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| Date | Ver. | Action By | Action | Result |
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| 12/6/2022 | 1 | Council and Authorities Concurrent Meeting | Approved | Pass |

# REPORT TO COUNCIL

## SUBJECT

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

## COUNCIL PILLAR

Enhance Community Engagement and Transparency

## EXECUTIVE SUMMARY

To close out each fiscal year, a Budget Year-End Report is prepared that reconciles funds based on actual year-end performance and brings forward associated budget adjustments. This report includes changes to fund balances assumed in the development of the FY 2022/23 budget, other adjustments to account for needed changes resulting from actual year-end performance, and recommendations to allocate 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.

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, 2022 and a summary of year-end performance for the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Debt Service Funds, and Capital Funds. The report includes the recommended approval of a limited number of FY 2021/22 budget amendments to address expenditure overages at year-end, FY 2022/23 budget amendments necessary based on the final FY 2021/22 results, capital project carryover adjustments, and the recommended allocation of the General Fund fund balance.

In FY 2021/22, the City's revenue collections continued to be impacted by COVID-19, with the largest impact to the Transient Occupancy Tax (TOT) revenue category. This impact was assumed in the development of the budget and General Fund revenues slightly exceeded the budgeted estimate. To help address the General Fund budget challenges, cost controls remained in place, generating

expenditure savings. Performance in other funds typically met expectations. Revenues and expenditures in the Electric Utility Fund exceeded the budget. Silicon Valley Power (SVP) had higher than anticipated sales that required additional market purchases. These market purchases incurred high rates due to an increase in natural gas prices which were two to three times higher than in 2021.

## 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 Annual Comprehensive Financial Report (ACFR).

This report includes the following recommended budget adjustments:

1) required budget ratifications due to over-expended appropriations in FY 2021/22 (Attachment 1); and
2) FY 2022/23 budget actions, including reconciliations of carryover capital projects, grants, special revenue funds, and donation funds; revisions to the starting FY 2022/23 fund balances and reserves based on the actual FY 2021/22 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 the 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 three 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 2022/23 budget, the City Council approved a Budget Stabilization Reserve level of 15% as part of the budget balancing strategy.

## 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 2021/22 performance on the General Fund Budget Stabilization Reserve, necessary ratifications to address FY 2021/22 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 slightly exceeded the budget while expenditures ended the year below budget in FY 2021/22. After the required adjustments to close out FY 2021/22, the General Fund ended the year with a surplus of $11.1 million.

### General Fund Revenues

In FY 2021/22, actual revenues of $242.2 million were approximately $5.2 million (2.2%) above the budgeted estimate of $236.9 million as shown in Table 1 below. Revenues exceeded the budget in several categories, with the largest positive variances in the Property Tax, Silicon Valley Power (SVP) Transfer, Transient Occupancy Tax, and Licenses and Permits. These higher collections were partially offset by lower receipts primarily in the Sales Tax, Fines and Penalties, and Interest categories. It is important to note, however, that a portion of the higher revenues in the Licenses and Permits and Other Fees for Services categories will be allocated to the Advanced Planning Fee Reserve and the Technology Fee Reserve. In addition, the lower interest earnings category is due to losses in the Pension Trust Fund that will result in a reduction to the Pension Stabilization Reserve.

