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REPORT TO COUNCIL

SUBJECT

Action on FY 2019/20 Budget Year-End Report and Approve the Related Budget Amendments

COUNCIL PILLAR

Enhance Community Engagement and Transparency

EXECUTIVE SUMMARY

This report provides the year-end financial condition of the City of Santa Clara on a budgetary basis for the fiscal year ended June 30, 2020 and a summary of year-end performance for the General Fund, Special Revenue Funds, Internal Service Funds, and Enterprise Funds. The report also includes the recommended approval of a limited number of FY 2019/20 budget amendments to address expenditures overages, due in part to COVID-19, and FY 2020/21 budget amendments necessary based on the final FY 2019/20 results.

Over the past three years, the current Administration has practiced strong fiscal management toward resolving a \$116 million projected deficit and building up City reserves. While FY2019/20 was tracking as expected by way of revenues and expenditures through March 2020, the last few months of FY 2019/20 were significantly impacted by COVID-19, that resulted in a rapid and unprecedented decline in economic activity throughout this region and the nation.

COVID-19 primarily impacted selected revenues in the General Fund, such as transient occupancy tax and sales tax. Actual General Fund revenues fell below the budgeted estimate in FY 2019/20 by \$10.9 million. Immediate expenditure controls, put in place by end of March 2020, amounted to savings of \$14.8 million and serve to mitigate the majority of the lower revenue. However, the portion of the expenditure savings associated with the development fee program, along with the excess development fee-related revenues, totaling \$5.1 million are set aside in the development fee reserves

for this purpose.

In April 2020, the impacts from COVID-19 were estimated at \$10 million. Overall, through strong fiscal management, the City ended the year with an impact of \$3.6 million to the General Fund Budget Stabilization Reserve after considering all actions to close-out FY 2019/20. This shortfall is addressed by the recognition of funding from the closeout of old assessment districts, approved by the City Council in October 2020.

BACKGROUND

The budgetary year-end close process accounts for the year-end revenues and expenditures as well as the resulting ending reserves and fund balances for each budgeted fund. The funds are reconciled to the budgetary fund balances in the Comprehensive Annual Financial Report (CAFR). In this report, funds were reconciled to preliminary CAFR statements, and any necessary budgetary adjustments based on the final audited CAFR will be brought forward after the CAFR is approved.

This report includes the following recommended budget adjustments:

- 1) required budget ratifications due to over-expended appropriations in FY 2019/20 (Attachment 1); and
- 2) FY 2020/21 budget actions, including reconciliations of carryover capital projects, grants, special revenue funds, and donations funds; revisions to the starting FY 2020/21 fund balances and reserves based on the actual FY 2019/20 year-end performance; and any other necessary adjustments (Attachment 2).

In addition to the budget actions, this report includes tables that summarize the performance of other funds (Attachment 3) and a summary of the fund balance adjustments in each fund (Attachment 4).

Section 1305 of the Charter of the City of Santa Clara, entitled 'Budget - Appropriations,' states that:

...from the effective date of the budget, the several amounts stated therein as proposed expenditures shall be and become appropriated to the several departments, offices and agencies for the respective objects and purposes therein named; all appropriations shall lapse at the end of the fiscal year to the extent that they shall not have been expended or lawfully encumbered; and at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by the affirmative votes of at least five members so as to authorize the transfer of unused balances appropriated for one purpose to another purpose, or to appropriate available revenue not included in the budget.

Because appropriations lapse at the end of each fiscal year, it is necessary to carryover funds to complete capital projects and other projects and to account for grants and donations. Adjustments to the fund balance amounts assumed in the adopted budget are also necessary based on the actual prior year-end results. This includes the allocation of any additional fund balance above the amounts assumed in the budget or balancing actions if those fund balances drop below the levels assumed in the budget.

Each year as part of budget development and budget close-out, staff also reviews the reserve balances, including General Fund Budget Stabilization Reserve and the Capital Projects Reserve as well as reserve levels in other funds. Per Council Policy, the Budget Stabilization Reserve target is set to cover operations for 3 months (25% of General Fund expenses) and the Capital Projects Reserve target is set at a minimum fund balance of \$5.0 million in the long term. For the FY 2020/21 budget, the City Council approved a Budget Stabilization level of 20% due to impacts from COVID-

19.

DISCUSSION

This report includes a brief summary of budget to actual revenue and expenditure/ expense performance for the General Fund, Special Revenue Funds, Internal Service Funds, and Enterprise Funds.

Information is also included regarding the recommended budget amendments, the impact of FY 2019/20 performance on the General Fund Budget Stabilization Reserve, necessary ratifications to address 2019/20 expenditure overages, a summary of the unfunded retirement liability and Pension Stabilization Reserve, and the status of General Fund and other reserves.

General Fund

Overall, General Fund revenues fell below the budgeted estimates due to COVID-19 and these lower collections were partially offset by expenditure savings, which reduced the necessary draw down on the Budget Stabilization Reserve in FY 2019/20.

