



Agenda Report

19-907

Agenda Date: 11/5/2019

REPORT TO COUNCIL

SUBJECT

Action on FY 2018/19 Budget Year-End Report, Approve Seven New Positions, and Approve the Related Budget Amendments

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, 2019 and recommends approval of the related budget amendments. Consistent with the Council pillar to enhance transparency, this report provides the Council and the public with the status of, and recommended increases to, reserves in key funds; detailed descriptions of recommended budget actions (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); a summary of a reconciliation of carryover capital projects, special revenues, grants, and donations funds (Attachment 4); and a summary of beginning and ending fund balance adjustments for each fund due to actual results (Attachment 5).

This report also includes an adjustment to the City's budgetary basis for reporting revenues and expenditures. This change aligns the budget with the City's accounting of funds, presents budgetary information consistent with Government Accounting Standards Board (GASB), and transitions the budget to best practices for local government agencies. The actual results (actuals) discussed in this report include detail reflecting the change from a cash basis to a modified accrual budgetary reporting. Additional one-time fund balances are recognized in the majority of the City's funds due to this reporting change.

The General Fund is a major operating fund for the City and includes multiple programs, services, and activities for the residents of the City. Overall, the General Fund ended the year above the final budget by \$57.7 million, primarily from one-time sources or savings. The table below summarizes the impact to the fund balance in the General Fund for FY 2018/19.

	Revenue	Expenditures	Contribution to Reserves	Fund Balance
Net Additional Fund Balance	\$ 12.6	\$ 18.8	\$ (4.4)	\$ 27.0
Change in Budget Methodology	31.6	(0.9)	0.0	30.7
Total Additional Fund Balance	\$ 44.2	\$ 17.9	\$ (4.4)	\$ 57.7

As part of assigning the \$57.7 million in total fund balance, this report recommends allocating \$44.3 million to reserves and \$13.4 million to several budget amendments to cover unanticipated expenses in FY 2019/20.

The table below shows an increase of \$19.0 million to the General Fund Budget Stabilization Reserve (BSR), of which \$1.5 million was assumed to be drawn from the adoption of the FY 2019/20 budget.

Staff also recommends \$15.0 million of additional fund balance to be allocated to the Capital Projects Reserve (CPR) bringing the CPR balance to \$27.4 million for FY2019/20. This reserve will be necessary to fund many of the capital improvement projects that will be considered as part of the upcoming Proposed Capital Improvement Program budget cycle. Lastly, \$3.5 million is recommended to be contributed to the General Fund Pension Trust reserve.

For the City's Utility Funds, new Rate Stabilization and Operations and Maintenance Reserves were established during the FY 2019/20 budget adoption process. As shown in the table below, additional contributions of \$22.0 million to these reserves are recommended, as a result of the additional year-end fund balances in the funds.

In \$ Millions								
			2019/20					
	July 1, 2018	July 1, 2019	2019/20 Adopted	2019/20	2019/20	2020/21	2020/21	
Reserve	Beginning	Beginning	Contributions/	Year-End	Revised	Recommended	Recommended	
	Balance	Balance	Use of Reserves	Contribution/	Reserve	Contribution/	Contribution/	Revised
				Use of Reserves	Balance	Use of Reserves	Use of Reserves	Reserve
General Fund Budget Stabilization (BSR)	\$ 55.1	\$ 62.9	\$ (1.5)	\$ 19.0	\$ 80.4	\$ (1.2)		\$ 79.2
General Fund Capital Projects (CPR)	31.0	22.0	(9.6)	15.0	27.4	(10.2)		17.2
Land Sale Reserve	29.1	21.5	0.0	0.0	21.5	0.0		21.5
Pension Trust (all funds)	15.6	20.9	1.8	3.5	26.2	1.3		27.5
Utility Fund Rate ** Stabilization/O&M (NEW)	0.0	0.0	19.1	10.7	29.8	0.7		30.5
Electric Rate Stabilization/O&M	121.0	124.0	22.3	11.3	157.6	7.7		165.3
Total	\$ 251.8	\$ 251.3	\$ 32.1	\$ 59.5	\$ 342.9	\$ (1.7)	\$	\$ 341.2

** Includes Sewer, Solid Waste, Water, Water Recycling

BACKGROUND

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.

Based on two Council-adopted Budget Principles highlighted below, staff has prepared this report with recommendations for the allocation of one-time FY 2018/19 General Fund year-end fund balance.