**Table 1 - FY 2021/22 General Fund Revenues and Transfers In**
**Final Budget vs. Actual**

| | | FISCAL YEAR 2021/22 | | | |
|---|---|---|---|---|---|
| **Description** | **Adopted Budget** | **Final Budget** | **Actual Revenue** | **Variance Favorable/ (Unfavorable)** | **Percent Variance** |
| Property Tax | 71,559,000 | 71,559,000 | 74,630,557 | 3,071,557 | 4.29% |
| Sales Tax | 58,183,000 | 58,183,000 | 56,901,656 | (1,281,344) | (2.20%) |
| Transient Occupancy Tax | 9,000,000 | 9,000,000 | 10,812,400 | 1,812,400 | 20.14% |
| Taxes - Other | 6,080,000 | 6,080,000 | 6,988,598 | 908,598 | 14.94% |
| Licenses and Permits | 3,685,000 | 3,685,000 | 4,738,855 | 1,053,855 | 28.60% |
| Fines and Penalties | 1,496,135 | 1,496,135 | 431,099 | (1,065,036) | (71.19%) |
| Revenue from Other Agencies | 25,981,801 | 2,613,454 | 2,685,020 | 71,566 | 2.74% |
| Revenue from State | 224,000 | 224,000 | 311,585 | 87,585 | 39.10% |
| Other Fees for Services | 36,944,512 | 36,949,512 | 36,375,116 | (574,396) | (1.55%) |
| Interest | 2,600,000 | 2,600,000 | 827,866 | (1,772,134) | (68.16%) |
| Rent | 9,833,222 | 10,015,522 | 9,763,118 | (252,404) | (2.52%) |
| Other Revenue | 198,000 | 198,000 | 815,529 | 617,529 | 311.88% |
| Contributions In Lieu | 24,700,000 | 24,700,000 | 27,259,168 | 2,559,168 | 10.36% |
| **Subtotal Revenue** | **250,484,670** | **227,303,623** | **232,540,567** | **5,236,944** | **2.30%** |
| **Transfers In** | **6,459,399** | **9,643,124** | **9,642,979** | **(145)** | **(0.00%)** |
| **Total Revenue** | **$ 256,944,069** | **$ 236,946,747** | **$ 242,183,546** | **$ 5,236,799** | **2.21%** |

- Property Tax - the property tax category includes both secured and unsecured taxes. Proceeds from property taxes of $74.6 million were $3.1 million (4.2%) above the budgeted estimate of

$71.6 million. This collection level was 8.5% above the FY 2020/21 level of $68.8 million. It is important to note that there is a legal challenge by the school districts on the distribution of the property tax related to the Education Revenue Augmentation Fund (ERAF) (under Proposition 98, a portion of property tax receipts are allocated to the ERAF beginning in 1992 and once there are sufficient funds in ERAF to fulfill the obligation to the school districts, excess funds are returned to the taxing entities that contributed the funding). As a result, a budget adjustment is recommended to set aside 30% of the excess ERAF FY 2021/22 collections ($1.7 million) in Non-Departmental to address this potential liability as estimated by the County of Santa Clara.

- Sales Tax - The sales tax category, which includes general sales tax and public safety sales tax proceeds, totaled $56.9 million. This collection level was $1.3 million (2.2%) below the budgeted estimate of $58.2 million due to an 8.6% decline in the fourth quarter of FY 2021/22. This collection level was 1.3% above the FY 2020/21 level of $56.2 million and 2.9% above the FY 2019/20 level of $55.3 million.

- Transient Occupancy Tax - TOT receipts totaled $10.8 million in FY 2021/22, exceeding the budget estimate of $9.0 million and the FY 2020/21 collection level of $2.9 million. This collection level, however, remains 52% below the pre-COVID level of $22.5 million in FY 2018/19.

- The Other Taxes category includes the franchise tax and documentary transfer tax. This revenue category ended the fiscal year at $7.0 million, which is $0.9 million (14.9%) above the revised budgeted estimate of $6.1 million due to higher documentary transfer tax receipts of $2.4 million that were $0.9 million above the budgeted estimate of $1.5 million, reflecting the strong real estate market in FY 2021/22. The franchise tax receipts ended at the budgeted estimate of $4.6 million.

- Licenses and Permits receipts totaled $4.7 million, which was $1.1 million above budgeted estimates due to advanced planning revenues of $1.5 million that had not been estimated in this category. These funds are recommended to be allocated to the Advanced Planning Reserve. The higher collections in this area were partially offset by lower than budgeted receipts in the busines licenses, fire permits, and parking permits categories.

- Revenue from Other Agencies totaled $2.7 million, which was slightly above the budgeted estimate of $2.6 million. The majority of this revenue was generated from mutual aid reimbursements for services provided by the Fire Department. The FY 2021/22 Adopted Budget revenue estimate was significantly higher because it included the anticipated American Rescue Plan Act (ARPA) federal stimulus funds that were shifted to a separate fund during FY 2021/22.

- The Other Fees for Services category encompasses various fees and reimbursements, such as those collected for plan check and zoning, engineering, fire prevention, stadium activities, and recreational activities. In FY 2021/22, revenue in this category totaled $36.4 million, which was slightly below the final budget of $36.9 million but above the FY 2020/21 collection level of $35.2 million. Categories that exceeded the budgeted estimate include planning and zoning fees, the technology fee, fire construction permits and fire CUPA fees. The categories that fell below estimates include engineering fees, Fire Emergency Medical Services (EMS) reimbursements from the County, stadium reimbursements, and recreational fees. The higher Technology Fee revenue of $0.4 million is recommended to be placed in the Technology Fee Reserve.