General Fund Revenues

In FY 2019/20, actual revenues of \$242.4 million were approximately \$10.9 million lower than the budgeted estimate of \$253.3 million as shown in Table 1 below. Revenue came in lower primarily in the Sales Tax, Transient Occupancy Taxes (TOT), Other Revenue, and Contribution In-Lieu revenue categories, with the largest impacts associated with COVID-19. These lower collections were partially offset by higher than estimated revenues in the Property Tax, Revenue from Other Agencies, Interest, and Other Fees for Services categories.

**Table 1 - FY 2019/20 General Fund Revenues and Transfers In
Final Budget vs. Actual**

Description	FISCAL YEAR 2019/20				
	Adopted Budget	Final Budget	Total Revenue	Variance Favorable/ (Unfavorable)	Percent Variance
Property Tax	\$ 64,438,315	\$ 64,438,315	\$ 65,498,024	\$ 1,059,709	1.64%
Sales Tax	58,200,400	58,200,400	55,269,668	(2,930,732)	(5.04%)
Taxes - Other	29,082,651	29,082,651	21,842,774	(7,239,877)	(24.89%)
Licenses and Permits	9,491,950	9,491,950	9,804,500	312,550	3.29%
Fines and Penalties	1,689,225	1,689,225	1,172,107	(517,118)	(30.61%)
Revenue from Other Agencies	1,755	5,072,529	5,912,389	839,860	16.56%
Revenue from State	167,000	167,000	265,509	98,509	58.99%
Other Fees for Services	40,641,410	40,677,580	41,535,715	858,135	2.11%
Interest	5,697,500	5,697,500	6,879,415	1,181,915	20.74%
Rent	11,992,176	9,292,176	9,328,196	36,020	0.39%
Other Revenue	4,150,001	5,168,676	2,204,044	(2,964,632)	(57.36%)
Contributions In Lieu	24,333,275	24,333,275	22,710,162	(1,623,113)	(6.67%)
Subtotal Revenue	249,885,658	253,311,277	242,422,504	(10,888,773)	(4.30%)
Transfers In	2,066,030	4,912,765	5,486,088	573,323	11.67%
Total Revenue	\$ 251,951,688	\$ 258,224,042	\$ 247,908,592	\$ (10,315,450)	(3.99%)

- Property Tax - the property tax category includes both secured and unsecured taxes. Proceeds from property taxes of \$65.5 million were \$1.1 million (1.6%) above the budgeted estimate of \$64.4 million. These collections were in line with the budgeted estimate.
- Sales Tax - The sales tax category, which includes general sales tax and public safety sales tax proceeds, totaled \$55.3 million. This collection level was \$2.9 million (5.0%) below the budgeted estimate of \$58.2 million due to the drop in revenue in the 1st and 2nd quarters of 2020, which declined by 10.9% and 15.4%, respectively. This decrease in the sales tax category primarily reflects the impact from the actions associated with the COVID-19 pandemic. Prior to COVID-19, sales tax revenues were on track to slightly exceed the budget estimate. Based on the performance during the first two quarters of 2020, revenues in FY 2020/21 are projected to fall below the budgeted estimate by approximately \$5.0 million. Budget actions will be brought forward separately to address the FY 2020/21 budget performance.
- The Other Taxes category includes franchise tax, TOT, and documentary transfer tax. This revenue category ended the fiscal year \$7.2 million (24.9%) below the budgeted estimate of \$29.1 million primarily due to lower TOT and documentary transfer tax collections. The transient occupancy tax receipts totaled \$16.0 million, well below the budgeted estimate of \$23.0 million. This category experienced the most immediate and largest drop from COVID-19, with a precipitous drop in both occupancy rates and room rates and some hotels closed for months. In FY 2020/21, TOT receipts are expected to fall significantly below the budgeted estimate of \$17.6 million by at least \$11.0 million. This would bring the estimate down to \$6.6 million in FY 2020/21, which is almost 75% below regular activity levels. Budget actions will be brought forward separately to address this lower collection level. Documentary transfer tax receipts of \$1.3 million were \$0.35 million below the budgeted estimate of \$1.67 million, reflecting a drop in the number of property transfers recorded. This decrease was partially offset by franchise taxes which came in \$0.1 million higher than the \$4.4 million budget.
- Licenses and Permits receipts totaled \$9.8 million, which was \$0.3 million above budgeted estimates due to higher building, plumbing, and mechanical permit revenues. These additional revenues, along with development staff expenditure savings, must be used to support development activity and are recommended to be allocated to the Building Inspection Reserve as part of this document.
- Revenue from Other Agencies totaled \$5.9 million, which was \$0.8 million above the budgeted estimate of \$5.1 million. Collections in this category primarily reflect the \$5.0 million Santana West settlement payment for the Related project from the City of San José. Mutual aid reimbursements for services provided by the Fire Department and the City's portion of Successor Agency lease revenues, collected on behalf of the County of Santa Clara and distributed to the various taxing entities, are also included in this category.
- The Other Fees for Services category encompasses various fees collected for plan check and zoning, engineering, fire prevention, as well as recreational activities. In FY 2019/20, revenue in this category totaled \$41.5 million, or \$0.8 million above the final budget. This higher collection level can be attributed to plan check and sign fees and plan and zoning fees that were \$2.8 million higher than their budgeted estimates. The development-related fees that support the Building Program in excess of the budget will be set aside in the Building Inspection Reserve. Fire

prevention fees also came in \$0.6 million above budget. The higher collection levels were partially offset by the significant decreases in the Parks and Recreation fees, which came in \$2.0 million below the budgeted estimate of \$3.3 million. This is a result of COVID-19 safety precautions, restricting or prohibiting various recreational activities.

