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Title: Action on Monthly Financial Status and Investment Reports for October 2020 and Related Budget Amendments

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Attachments: 1. Monthly Financial Status Report October 2020, 2. Monthly Investment Report October 2020, 3. FY 2020/21 Budget Amendments

Date	Ver.	Action By	Action	Result
1/12/2021	1	Council and Authorities Concurrent Meeting	Approved	

REPORT TO COUNCIL

SUBJECT

Action on Monthly Financial Status and Investment Reports for October 2020 and Related Budget Amendments

COUNCIL PILLAR

Enhance Community Engagement and Transparency

BACKGROUND

In compliance with the Charter of the City of Santa Clara and the adopted Investment Policy, the October 2020 Monthly Financial Report and Investment Report are submitted for your information.

In accordance with City Council Policy 051 - Donations to the City, included in this report is a monthly activity and annual summary of donations received by department. Although the requirement of the policy is to report quarterly, in its ongoing effort to streamline reporting, the City will include this information monthly in the financial status report.

DISCUSSION

Monthly Financial Status Report (Attachment 1)

The attached report summarizes the City's financial performance as of October 31, 2020. Financial analysis for the report is provided for the General Fund, select Special Revenue Funds, Enterprise Operating Funds, and Capital Improvement Program Funds.

Attachment 1 shows that General Fund revenues were trending below the budget at 30.4% through October 2020. Excluding transfers that occur at the beginning of the year, this figure drops to 17% of the General Fund revenues received through October. Some revenue categories are lower due to

the timing of payments (e.g., property tax), but several categories are tracking below as a result of COVID-19 impacts. While there is limited data available, revenue is expected to end the year below budget by \$20+ million due to these COVID-19 induced impacts, with the largest impact to the Transient Occupancy Tax category.

As shown in Attachment 1, General Fund expenditures were at 35.2% of budget through October 31, 2020. Excluding transfers, this figure drops to 28.9% expended through October, which is below the par level of 33.3%. Several cost-control measures that were implemented last fiscal year remain in place to generate expenditure savings to partially offset the drop in revenues associated with COVID-19. These measures include a hiring freeze and controls around overtime, as-needed staff, marketing, travel, technology and vehicle purchases. With the exception of the Fire Department, all departments are tracking below budget through October and year-end savings are expected to be generated. The Fire Department is tracking slightly above par due primarily to mutual aid efforts, which are expected to be reimbursed. Budget actions will be brought forward in a future Monthly Financial Report to recognize the reimbursement revenue and increase the Fire Department budget.

Total revenues for Enterprise Funds (Electric, Water, Sewer, Cemetery, Solid Waste, and Water Recycling) were at 26.3% of the budget. Total Enterprise Fund expenses were at 25.1% through October. Total revenue for Special Revenue Funds (Housing funds) were at 7.8% of the budget, while total expenditures were at 6.1% of budget.

In the month of October, the City received donations of \$1,260, bringing the year-to-date total to \$47,562. A summary of donations is included in Attachment 1.

With the shelter-in-place and other actions residents and businesses have been taking to reduce the spread of COVID-19, economic activity in this region and throughout the country has experienced a significant decline. This is evidenced in various economic indicators, some of which have improved in recent months. On a national level, the unemployment rate remains high at 6.9% in October 2020. This rate, however, was well below the record setting high of 14.7% in April 2020. The drop brings the unemployment rate below the peak of the last recession a decade ago, when unemployment briefly hit 10 percent. In the third quarter 2020, the Gross Domestic Product (GDP) increased by approximately 33%, following a 31% decrease in the GDP in the second quarter 2020. While there was significant improvement, real GDP for the third quarter 2020 remains 3.5% below the level experienced in the fourth quarter of 2019 (the last quarter prior to the onset of COVID-19).

The unemployment rate in this region continues to outperform the nation. The unadjusted unemployment rate in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) was 6.0% in October 2020, down from a revised 7.0% in September 2020 but significantly higher than the October 2019 level of 2.4%.