- Interest earnings ended the year at a net $828,000 and consisted of General Fund interest

earning of $3.4 million, offset by a loss in investment earnings in the Pension Trust Fund of $2.5 million. The $2.5 million decline in the Pension Trust is reflected as a reduction to the Pension Stabilization Reserve. The General Fund interest earnings of $3.4 million exceeded the budgeted estimate of $2.6 million.

- Rent collections of $9.8 million came in slightly below the budgeted estimate of $10.0 million. The budget in this category included estimated revenue of $250,000 from the Related project, which was not received due to the timing of this project.

- Transfer from Silicon Valley Power (SVP) revenues are directly related to the revenues collected by the City's Electric Utility Department. Per the City's charter, SVP pays 5% of their gross cash revenues to the General Fund. Based on SVP's actual cash revenue collections through June 30, 2022, the City's General Fund received $27.3 million, which was $2.6 million above the budgeted estimate of $24.7 million and $2.7 million (11%) above the FY 2020/21 receipts of $24.5 million.

- Transfers of $9.6 million were consistent with the budget.

General Fund Expenditures

In FY 2021/22, actual expenditures of $262.6 million were $14.2 million (5.1%) below the budget of $276.9 million as shown in Tables 2 and 3 below. Overall, departments ended the fiscal year below budget, reflecting the expenditure controls implemented due to COVID-19. The City implemented various cost savings strategies at the end of March 2020 that continued in FY 2021/22. 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; materials, services and supplies; and transfers).

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 & Recreation, and Police Departments.

**Table 2 - FY 2021/22 General Fund Expenditures and Transfers Out**
**Final Budget vs. Actual by Department**

| Function | Adopted Budget | Final Budget | Actual Expenditures/ Encumbrances | Variance Favorable/ (Unfavorable) | Percent Variance |
|---|---|---|---|---|---|
| | | FISCAL YEAR 2021/22 | | | |
| **General Government** | | | | | |
| Mayor and City Council Offices | $ 829,205 | $ 829,205 | $ 780,877 | $ 48,328 | 5.83% |
| City Attorney's Office | 3,111,929 | 3,119,380 | 3,018,701 | 100,679 | 3.23% |
| City Clerk's Office | 1,491,088 | 1,718,169 | 1,459,494 | 258,675 | 15.06% |
| City Manager's Office | 5,712,973 | 6,276,486 | 5,376,889 | 899,597 | 14.33% |
| Finance | 17,679,265 | 18,071,518 | 17,324,143 | 747,375 | 4.14% |
| Human Resources | 4,351,150 | 4,389,886 | 3,973,520 | 416,366 | 9.48% |
| **Total General Government** | **33,175,610** | **34,404,644** | **31,933,624** | **2,471,020** | **7.18%** |
| **Public Works** | **23,807,473** | **24,426,914** | **24,008,145** | **418,769** | **1.71%** |
| **Community Development** | **6,300,951** | **5,480,607** | **5,094,254** | **386,353** | **7.05%** |
| **Parks and Recreation** | **21,734,058** | **21,433,077** | **19,223,737** | **2,209,340** | **10.31%** |
| **Public Safety** | | | | | |
| Fire | 61,045,361 | 51,239,214 | 50,636,970 | 602,244 | 1.18% |
| Police | 79,955,424 | 65,242,662 | 62,366,762 | 2,875,900 | 4.41% |
| **Total Public Safety** | **141,000,785** | **116,481,876** | **113,003,732** | **3,478,144** | **2.99%** |
| **Library** | **10,827,809** | **10,895,605** | **10,041,472** | **854,133** | **7.84%** |
| **Non-Departmental** | **14,306,083** | 14,789,281 | 10,366,347 | 4,422,934 | **29.91%** |
| **Subtotal Expenditures** | **251,152,769** | **227,912,004** | **213,671,311** | **14,240,693** | **6.25%** |
| **Transfers Out** | **39,146,855** | **48,969,098** | **48,969,098** | **-** | **0.00%** |
| **Total Uses of Funds** | **$ 290,299,624** | **$ 276,881,102** | **$ 262,640,409** | **$ 14,240,693** | **5.14%** |

When evaluating the expenditures by category as shown in Table 3, the personnel-related expenditures were $10.3 million below budget while the non-personnel expenditures were $3.9 million below budget.