- Interest earnings ended the year \$1.2 million higher than budget due to higher interest accumulated through the Pension Trust Fund of \$1.7 million. These interest earnings are required to be added to Pension Stabilization Reserve.
- Rent collections came in at the budgeted estimate, totaling approximately \$9.3 million through June 30, 2020. The final budget in this category included a \$2.7 million downward adjustment related to the Stadium rent revenue due to the significantly lower number of Non-NFL events. This adjustment was approved during the year as part of the FY 2018/19 Budgetary Year-End Report.
- Per the City's charter, SVP pays 5% of their gross cash revenues to the General Fund in payment for services rendered. Based on SVP's actual cash revenue collections through June 30, 2020, the City's General Fund received \$22.7 million, which was 6.6% above the FY 2018/19 receipts, but below the budget of \$24.3 million. As reported in the Monthly Financial Reports, collections in this category were expected to fall below the budgeted estimate based on the FY 2018/19 actual performance and projected activity.

General Fund Expenditures

General Fund expenditures and transfers ended the year below the budgeted estimate. Overall, departments ended the fiscal year within their final budget, resulting in \$14.8 million in expenditure savings. However, it should be noted that of the \$14.8 million in savings, approximately \$4.1 million is recommended to be carried over to support a loan agreement for the construction of affordable housing that is now anticipated to be completed in fiscal year 2020/21 and \$100,000 is recommended to be carried over to support the Worker Cooperative Program, resulting in net savings of \$10.6 million.

In response to the economic environment stemming from impacts of the COVID-19 pandemic, the City implemented various cost savings strategies at the end of March 2020. These actions included a hiring freeze in addition to more controls across overtime, as-needed staffing, marketing, travel, and technology and vehicle purchases.

The detailed comparison of budget to actual expenditures are shown in Tables 2 and 3, with Table 2 showing the expenditures by department and Table 3 showing expenditures by category (e.g., salaries and materials, services and supplies).

In evaluating the expenditures by department (Table 2), all departments remained within their General Fund budgets with the largest savings in the Non-Departmental, Parks and Recreation, Community Development, and the City Manager's Office/Departments. A portion of the savings in the Non-Departmental (\$4.1 million) and City Manager's Office (\$100,000) is recommended to be carried over to FY 2020/21 to complete projects as described in Attachment 2 of this memorandum. The savings in the Parks and Recreation and Library Department reflect reduced operations associated with COVID-19 implemented at the end of the fiscal year.

Table 2 - FY 2019/20 General Fund Expenditures and Transfers Out

Final Budget vs. Actual by Department

Function	FISCAL YEAR 2019/20				
	Adopted Budget	Final Budget	Total Expenditure	Variance Favorable/ (Unfavorable)	Percent Variance
General Government					
Mayor and City Council Offices \$	894,953	\$ 894,953	\$ 878,994	\$ 15,959	1.78%
City Attorney's Office	2,260,512	2,282,512	2,155,538	126,974	5.56%
City Clerk's Office	1,389,880	1,736,750	1,428,700	308,050	17.74%
City Manager's Office	6,554,276	7,072,399	6,076,226	996,172	14.09%
Finance	15,719,734	15,932,734	15,002,297	930,437	5.84%
Human Resources	4,409,195	4,309,195	3,879,414	429,781	9.97%
Total General Government	31,228,550	32,228,543	29,421,170	2,807,373	8.71%
Public Works	23,579,460	23,390,876	23,223,613	167,263	0.72%
Community Development	14,186,780	15,378,003	13,669,821	1,708,183	11.11%
Parks and Recreation	22,401,233	21,751,233	19,980,202	1,771,032	8.14%
Public Safety					
Fire	52,783,063	55,471,064	55,066,518	404,547	0.73%
Police	73,397,279	73,801,538	73,470,896	330,642	0.45%
Total Public Safety	126,180,342	129,272,602	128,537,413	735,189	0.57%
Library	11,310,791	11,010,791	10,315,669	695,122	6.31%
Non-Departmental	18,509,098	17,636,488	10,746,157	6,890,331	39.07%
Subtotal Expenditures	247,396,254	250,668,537	235,894,044	14,774,493	5.89%
Transfers Out	15,501,656	28,653,335	28,653,335	-	0.00%
Total Uses of Funds	\$ 262,897,910	\$ 279,321,872	\$ 264,547,379	\$ 14,774,493	5.29%

When evaluating the expenditures by category as shown in Table 3, the categories that generated the largest savings included Materials, Services and Supplies (\$6.2 million) and Capital Outlay (\$4.4 million). These categories include the \$4.2 million in savings that are recommended to be carried over to FY 2020/21; and after taking that carryover into consideration, the net savings total \$6.4 million.

