i>Recommended Adjustments</i>	
City Council Priorities (sets aside funding to address Council-approved priorities)	\$0.3 M
FY 2023/24 Budget Balancing Reserve	\$2.0 M
Budget Stabilization Reserve	\$0.3 M
Total Recommended Adjustments	\$11.1 M

Summary of Select General Fund Reserves

General Fund Reserve	FY 2022/23 Current Ending Balance	Recommended Adjustment	FY 2022/23 Amended Balance
Budget Stabilization Reserve	\$40.4 M	\$0.4 M	\$40.8 M
Capital Projects Reserve*	\$0.0 M	\$6.7 M	\$6.7 M
Land Sale Reserve	\$7.2 M	\$5.7 M	\$12.9 M
Development Fee Reserve	\$0.0 M	\$2.0 M	\$2.0 M
FY 2023/24 Budget Balancing Reserve	\$0.0 M	\$2.0 M	\$2.0 M

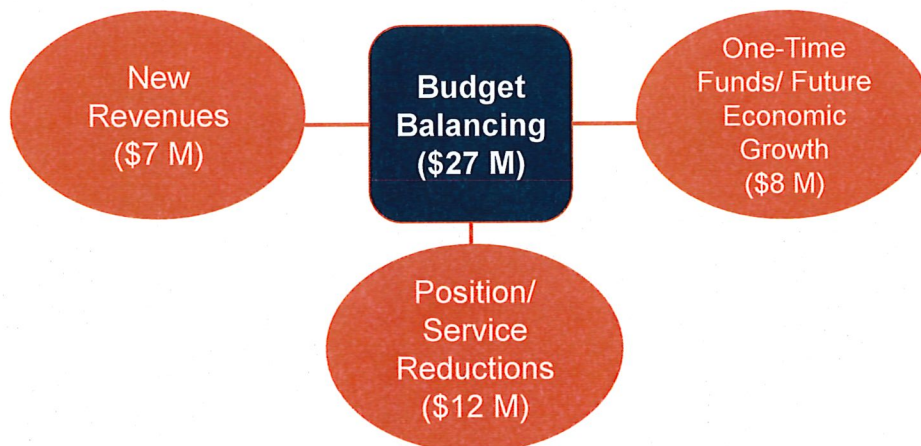
* The CPR adjustment includes \$5.0 M to restore reserve to Council policy level and \$1.7 M for the Union Pacific Railroad capital project

Next Steps

1. Provide 10-Year General Fund Forecast Update in February; to be discussed during Priority Setting Session
2. Priority Setting Session discussion of budget priorities/budget balancing actions
3. Release FY 2023/24 and FY 2024/25 Proposed Operating Budget in May 2023 and Council deliberation on the Proposed Budget for action by June 30, 2023

Next Steps

Three-Pronged Approach to Solving Projected Ongoing General Fund Deficit



Recommendations

1. Note and file the FY 2021/22 Budget Year-End Report
2. Approve the FY 2021/22 Budget Amendments to address necessary budget ratifications (five affirmative Council votes required for revenue actions and use of unused balances)
3. Approve the FY 2022/23 Budget Amendments (five affirmative Council votes required for revenue actions and use of unused balances)



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