Santa Clara's General Fund revenues have been significantly impacted by COVID-19 and this impact is expected to continue over the longer term based on the current economic situation. In FY 2020/21, a General Fund shortfall of almost \$23 million was addressed in the revised FY 2020/21 budget approved in June 2020. This budget was solved with the use of the Budget Stabilization Reserve. Further discussion of the COVID-19 impacts and the General Fund deficit is included in Attachment 1. Additional downward revenue adjustments and budget balancing actions are expected to be brought forward during FY 2020/21.

Monthly Investment Report (Attachment 2)

All securities held by the City of Santa Clara as of October 31, 2020 were in compliance with the City's Investment Policy Statement regarding current market strategy and long-term goals and objectives. All securities held are rated "A" or higher by two nationally recognized rating agencies. There is adequate cash flow and maturity of investments to meet the City's needs for the next six months.

The City's investment strategy for October 2020 was to invest funds not required to meet current obligations, in securities listed in the prevailing Investment Policy Statement, with maturities not to exceed five years from the date of purchase. This strategy ensures safety of the City's funds, provides liquidity to meet the City's cash needs, and earns a reasonable portfolio return of 1.56%.

On July 14, 2020, the City Council approved entering into a contract with PFM Asset Management LLC (PFM). PFM began actively managing the City's security portfolio on September 1, 2020. It should be noted that this report reflects a change in the benchmark, from a two-year Treasury Note benchmark, to a 0-5 year US Treasury Index as an interim benchmark. This change better reflects a comparison to the City's investment portfolio. Future changes may be brought forward as PFM continues the transition of the City portfolio.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

FISCAL IMPACT

Approval of the FY 2020/21 Budget Amendments included in Attachment 3 is recommended in this report. From time to time, adjustments to the budget are required to reflect new information, align budgets with actual revenues and expenses, and correct for inadvertent errors. As detailed in Attachment 3, amendments to centralize capital funding for the Convention Center are recommended. These amendments include the establishment of the Convention Center Capital Fund and the Convention Center Repairs and Renovations project. These actions consolidate projects previously allocated for the Convention Center into a separate fund. The majority of the original funding was approved as part of the April 23, 2019 Council meeting. In this action, the City Council approved funding of \$3.0 million to the Convention Center Condition Assessment Repairs project in the Public Buildings Capital Fund (\$1.5 million was transferred from the General Fund's Capital Projects Reserve and \$1.5 million was reallocated from the Convention Center Enterprise Fund). An additional \$1.15 million was approved as part of the Adopted FY 2019/20 Biennial Budget as part of Spectra's capital contribution. The remaining balance of this project and the Levy capital investment in the Convention Center Enterprise Fund are also recommended to be transferred over to this new Convention Center Repairs and Renovations project.

Additionally, a recommendation to reallocate General Fund Community Development salaries budget to the Engineering Operating Grant Trust Fund for the City match is included. Finally, an amendment to appropriate funding from the Advanced Planning Fee Reserve to the Community Development Department to cover consultant costs associated with the Affordable Housing Ordinance development.

Net Budget Change – FY 2020/21 Budget Amendments		
Fund	Source of Funds	Use of Funds
General Fund	\$0	\$0
Engineering Operating Grant Trust Fund	\$1,333	\$1,333
Convention Center Enterprise Fund	\$0	\$0
Convention Center Capital Fund	\$4,249,395	\$4,249,395
Public Buildings Capital Fund	\$0	\$0
Total Net Budget Change	\$4,250,728	\$4,250,728

COORDINATION

This report has been coordinated with the City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>>.

RECOMMENDATION

Note and file the Monthly Financial Status and Investment Reports for October 2020 as presented and Approve the Related Budget Amendments.

Reviewed by: Kenn Lee, Director of Finance

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Monthly Financial Status Report October 2020
2. Monthly Investment Report October 2020
3. FY 2020/21 Budget Amendments