Salary and wages expenditures (full-time and as-needed) were \$5.6 million below the budget, while overtime expenditures exceeded the budget by \$0.4 million. Other salary expenses, including holiday pay, board member stipends, and separation payouts were \$4.8 million over the budget. Through June 30, 2020, separation payouts in the General Fund totaled approximately \$3.9 million, which was a substantial increase over FY 2018/19 which totaled \$1.7 million and well above the \$1.8 million budgeted for separation payouts. Benefits savings totaled \$4.0 million, and when combined with the salary savings of \$0.3 million, personnel savings totaled \$4.3 million.

Table 3 - FY 2019/20 General Fund Expenditures and Transfers Out
Final Budget vs. Actual by Category

Category	FISCAL YEAR 2019/20				
	Adopted Budget	Final Budget	Total Expenditure	Variance Favorable/ (Unfavorable)	Percent Variance
Salaries					
Salary and Wages - Regular	\$ 107,191,953	\$ 107,475,600	\$ 101,651,495	\$ 5,824,105	5.42%
Salary and Wages - As Needed	6,985,845	6,585,845	6,854,825	(268,980)	(4.08%)
Overtime	6,593,484	8,593,484	9,020,689	(427,205)	(4.97%)
Other	3,304,791	1,504,791	6,296,970	(4,792,179)	(318.46%)
Subtotal Salaries	124,076,073	124,159,720	123,823,979	335,740	0.27%
Benefits					
Retirement - Safety	27,467,212	27,467,212	27,099,073	368,139	1.34%
Retirement - Miscellaneous	17,646,399	17,646,399	16,123,019	1,523,380	8.63%
Health	9,202,509	9,202,509	8,188,622	1,013,887	11.02%
Social Security	3,336,362	3,336,362	3,109,960	226,402	6.79%
Retiree Healthcare	2,542,694	2,542,694	2,549,803	(7,109)	(0.28%)
Other Benefits	5,388,713	5,388,713	4,553,641	835,072	15.50%
Subtotal Benefits	65,583,889	65,583,889	61,624,119	3,959,770	6.04%
Materials, Services and Supplies	30,882,795	33,871,431	27,674,553	6,196,878	18.30%
Interfund Services	22,240,059	22,240,059	22,364,642	(124,583)	(0.56%)
Capital Outlay	4,613,438	4,813,438	406,751	4,406,687	91.55%
Transfers Out	15,501,656	28,653,335	28,653,335	-	0.00%
Total Uses of Funds	\$ 262,897,910	\$ 279,321,872	\$ 264,547,379	\$ 14,774,493	5.29%

General Fund Budget Adjustments

As detailed in Attachment 2, a series of General Fund budget adjustments are recommended to:

- reconcile the fund balance and reserves to the FY 2019/20 ending fund balances;
- reconcile the development fee programs to allocate excess revenues and expenditure savings to the dedicated reserves (\$5.1 million);
- adjust the Capital Projects Reserve to account for the return of FY 2019/20 savings from capital funds for projects initially funded by the General Fund (\$3.5 million);
- carryover funding and associated revenue of \$4.1 million to support a loan agreement for the construction of affordable housing and carryover funding of \$100,000 to support the Worker Cooperative Program; and
- other minor adjustments.

The recommended budget adjustments to close out FY 2019/20 will necessitate the use of \$3.6 million of the Budget Stabilization Reserve as detailed in Table 4 below, a significant improvement from the original projection of \$10 million. The decrease to the Budget Stabilization Reserve will be entirely offset by the recognition of additional funding sources of \$3.8 million from the closeout of old special assessment districts approved by the City Council on October 13, 2020. These actions will result in a net addition to the Budget Stabilization Reserve of \$0.2 million.

Table 4 - Impact of FY 2019/20 General Fund Year-End Performance on the Ending Fund Balance/Budget Stabilization Reserve (BSR)

Recommended Adjustments	Unrestricted Ending Fund Balance/BSR Impact
<i>Required Adjustments</i>	
Fund Balance Reconciliation (adjusts for FY 2019/20 year-end revenues and expenditures)	\$2.1 M
Building Inspection Reserve Reconciliation (allocates excess development revenues and expenditure savings to the reserve)	(\$4.8 M)
Advanced Planning Fee Reserve Reconciliation (allocates excess development revenues and expenditure savings to the reserve)	(\$0.3 M)
BSR Reconciliation to FY 2020/21 beginning estimate/Other (reconciles the BSR to the estimate assumed in the Adopted Budget and other minor adjustments)	(\$0.6 M)
Impact of Required Adjustments on Fund Balance/BSR	(\$3.6 M)
Contribution to BSR from Assessment Districts Closeout	\$3.8 M
Net Impact on Budget Stabilization Reserve	\$0.2 M

Capital Projects, Grants, Donations and Other Carryover Reconciliation

Estimates were used to carryover unspent Capital Improvement Program (CIP) funds from FY 2019/20 to FY 2020/21 during the FY 2020/21 and FY 2021/22 adopted budget process. Attachment 2 includes the reconciliation of those project carryover true-up amounts based on actual year-end activity totaling \$7.8 million. When combined with the capital project carryovers included in the FY 2020/21 budget adopted in June 2020, the capital project carryovers to FY 2020/21 total \$197.7 million.