Personnel expenditures totaled $161.5 million and ended the year $10.3 million, or 6.0%, below the budget of $171.8 million. This reflected salary savings of $5.8 million and benefits savings of $4.5 million generated from vacancies during the year. Non-Personnel expenditures totaled $101.2 million and ended the year $3.9 million, or 3.7%, below the budget of $105.1 million. The savings were generated in the Materials, Services and Supplies category. The FY 2022/23 Adopted Budget also included the carryover of unspent funds for the following: $150,000 in the Fire Department Community Risk Reduction Division for contractual services to support development services; $330,000 for Chamber of Commerce Small Business Assistance; $250,000 for the library strategic plan, $250,000 for the library facilities master plan, and $259,000 for library technology purchases. Two additional carryovers are recommended in this report: a carryover of $100,000 for an organizational analysis of Information Technology services; and a carryover of $352,000 for Police contractual services due to delayed invoicing for the Axon Body Worn Cameras.

The Interfund Services category was slightly exceeded due to additional allocations to support workers' compensation insurance invoices.

**Table 3 - FY 2021/22 General Fund Expenditures and Transfers Out**
**Final Budget vs. Actual by Category**

| Category | Adopted Budget | FISCAL YEAR 2021/22 Final Budget | Actual Expenditures/ Encumbrances | Variance Favorable/ (Unfavorable) | Percent Variance |
|---|---|---|---|---|---|
| **Salaries** | | | | | |
| Salary and Wages - Regular | $ 110,327,661 | $ 84,948,744 | $ 80,581,361 | $ 4,367,383 | 5.14% |
| Salary and Wages - As Needed | 5,861,092 | 5,767,092 | 4,623,897 | 1,143,195 | 19.82% |
| Overtime | 8,817,440 | 9,994,484 | 9,641,264 | 353,220 | 3.53% |
| **Subtotal Salaries** | **125,006,193** | **100,710,320** | **94,846,522** | **5,863,798** | **5.82%** |
| **Benefits** | | | | | |
| Retirement - Safety | 33,056,981 | 33,056,981 | 32,084,531 | 972,450 | 2.94% |
| Retirement - Miscellaneous | 18,296,744 | 18,293,568 | 17,489,354 | 804,214 | 4.40% |
| Health | 8,929,401 | 8,929,401 | 7,621,772 | 1,307,629 | 14.64% |
| Social Security | 2,998,659 | 2,998,659 | 2,728,727 | 269,932 | 9.00% |
| Retiree Healthcare | 2,459,495 | 2,459,495 | 2,459,495 | - | 0.00% |
| Other Benefits | 5,344,656 | 5,347,597 | 4,223,752 | 1,123,845 | 21.02% |
| **Subtotal Benefits** | **71,085,936** | **71,085,701** | **66,607,631** | **4,478,070** | **6.30%** |
| **Materials, Services and Supplies** | **32,340,316** | **33,394,539** | **29,359,889** | **4,034,650** | **12.08%** |
| **Interfund Services** | **22,720,324** | **22,721,444** | **22,857,269** | **(135,825)** | **(0.60%)** |
| **Transfers Out** | **39,146,855** | **48,969,098** | **48,969,098** | **-** | **0.00%** |
| **Total Uses of Funds** | **$ 290,299,624** | **$ 276,881,102** | **$ 262,640,409** | **$ 14,240,693** | **5.14%** |

General Fund Budget Adjustments

As detailed in Attachment 2, a series of FY 2022/23 General Fund budget adjustments are recommended to:

- reconcile the fund balance and reserves to the FY 2021/22 ending fund balances;
- allocate net savings (revenues less expenditures) to the Advanced Planning Fee Reserve ($1.5 million) and the Technology Fee Reserve ($0.5 million);
- adjust the Capital Projects Reserve to account for the return of FY 2021/22 savings from capital funds for projects initially funded by the General Fund;
- replenish the Land Sale Reserve ($4.2 million) that was used to offset additional labor costs associated with various bargaining unit agreements;
- actions necessary to close out FY 2021/22; and
- recommended use of $11.1 million in available fund balance from FY 2021/22 to address current year funding needs, to bring the Capital Projects Reserve to budget policy level of $5.0 million, to set aside funds to address a projected General Fund shortfall in FY 2023/24, and to fund Council-directed items.

