



Agenda Report

21-846

Agenda Date: 8/24/2021

REPORT TO COUNCIL

SUBJECT

Action on Monthly Financial Status and Investment Reports for May 2021

COUNCIL PILLAR

Enhance Community Engagement and Transparency

BACKGROUND

In compliance with the Charter of the City of Santa Clara and the adopted Investment Policy, the May 2021 Monthly Financial Report and Investment Report are submitted for your information.

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

DISCUSSION

Monthly Financial Status Report (Attachment 1)

The attached report summarizes the City's financial performance as of May 31, 2021. Financial analysis for the report is provided for the General Fund, select Special Revenue Funds, Enterprise Operating Funds, and Capital Improvement Program Funds.

Attachment 1 shows that General Fund revenues were trending below the budget at 82.7% through May 2021. Excluding transfers that occur at the beginning of the year, this figure drops to 78.9% of the General Fund revenues received through May. Some revenue categories are lower due to the timing of payments (e.g., sales tax), but several categories are tracking below as a result of COVID-19 impacts. Downward revenue adjustments of \$17.3 million were approved on March 9, 2021 to address the majority of the lower revenue collections. While not reflected in this report, additional downward revenue adjustments were approved on June 21, 2021 as part of the April Monthly Financial Report, offset by expenditure savings.

As shown in Attachment 1, General Fund expenditures were at 83.4% of budget through May 31, 2021. Excluding transfers, this figure drops to 81.4% expended, which is below the par level of 91.7%. Several cost-control measures that were implemented last fiscal year remain in place to generate expenditure savings to partially offset the drop in revenues associated with COVID-19. These expenditure reduction measures include controls on: hiring, discretionary overtime, use of as-needed staff, marketing, travel, technology and vehicle purchases. Overall, year-end savings are expected to be generated and a portion of these savings were used to offset lower revenue collections as well as COVID-19 related expenditures as approved in the April Monthly Financial

Report.

Total revenues for Enterprise Funds (Electric, Water, Sewer, Cemetery, Solid Waste, and Water Recycling) were at 82.5% of the budget. Total Enterprise Fund expenses were at 77.7% through May. Total revenue for Special Revenue Funds (Housing funds) were at 17.1% of the budget, while total expenditures were at 9.7% of budget.

In the month of May, the City received donations of \$435 bringing the year-to-date total to \$92,918. A summary of donations is included in Attachment 1.

With the shelter-in-place and other actions residents and businesses have been taking to reduce the spread of COVID-19, economic activity in this region and throughout the country experienced a significant decline. However, over the last several months, economic activity has improved from the severe drop off experienced in spring 2020. Economic conditions are expected to continue to improve in 2021. According to the March 2021 UCLA Anderson Forecast, robust economic growth and recovery is expected in 2021, following the worst economic decline in the last 60 years. The June 2021 UCLA Anderson Forecast continued to predict a robust recovery while also acknowledging that the recovery may not be smooth and some sectors are not expected to recover until much later. In the California Forecast, the leisure and hospitality sector was expected to recover last. In addition, with the recent spike in COVID variants, recovery may be prolonged and/or delayed as it continues to impact full reopening of businesses.

On a national level, the unemployment rate remains high at 5.8% in May 2021. This rate, however, was well below the record setting high of 14.7% in April 2020 and below the peak reached during the last recession a decade ago, when unemployment briefly hit 10%. In the first quarter 2021, the Gross Domestic Product (GDP) increased by approximately 6.4%, following a 4.3% increase in the GDP in the fourth quarter 2020. While there was significant improvement in the last two quarters, real GDP for the fourth quarter 2020 remains 0.9% below the level experienced in the fourth quarter of 2019 (the last quarter prior to the onset of COVID-19).

The unemployment rate in this region continues to outperform the nation. The unadjusted unemployment rate in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA) was 4.7% in May, down from a revised 5.0% in April 2021, but higher than the April 2020 level of 3.1%.

While economic conditions have started to improve, Santa Clara's General Fund revenues have been significantly impacted this fiscal year and this impact is expected to continue over the longer term as certain sectors take time to recover. In FY 2020/21, a General Fund shortfall of almost \$23 million was addressed in the revised FY 2020/21 budget approved in June 2020. This budget was solved with the use of the Budget Stabilization Reserve. Additional downward revenue adjustments and budget balancing actions were approved on March 9, 2021, and further adjustments were approved on June 22, 2021 as part of the April Monthly Financial Report. Discussion of the COVID-19 impacts and the General Fund deficit is included in Attachment 1.

Monthly Investment Report (Attachment 2)

All securities held by the City of Santa Clara as of May 31, 2021 were in compliance with the City's Investment Policy Statement regarding current market strategy and long-term goals and objectives. All securities held are rated "A" or higher by two nationally recognized rating agencies. There is

adequate cash flow and maturity of investments to meet the City's needs for the next six months.

The City's investment strategy for May 2021 was to invest funds not required to meet current obligations, in securities listed in the prevailing Investment Policy Statement, with maturities not to exceed five years from the date of purchase. This strategy ensures safety of the City's funds, provides liquidity to meet the City's cash needs, and earns a reasonable portfolio return of 1.41%.

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

There is no fiscal impact associated with this report.

COORDINATION

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

PUBLIC CONTACT

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

RECOMMENDATION

Note and file the Monthly Financial Status and Investment Reports for May 2021 as Presented.

Reviewed by: Kenn Lee, Director of Finance

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Monthly Financial Status Report May 2021
2. Monthly Investment Report May 2021