In addition to the year-end true-up amounts for capital projects, the appropriation carryover of donations and reimbursements of \$1.4 million, grants of \$2.0 million, and other unspent expenditures that are neither donations nor grants of \$23.5 million are also included in Attachment 2.

Other Funds

Attachment 3 - Summary of Other Funds Performance summarizes budget to actual performance for the City's Special Revenue Funds, Internal Service Funds, and Enterprise Funds. By default, year-end savings in the other funds revert to fund balances or are re-appropriated to the next year's budget through the recommended carryover of expenditures. Any recommended FY 2020/21 budget adjustments are included in Attachment 2 and a summary of the fund balance reconciliations is included in Attachment 4. Following are highlights of the FY 2019/20 performance of other City funds.

Special Revenue Funds

Special Revenue Funds are established to account for specific revenue sources that are legally restricted or committed to particular purposes. Following is a discussion of select Special Revenue Funds.

City Affordable Housing Fund

This fund accounts for the City's Below-Market Price Purchase (BMP) Program to assist low- and moderate-income families achieve the goal of homeownership, and promotes and facilitates the construction and retention of affordable housing. Revenues in this fund are received from developer in-lieu fees, equity share, principal and interest repayments on housing loans, and interest income on pooled investments.

Revenues received from developer in-lieu fees and principal repayments on housing loans were \$320,000 lower than anticipated, reflecting a slower year for note repayments and delay on the completion of housing projects, respectively. However, overall revenues of \$768,600 slightly exceeded budget of \$696,700 as a result of a BMP homeowner selling a unit at fair-market price and the City received \$243,000 as part of its share of the increase in equity in the home.

Expenditures ended the year below the budget of \$9.2 million by approximately \$7.6 million. Of that unexpended amount, \$6.0 million reflects a developer loan commitment that was carried over to FY 2019/20 but not disbursed due to the timing of project. Those funds are recommended to be carried over and anticipated to be disbursed in FY 2020/21. Remaining unspent funds of \$1.6 million are savings from contractual services and special program disbursements resulting from the low number of BMP homeownership. Of the \$1.7 million, staff recommends the carry-over of \$800,000 for the Emergency Rental Assistance Program (ERAP) to assist low-income households that were affected by the COVID-19 pandemic with rent payments.

Housing and Urban Development Fund

This fund accounts for entitlement funding that the City receives annually from the U.S. Department of Housing and Urban Development (HUD) to administer and provide oversight of the Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) programs.

Expenditures ended the year below budget by \$2.1 million, reflecting the timing of grant expenditures which were re-appropriated to be spent in FY 2020/21 as part of the Annual Action Plan. The unspent appropriations are primarily attributed to funds that were set aside for a Multi-Family Rental Rehabilitation program and for specific activities to be undertaken by a special type of nonprofit called a Community Housing Development Organization (CHDO). Since the City did not receive projects that were eligible to use funds from the Multi-Family Rental Rehabilitation program, those funds were reprogrammed for the Tenant Based Rental Assistance Program in FY 2020/21. In regard to funds that were programmed for CHDO, the City has been unable to award funds for a CHDO project due to the complexity for organizations to become a CHDO. These funds are re-appropriated at the beginning of each fiscal year but remain challenging to spend.

Housing Successor Agency Fund

This fund was established as Housing Successor to the former Redevelopment Agency (RDA) to retain all housing assets, rights, power, duties, obligations and functions previously performed by the RDA in administering its Low- and Moderate-Income Housing Fund. The primary revenue sources are from principal and interest repayments on housing loans and interest on pooled investments. Overall revenues of \$1.3 million were below the budgeted estimate of \$12.0 million as a result of the delayed closing of an affordable housing project in which the City will receive \$11.65 million in land sale proceeds. This amount is recommended to be carried over into FY 2020/21. However, revenues in the Other Revenue and Interest categories exceeded the budget by approximately \$1.0 million, reflecting a higher volume of loan repayment amounts and higher than anticipated interest on housing loans and pooled investments.

Expenditures of \$0.5 million ended the year well below the budget of \$17.6 million, primarily due to

lower than anticipated loan disbursements. Budget actions are recommended to carryover funding of \$16.65 million for two developer loans that will support multiple affordable housing projects.

Other City Departments Operating Grant Trust Fund

This fund accounts for various, citywide donations received by the City. During FY 2019/20, a central allocation was created in this fund to account for all revenue and expenditures related to COVID-19. The final budget for both revenue and expenditures for COVID-19 related items was \$4.1 million. On the revenue side, of the \$4.1 million budget, approximately \$0.6 million was budgeted for estimated FEMA reimbursements and \$0.1 million was projected donations. The remaining \$3.4 million was a reallocation from projected General Fund departmental savings. Due to a delay in the receipt of FEMA reimbursements, revenue ended the year below budget by \$0.6 million, resulting in a negative fund balance of \$0.6 million. The revenue estimate for these reimbursements is recommended to be carried over, as the City still anticipates receiving this funding in FY 2020/21. Expenditures slightly exceeded the budget by \$27,531 and a ratification action is recommended to transfer funding from the General Fund to cover this overage.