These recommended budget adjustments will allocate the $19.8 million in additional General Fund fund balance at the end of FY 2021/22. These actions include required adjustments of $8.7 million to close out FY 2021/22 as well as additional recommended adjustments of $11.1 million as summarized below.

**Table 4 -FY 2021/22 General Fund Year-End Performance**
**Recommended Use of Fund Balance**

| Recommended FY 2022/23 Adjustments | $ Impact |
|---|---|

| | |
|---|---|
| **Fund Balance Reconciliation (adjusts for FY 2021/22 year-end revenues and expenditures)** | **$19.8 M** |
| ***FY 2021/22 Close-Out: Required Technical Adjustments*** | |
| 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 that will be used to establish new development fee funds (Fire, Public Works, Planning) | $2.0 M |
| 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 and Benefit Organizational Analysis carryover | $0.1 M |
| **Total Required Technical Adjustments** | **$8.7 M** |
| **Available Fund Balance After Required Adjustments** | **$11.1 M** |
| ***Recommended Adjustments*** | |
| 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 |
| Council Directives (sets aside funding to address Council-approved initiatives) | $0.3 M |
| FY 2023/24 Budget Balancing Reserve | $2.0 M |
| Budget Stabilization Reserve | $0.3 M |
| **Total Recommended Adjustments** | **$11.1 M** |
| **Available Fund Balance After Recommended Adjustments** | **$0.0 M** |

## Capital Projects, Grants, Donations and Other Carryover Reconciliation

Estimates were used to carryover unspent Capital Improvement Program (CIP) funds from FY 2021/22 to FY 2022/23 during the FY 2022/23 and FY 2023/24 adopted capital budget process. Attachment 2 includes the reconciliation of those project carryover true-up amounts based on actual year-end activity totaling a carryover reduction of $2.4 million. When combined with the capital project carryovers included in the FY 2022/23 budget adopted in June 2022, the capital project carryovers to FY 2022/23 total $166.8 million.

In addition to the year-end true-up amounts for capital projects, the appropriation carryover of donations and reimbursements of $1.7 million, grants of $4.1 million, and other expenditures that are neither donations nor grants of $7.7 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, Enterprise Funds, Internal Service Funds, Debt Service Funds, Other Agency Funds, and Capital 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 2022/23 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 2021/22 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 promotes and facilitates the construction and retention of affordable housing and accounts for the City's Below-Market Price Purchase (BMP) Program to assist low- and moderate-income families achieve the goal of homeownership. 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.

In FY 2021/22, revenues totaled $3.7 million, which was $2.9 million below the budgeted estimate of $6.7 million. Loan repayments came in higher than anticipated; however, these higher collections were offset by $6.0 million in revenue that was not received from a developer contribution for an affordable housing project that will construct 150 affordable housing units at 2302 Calle Del Mundo. This developer contribution is requested to be carried over as the funds are still anticipated to be received.

FY 2021/22 expenditures and encumbrances of $6.2 million ended the year below the budget of $12.9 million by approximately $6.7 million. Of that unexpended amount, $6.0 million reflects a developer loan commitment for 2302 Calle Del Mundo, but was not disbursed due to the timing of project. As part of the agreement approved by the City Council on October 27, 2020, this loan commitment is no longer required as the developer will be covering these costs through the Developer equity contribution.

Based on actual FY 2021/22 revenues and expenditures, the ending fund balance ended the year $3.4 million above the estimate used to develop the FY 2022/23 Adopted Budget. These funds, which are not yet programmed, will be used to fund future affordable housing initiatives. As those opportunities arise during the year, staff will come forward with budget amendments to appropriate those funds.

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. In FY 2021/22, revenues of $3.4 million ended the year $1.7 million below the budgeted estimate of $5.1 million due primarily to the timing of expenditures and payments. A revenue carryover of $2.1 million is recommended to account for funding committed by HUD, but not yet spent.

Expenditures and encumbrances of $4.0 million ended the year $1.5 million below the budget of $5.5

million. Most of the reduction in expenditures was a result of the Neighborhood Conservation and Improvement Program operating in a limited capacity. Staff expects FY 2022/23 to be more reflective of an average program year. The other unspent funds are already committed to various non-profit organizations to conduct activities such as tenant-based rental assistance, affordable rental housing, and multi-family rental assistance. As those non-profits continue to provide financial support to lower-income households, the City will be reimbursing those non-profit organizations and will ultimately be reimbursed by HUD for the cost of those services. Any funds not used in FY 2022/23 will be reprogramed in FY 2023/24 as a part of the Annual Action Plan process.

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 $6.5 million were $1.0 million above the budgeted estimate of $5.5 million due to higher loan repayments. Expenditures and encumbrances of $12.6 million, fell $5.4 million below the budget of $18.0 million, primarily due to a loan to affordable housing developments which were not disbursed in FY 2021/22. Delays in the development of this project has pushed back the disbursement of City funding. On February 2, 2019, the City Council approved a $5.0 million loan to the project located at 2904 Corvin Drive which is expected to provide 145 affordable housing units. The carryover of $5.0 million for this project is recommended in this report as this project is expected to require funding during the current fiscal year.

Other City Departments Operating Grant Trust Fund
This fund accounts for various, citywide donations received by the City. Beginning in FY 2019/20, revenues and expenditures related to COVID-19 have been recorded in this fund. In FY 2021/22, revenues totaled $0.5 million, which reflects the budgeted transfer from the General Fund for additional COVID-19 related expenditures. Expenditures totaled $0.7 million, which was slightly below the budget of $0.8 million. Budget actions are recommended to carry over $25,000 to FY 2022/23 to close out the remaining COVID-19 related costs and to return $0.1 million of the unspent funds to the General Fund.

***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.

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. In FY 2021/22, revenues totaled $7.7 million, which was above the budgeted estimate of $7.1 million due to reimbursements and third-party insurance proceeds. The transfer from the General Fund totaled $5.2 million as budgeted. Expenditures and encumbrances totaled $8.0 million, which was below the budget of $9.9 million.

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. In FY 2021/22, revenues totaled $6.8 million, which was above the budgeted estimate of $5.7 million due to third party insurance proceeds. Expenditures totaled $5.1 million, which was below budget by $0.6 million due to lower than budgeted claims expenditures.

Unemployment Insurance Fund
This fund accounts for the cost of unemployment insurance claims. In FY 2021/22, actual expenses totaled $103,000, which was well below the prior year amount of $758,000 and the FY 2021/22 budget of $550,000. Historically, the source of revenue for this fund is fees charged to the departments citywide; however, in FY 2021/22, funding was also assumed from the State of California as part of COVID-19 relief measures to offset a portion of the claims costs. Revenues totaled $382,000, which was below the budget of $550,000 due to lower reimbursements from the State as a result of lower actual claims.

***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.

Convention Center Enterprise Fund
The Convention Center Enterprise Fund accounts for the operations of the City's Convention Center through third-party agreements. The FY 2021/22 final budget reflects the operating budget of the concessions vendor, the operations management vendor, as well as the City. As of June 30, 2022, revenues of $10.4 million came in approximately $0.2 million above the budgeted estimate of $10.1 million, while expenditures and encumbrances of $9.7 million ended the year $1.7 million below the final budget of $11.4 million. The Convention Center performed significantly better than in FY 2020/21 as a result of the decreasing restrictions on large events. The FY 2021/22 unrestricted ending fund balance remained positive at $2.6 million, which was well above the estimated level of $1.2 million used to develop the FY 2022/23 budget.

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

In FY 2021/22, total revenues of $542.3 million were above the budget of $523.9 million by $18.4 million, primarily as a result of higher than estimated Customer Service Charges and Wholesale Revenue. Customer Service Charges totaled $499.8 million, reflecting an increase of 11.3% from the $449.2 million received in FY 2020/21; this revenue level was $12.0 million above the budget of $487.8 million. Wholesale revenues totaled $27.1 million, which exceeded the budgeted estimate of

$19.9 million and the FY 2020/21 collection level of $19.1 million. When compared to the prior year, total revenues of $542.3 million were up $56.8 million, or 11.7%, from the $485.6 million received in FY 2020/21.