Road Maintenance and Rehabilitation (SB1) Fund

This fund accounts for transportation taxes allocated to cities through the Road Maintenance and Rehabilitation Account (SB1) to enhance highway, transit and local roads including facilities for bicycles and pedestrians throughout the State of California. Funding for SB1 comes from gas tax and vehicle fees collected and disbursed by the State. Most funding eligible for operations and maintenance pay for day-to-day operations of filling potholes, operating traffic signals, repairing equipment and structures as well as responding to emergencies. The expenditures in this fund reflect the transfers from this fund to various eligible projects under the Transportation Capital Improvement Program. FY 2019/20 revenues of \$2.1 million came in slightly above the budgeted estimate of \$2.05 million and transfers of \$2.4 million to support CIP projects occurred as budgeted. The FY 2019/20 ending fund balance totaled only \$0.05 million which was in line with FY 2019/20 budget. However, this ending balance, which is used as the starting point for the next fiscal year, was below the estimate used to develop the FY 2020/21 budget because there was an FY2019/20 expenditure change that that occurred after that estimate were developed. There is sufficient ending fund balance in FY 2020/21 to offset this lower starting point.

Internal Service Funds

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis. Following is a discussion of select Internal Service Funds.

Fleet Operations Fund

The Fleet Operations Fund actual expenditures of \$4.8 million were slightly below the budget of \$5.1 million. This reflects savings from a vacant position for half of the year and from lower supplies and fuel consumption because of reduced activity as a result of COVID-19 limitations.

Special Liability Insurance Fund

This fund provides for the payment of insurance premiums on all City owned property as well as property in the City's care, custody or control, and property the City is contractually obligated to insure. The fund is also used to pay for insurance premiums for other lines of coverage, for litigation expenses, the City's insurance deductible, and settlements or jury verdicts in litigation matters. The primary source of revenue for this fund is fees charged to citywide departments and contributions

from City funds. At the beginning of FY 2019/20, the City Council approved a General Fund transfer of \$6.5 million to the Reserve for Claims to provide anticipated financial resources to cover settlements. Of that amount, \$3.5 million was used for a settlement payout. Overall revenues and expenditures at year-end were within budget.

Workers' Compensation Fund

This fund accounts for the costs of premiums, claims administration and claims expenses related to injuries or illnesses sustained by members of the City's workforce. The source of revenue for this fund is fees charged to departments citywide. At the end of FY 2019/20, expenditures of \$5.0 million exceeded budgeted levels in the Workers' Compensation by approximately \$225,000 due to higher than budgeted claims expenditures. A recommended budget adjustment is included to correct the overage using available fund balance.

Vehicle Replacement Fund

The Vehicle Replacement Fund accounts for the lifecycle replacement, procurement, up fit and disposal of all vehicles used by City departments. The source of revenue for this fund is fees charged to the departments requiring these services. Revenue ended the year slightly above the budgeted estimate of \$3.4 million as a result of higher revenue received from the sale of property through auction sales. The Water Utility Fund also made a transfer of \$365,000 to true up costs related to prior year purchases for the Water and Sewer Utilities Department above the original budgeted allocation amount for its fleet purchases. Expenditures of \$2.6 million were below the budgeted appropriations by approximately \$1.3 million. Vehicles/equipment purchases, and replacements slowed down due to the vacancy of the Fleet Manager position for half a year and also due to reduced services for a third of the year as a result of COVID-19 closures. There is \$2.6 million of vehicle/equipment costs that are encumbered and will be spent in FY 2020/21.

Enterprise Funds

Enterprise funds are used to finance and account for operations and activities performed by designated departments in the City or through third party agreements. The operating revenues and expenses result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Principal operating revenues of the City's enterprise funds are charges to customers for services. Operating expenses for the City's enterprise funds include the costs of sales and services, administrative expenses and maintenance of capital assets. Following is a discussion of select Enterprise Funds.

Cemetery Fund

The Cemetery Fund accounts for the operation of the City's two cemeteries. This fund receives the majority of its revenues from interment related service charges at Mission City Memorial Park. In FY 2019/20, revenues totaled \$466,000 and were \$179,000 below the budgeted estimate of \$645,000 due to lower service charges. This lower collection level was partly the result of COVID-19 closures. FY 2019/20 operating costs of \$1.2 million were \$212,000 below the budget due to lower materials costs and no capital outlay. Operating costs have tracked consistently higher than revenues due to the ongoing maintenance required at the properties. As a result, this fund requires an annual General Fund subsidy. In FY 2019/20, transfers from other funds totaled \$735,000, including \$703,000 from the General Fund.