Expenditures, including encumbrances and transfers, of $555.1 million were $46.7 million above the budget of $508.4 million. This is attributed primarily to Resource and Production expenditures, which were $53.7 million over the budgeted amount of $353.5 million. SVP had higher than anticipated sales that required additional market purchases. These market purchases incurred high rates due to an increase of natural gas prices which were two to three times higher than the 2021 rates; natural gas prices experienced a significant increase starting January 2021 primarily due to the Russian-Ukrainian crisis that impacted supply. Additionally, Transmission Access Charges (TAC) rates from PG&E increased by 31.3% for Low Voltage (LV) and 29.2% for High Voltage. SVP incurs TAC for all power not generated from an SVP asset. A budget action is recommended in Attachment 1 to ratify the over expenditure.

The total unrestricted fund balance ended the year at $127.1 million, which was $14.3 million higher than estimated, resulting from a reduction in the Infrastructure Reserve.

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 $54 million, which was $14.2 million above the revenue estimate of $39.8 million primarily due to the return of funding from the City of San José for the Regional Wastewater Facility capital project. This reflects the reconciliation of the City of Santa Clara's share of the actual project costs from the prior year. Transfers from other funds totaled $0.2 million as budgeted. Actual expenditures, including encumbrances, and transfers to other funds totaled $36.0 million, ending the year $0.9 million below the final budget of $36.9 million. This is primarily due to vacancy savings and lower expenditures in the resource and production category.

The unrestricted ending fund balance and reserves totaled $47.7 million, up $15.1 million from the estimate used to develop the FY 2022/23 budget. Budget actions are recommended in Attachment 2 to use this excess fund balance, along with additional unrestricted fund balance, to fund a $32.5 million transfer from the Sewer Utility Fund to the Sewer Utility Capital Fund. This transfer is necessary to avoid a negative ending fund balance in the capital fund as a result of FY 2021/22 actuals. In the capital fund, the FY 2021/22 unrestricted fund balance ended the year below projected levels because debt proceeds were not received in FY 2021/22 and a technical adjustment was implemented to break out the restricted and unrestricted portions of the fund balance. Staff is evaluating the timing of debt issuance to address the sewer capital needs. With the recommended adjustments in Attachment 2, the unrestricted ending fund balance in the Sewer Utility Fund totals $13.5 million.

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 of $34.5 million ended the year $0.7 million higher than the budgeted estimate of $33.8 million. This is attributable to higher collections in the Other Fees for Services category. Transfers from other funds totaled $33,600, from the General Fund for the rate assistance program. Total operating expenditures

and encumbrances of $35.6 million were below the budget of $37.1 million by $1.6 million due to reduced resource and production and lower materials, supplies and services costs. Transfers to other funds totaled $0.3 million as budgeted. The unrestricted ending fund balance and reserves totaled $10.6 million, which was higher than the $8.4 million assumed in the 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, 2022, actual revenue totaled $51.9 million, ending over the budgeted estimate of $49.7 million by $2.2 million. Actual expenditures, including encumbrances, and transfers to other funds were also lower than anticipated at $52.8 million, compared to the budget of $53.7 million. The expenditure savings are primarily due to vacancy savings and lower spending for operating supplies and contractual services.

The unrestricted ending fund balance and reserves totaled $10.9 million, which was slightly higher than the fund balance estimate used in the development of the FY 2022/23 Adopted Budget. A corresponding upward adjustment of $1.9 million to the FY 2022/23 beginning fund balance is included in this report.

## Required FY 2021/22 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 2021/22 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 overages in 12 funds totaling $47.0 million, which were offset by available fund balance and revenues in all funds. Almost all of the overage ($46.7 million) was in the Electric Utility Fund due to higher resource and production costs that were offset by additional revenue and the use of unrestricted ending fund balance.

## Retirement Liability

As summarized in Table 5, the Pension Stabilization Reserves in the various funds totaled $29.8 million at the end of FY 2021/22. The goal is to increase the reserve levels by 1% of the unfunded pension liability each year with a targeted level of 8% by the end of FY 2022/23. As of June 30, 2022, all funds, with the exception of the General Fund, are above the 8% target of the total unfunded liability. In total, reserve levels are projected at $30.9 million, or approximately 6.9% 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 limited additional funds are available and recommended to be reserved for FY 2023/24 budget balancing, 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**

| | Pension Stabilization Reserve Balance as of June 30, 2022 | FY 2022/23 Estimated Reserve Contribution | Estimated Pension Stabilization Reserve for June 30, 2023 | Unfunded Liability as of June 30, 2022 | Projected Pension Stabilization Reserve Percent of Unfunded Liability |
|---|---|---|---|---|---|
| General Fund | $ 21,367,474 | $ - | $ 21,367,474 | $ 347,165,409 | 6.2% |
| Electric | 6,146,356 | 920,073 | 7,066,429 | 73,533,480 | 9.6% |
| Water | 1,267,460 | 135,353 | 1,402,813 | 14,064,900 | 10.0% |
| Sewer | 595,654 | 87,707 | 683,361 | 7,009,690 | 9.7% |
| Solid Waste | 288,662 | - | 288,662 | 3,436,571 | 8.4% |
| Water Recycling | 108,715 | 15,377 | 124,092 | 1,228,971 | 10.1% |
| **Total** | **$ 29,774,321** | **$ 1,158,510** | **$ 30,932,831** | **$ 446,439,021** | **6.9%** |

## Status of Selected Reserves

Overall, the selected reserves are relatively unchanged in FY 2022/23, increasing from $298.5 million to a proposed $300.3 million as shown in Table 6 below.

In the General Fund, the FY 2022/23 Adopted Budget assumed the use of the Budget Stabilization Reserve, Capital Projects Reserve, and Land Sale Reserve totaling $30.8 million. During FY 2022/23, an additional $4.3 million from the Land Sale Reserve was used to offset labor negotiation impacts, bringing the total reduction to these major General Fund reserves to $35.1 million. As part of the FY 2021/22 Year-End Report, budget actions are recommended to add $12.8 million to these General Fund reserves, resulting in a net reduction of $22.3 million in FY 2022/23.

The Pension Trust reserves reflect a net decrease due to investment earnings declines in FY 2021/22. The Utility Fund (Sewer, Solid Waste, Water and Water Recycling) operating and maintenance and rate stabilization reserves reflect a net increase of $0.5 million in FY 2022/23. The Electric Utility Fund operating and maintenance and rate stabilization reserves are up $26.1 million in FY 2022/23.

**Table 6 - Summary of Selected Reserves**
**($ in millions)**

| Selected Reserve | Estimated July 1, 2022 Beginning Balance | FY 2022/23 Adopted Contribution / (Use) of Reserves/ | FY 2022/23 Budget Amendments | FY 2022/23 Amended Ending Fund Balance | FY 2021/22 Year-End Recommended Contribution / (Use) of Reserves | FY 2022/23 Revised Ending Fund Balance |
|---|---|---|---|---|---|---|
| General Fund - Budget Stabilization (BSR) | $ 53.6 | $ (13.2) | $ - | $ 40.4 | $ 0.4 | $ 40.8 |
| General Fund - Capital Projects (CPR) | 6.7 | (6.7) | - | - | 6.7 * | 6.7 |
| General Fund - Land Sale Reserve | 22.4 | (10.9) | (4.3) | 7.2 | 5.7 | 12.9 |
| Pension Trust Reserve (All Funds) | 33.4 | 1.1 | - | 34.5 | (3.6) | 30.9 |
| Utility Fund Rate Stabilization/O&M** | 15.9 | (0.3) | - | 15.6 | 0.8 | 16.4 |
| Electric Fund Rate Stabilization/ O&M | 166.5 | 26.1 | - | 192.6 | - | 192.6 |
| **Total** | **$ 298.5** | **$ (3.9)** | **$ (4.3)** | **$ 290.3** | **$ 10.0** | **$ 300.3** |

* The 2021/22 Year-End Recommended Contribution includes $5.0 million to restore the CPR to the Council policy level and $1.7 million for the Union Pacific Railroad capital project.

** 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, Enterprise Funds, Internal Service Funds, Debt Service Funds, Other Agency Funds, and Capital 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> or at the public information desk at any City of Santa Clara public library.

## RECOMMENDATION

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 as set forth in Attachment 1 of this report **(five affirmative Council votes required for revenue actions and the use of unused balances as noted for each item in Attachment 1)**; and
3. Approve the FY 2022/23 Budget Amendments as set forth in Attachment 2 of this report **(five affirmative Council votes required for revenue actions and the use of unused balances as noted for each item in Attachment 2)**.

Reviewed by: Kenn Lee, Director of Finance
Approved by: Rajeev Batra, City Manager

## ATTACHMENTS

1. FY 2021/22 Budget Amendments
2. FY 2022/23 Budget Amendments
3. Summary of Other Funds Performance
4. Summary of Fund Balance Adjustments