Convention Center Enterprise Fund

The Convention Center Enterprise Fund accounts for the operations of the City's Convention Center

through third-party agreements. During FY 2019/20, the City transitioned to a new concessions vendor for the Convention Center. The FY 2019/20 final budget reflects the operating budget of the new concessions vendor, the operations management vendor, as well as the City. As of June 30, 2020, revenues of \$14.3 million came in approximately \$10 million below the budgeted estimate of \$24.2 million, while expenditures of \$15.3 million ended the year \$8.1 million below the budget of \$23.4 million. The performance on both the revenue and expenditure side can be attributed to the Shelter-in-Place order issued by the County of Santa Clara in response to the COVID-19 pandemic. The FY 2019/20 unrestricted ending fund balance and operating surplus remained positive at \$2.5 million, which was below the budgeted level of \$4.2 million but above the estimate used to develop the FY 2020/21 budget.

Electric Utility Fund

The Electric Utility Fund accounts for the operation of the City's electric utility service. This fund receives majority of its revenues from user service charges collected from residential, business, and industrial customers.

In FY 2019/20, total revenues of \$465.1 million were below the budget of \$482.5 million by \$17.4 million, primarily as a result of lower than estimated Customer Service Charges. Customer Service Charges totaled \$430.7 million, reflecting an increase of 0.5% from the \$428.5 million received in FY 2018/19; this revenue level was \$18.3 million below the budgeted estimate of \$449.0 million that would have required year-over-year growth of 4.8%. Electricity consumption for the twelve-month period was lower than planned due to a combination of weather impacts, developer project delays, customers downsizing, and customers' fuel cell uses. When compared to the prior year, total revenues of \$465.1 million were up \$19.7 million from the \$445.4 million received in FY 2018/19 due primarily to an accounting change (\$15.3 million) and new renewable energy credits (\$4.3 million). For the accounting change, FY 2019/20 was the first year of recording wholesale energy sales transactions as revenue instead of a credit netted against the wholesale resources purchases expense. Wholesale revenues totaled \$15.3 million.

Expenditures and transfers of \$449.3 million were \$40.8 million below the budget of \$490.1 million. The largest expenditure savings were generated in the Resource/Production (\$29.9 million) and Materials/Services/Supplies (\$6.9 million) categories. Power generation costs were below budget due to lower than expected consumption and there were savings due to the maintenance shutdown of Donald Von Raesfeld (DVR) Power Plant.

The total unrestricted fund balance ended the year at \$50.0 million, which was \$25.3 million higher than estimated, resulting from expenditure savings that were partially offset by lower revenues and changes to reserves.

Sewer Utility Fund

The Sewer Utility Fund accounts for the maintenance of the City's sewer lines and related facilities. These services are provided on a user charge basis to residences and businesses, which is the primary source of revenue for this fund.

Revenue receipts totaled \$42.0 million, which was \$2.2 million under the revenue estimate of \$44.2 million. Actual expenditures and transfers to other funds totaled \$33.3 million, ending the year \$1.1 million below the final budget of \$34.4 million. This is primarily due to vacancy savings.

The unrestricted ending fund balance and reserves totaled \$25.4 million, down \$1.1 million from the

budgeted estimate.

Solid Waste Fund

The Solid Waste Fund accounts for the operations of the City's solid waste collection and disposal system. This fund receives the majority of its revenues from user service charges and other fees for street sweeping, household hazardous waste, and Clean-Up Campaign services. Total revenue ended the year \$1.4 million lower than the budgeted estimate of \$28.0 million. This is attributable to lower collections in the Other Fees for Services category. Total operating expenses of \$24.4 million were below the budget by \$3.8 million due to reduced services and lower materials, supplies and services costs. Approximately one-half of this savings can be attributed to the delay in the City's Clean-Up Campaign program to August 2020 due to COVID-19 limitations. The related program costs of approximately \$1.9 million were carried over into the next fiscal year to deliver this program.

Water Recycling Fund

The Water Recycling Fund accounts for the ongoing maintenance and operations of the City's wastewater reclamation system. These services are provided on a user charge basis from the sale of non-potable water for irrigation and landscaping. Through the end of FY 2019/20, actual revenues totaled \$6.4 million, \$0.3 million below the budgeted estimate of \$6.8 million. Actual expenditures ended the year at \$5.6 million, or \$0.8 million under budget.

Water Utility Fund

The Water Utility Fund accounts for the operation of the City's water utility services. These services are provided on a user charge basis to residences and businesses, which is its primary source of revenue.

As of June 30, 2020, actual revenue totaled \$52.0 million, coming under the budgeted estimate of \$53.4 million. Actual expenditures were also lower than anticipated at \$57.4 million, compared to the budget of \$59.8 million. The expenditure savings is primarily due to vacancy savings and operating supplies and contractual services savings.

Required FY 2019/20 Budget Ratifications

Based on the City Charter, the legal appropriation control is designated at the department or office level within a fund. In certain Internal Service and Special Revenue Funds, appropriations are allocated by function rather than departments or offices. In these funds, the appropriation control is at the fund level. Below the appropriation level are expenditure categories and line items. In many cases, actual expenditures may exceed the categories or line items within a department; however, savings from other categories and line items within the same department and fund may offset these overages (for example, savings due to staff vacancies may be offset by an increase in contractual services).

Attachment 1 - FY 2019/20 Budget Amendments includes a list of appropriations that exceeded the appropriation control authority and are recommended to be adjusted in order to meet the legal appropriation control limit. There were ratifications in nine funds totaling \$2.2 million. These overages were offset by available fund balance and revenues in all funds except the Other City Departments Operating Grant Trust Fund that required a transfer from the General Fund of \$27,531 as discussed above.

Retirement Liability

As summarized in Table 5, for this fiscal year, a total of \$1.3 million contribution to the pension trust fund is budgeted to address the unfunded liability. In total, reserve levels are projected at \$29.8 million, or approximately 5.4% of the City's net pension liability amount, based on the figures to be reported in the Consolidated Annual Financial Report GASB 68 Report. Historically, the General Fund contribution for the Pension Stabilization Reserve occurred through surplus funds available at the end of the year. Because no additional funds are available, a General Fund contribution to the reserve is not recommended at this time. Additional funds may be available in the future to allow for contributions to the reserve and/or planned for as part of the General Fund Forecast, if capacity allows.

Table 5 - Summary of Unfunded Retirement Liability and Pension Stabilization Reserve

Fund	Pension Stabilization Reserve Balance as of June 30, 2020	FY 2020/21 Amended Budget	Estimated Pension Stabilization Reserve for June 30, 2021	New Projected Unfunded Liability	Projected Pension Stabilization Reserve Percent of Unfunded Liability
General Fund	\$ 21,597,338	\$ -	\$ 21,597,338	\$ 430,492,342	5.0%
Electric	5,165,892	927,353	6,093,245	92,007,139	6.6%
Water	1,073,100	199,419	1,272,519	17,598,394	7.2%
Sewer	421,220	78,230	499,450	8,770,720	5.7%
Solid Waste	230,902	42,960	273,862	4,299,933	6.4%
Water Recycling	52,808	9,812	62,620	1,537,724	4.1%
Total	\$ 28,541,260	\$ 1,257,774	\$ 29,799,034	\$ 554,706,252	5.4%

Status of Selected Reserves

As shown in Table 6 below, there is an overall decrease in the City's selected reserves in FY 2020/21. This is primarily attributable to the use of both the General Fund's Budget Stabilization Reserve and Capital Projects Reserve as part of the FY 2020/21 budget adopted in June 2020.

The recommended actions in the Year-End Report adjust various reserves as part of the FY 2019/20 year-end reconciliation. For the Budget Stabilization Reserve, the net increase of \$0.2 million reflects the use of \$3.6 million to close out FY 2019/20, which is entirely offset by the recognition of additional funding sources of \$3.8 million from the closeout of old special assessment districts approved by the City Council on October 13, 2020.

Table 6 - Summary of Selected Reserves

Selected Reserve	2020/21 Adopted			2020/21	
	Estimated July 1, 2020 Beginning Balance	Contribution / (Use) of Reserves	2020/21 Revised Reserve Balance	Year-End Recommended Contribution / (Use) of Reserves	2020/21 Revised Ending Fund Balance
General Fund - Budget Stabilization (BSR)	\$ 80.4	\$ (22.7)	\$ 57.7	\$ 0.2	\$ 57.9
General Fund - Capital Projects (CPR)	28.1	(26.2)	1.9	3.5	5.4
General Fund - Land Sale Reserve	23.2	0.7	23.9	(0.2)	23.7
General Fund - Building Inspection (BIR)	13.2	(0.9)	12.3	5.7	18.0
Pension Trust Reserve (All Funds)	26.3	0.5	26.8	2.9	29.7
Utility Fund Rate Stabilization/O&M*	23.3	-	23.3	(1.4)	21.9
Electric Fund Rate Stabilization/O&M	157.7	-	157.7	(2.1)	155.6
Total	\$ 352.2	\$ (48.6)	\$ 303.6	\$ 8.6	\$ 312.2

*Includes Sewer, Solid Waste, Water and Water Recycling

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

The fiscal impact of each fund’s results is discussed in detail in the body of this report and attachments. This report includes detailed descriptions of recommended budget amendments (Attachment 1 and 2); summary of year-end performance for the General Fund, Special Revenue Funds, Internal Service Funds, and Enterprise Funds as described in the body of this report (see Attachment 3 tables for other funds details); and a summary of beginning and ending fund balance adjustments for each fund due to actual results (Attachment 4). Approval of Budget Amendments included in Attachment 1 and 2 is recommended in this report.

COORDINATION

This report was 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

1. Note and file the FY 2019/20 Budget Year-End Report;
2. Approve the FY 2019/20 Budget Amendments to address necessary budget ratifications as set

- forth in Attachment 1 of the Budget Year-End Report (five affirmative Council votes required for revenue actions only); and
3. Approve the FY 2020/21 Budget Amendments as set forth in Attachment 2 of this report (five affirmative Council votes required for revenue actions only).

Reviewed by: Kenn Lee, Director of Finance

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. FY 2019/20 Budget Amendments
2. FY 2020/21 Budget Amendments
3. Summary of Other Funds Performance
4. Summary of Fund Balance Adjustments