Budget Principles for FY 2019/20, as adopted by the City Council on February 1, 2019 include:

- Use one-time unrestricted revenues (e.g., annual General Fund surplus) for one-time uses such as increasing reserves, funding capital or Information Technology projects, paying off debt, and/or paying off unfunded pension or other post-employment benefits liabilities.
- In accordance with Council policy, continue to maintain the General Fund Budget Stabilization Reserve balance at or above the policy level of 25% of adopted budget expenditures for the long-term fiscal health of the City.

Each year as part of budget development and budget close-out, staff reviews the reserve fund balances and the reserve targets for the General Fund Contingency Reserve which is broken down into the Budget Stabilization Reserve and the Capital Projects Reserve. Per Council Policy, 25% of General Fund Operations for the Budget Stabilization is established and the Capital Projects Reserve is set at a minimum fund balance target of \$5.0 million in the long term. Revised BSR and CPR balances, as shown in above table, well exceed these requirements. Further, during good economic times, the Council is well-positioned to increase reserve balances beyond its own policy requirement in preparation for the inevitable downturn.

A report detailing the additional year-end fund balance and the recommended allocation of those additional funding amounts is brought forward each year after the year-end financial close. The financial review as of June 30, 2019 provides a year-to-date financial update to the City Council for FY 2018/19.

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. In most cases, revenues exceeded estimated levels and expenditures/expenses were within budgeted limits.

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 2018/19 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 or to reconcile specific reserves to policy requirements.

Reflected throughout this report is a change in the City's budgetary basis for reporting revenues and expenditures. This change aligns the budget with the City's accounting of funds, presents budgetary information consistent with Government Accounting Standards Board (GASB), and transitions the budget to best practices for local government agencies. The actual results (actuals) discussed in this report include detail reflecting the change from a cash basis to a modified accrual budgetary reporting. Additional one-time fund balances are recognized in the majority of the City's funds due to this reporting change.

General Fund

The revenue comparison of budget to actuals is shown in Table 1. As shown in the table, actual

revenue performance was approximately \$44.2 million higher than the budgeted estimate of \$240.2 million primarily attributable to the Sales Tax, Transient Occupancy Taxes (TOT), Licenses and Permits, Revenue from Other Agencies and Other Fees for Services revenue categories. Of this amount, as detailed in the Accrued Revenue column, \$31.6 million of the revenue performance is due to a change in the City's budgetary basis for reporting revenues. These revenues include the recognition of additional Sales Tax payments and the sale of the Great America property. It should be noted that this additional revenue is one-time in nature. Higher revenue performance related to licenses and permits are primarily a result of higher development activity; these revenues are restricted for development purposes. Higher than budgeted revenues in these categories were partially offset by lower than estimated revenues in the Property Tax, Rent and Contribution In Lieu revenue categories.

**Table 1 - General Fund Revenue and Transfers In
Final Budget vs. Actual**

FISCAL YEAR 2018/19						
Description	Final Budget	Cash Revenue	Accrued Revenue	Total Revenue	Variance Favorable/ (Unfavorable)	Percent Variance
Property Tax	\$ 60,300,000	\$ 58,414,948	\$ 199,810	\$ 58,614,758	(1,685,242)	(2.79%)
Sales Tax	56,530,000	58,507,498	10,289,855	68,797,353	12,267,353	21.70%
Taxes - Other	27,287,638	28,671,974	4,831,655	33,503,629	6,215,991	22.78%
Licenses and Permits	9,732,681	14,356,296	14,987	14,371,283	4,638,602	47.66%
Fines and Penalties	1,580,500	1,946,535	134,945	2,081,480	500,980	31.70%
Revenue from Other Ager	1,532,551	2,714,996	14,834,843	17,549,839	16,017,288	1,045.14%
Revenue from State	165,000	169,058	0	169,058	4,058	2.46%
Other Fees for Services	41,535,249	45,690,288	90,334	45,780,622	4,245,373	10.22%
Interest	4,082,028	5,240,821	1,432,262	6,673,083	2,591,055	63.47%
Rent	11,077,087	9,030,009	(249,064)	8,780,945	(2,296,142)	(20.73%)
Other Revenue	857,308	560,920	2,640	563,560	(293,748)	(34.26%)
Contributions In Lieu	23,094,590	21,304,288	0	21,304,288	(1,790,302)	(7.75%)
Subtotal Revenue	237,774,632	246,607,632	31,582,266	278,189,898	40,415,266	17.00%
Transfers In	2,466,332	6,261,332	0	6,261,332	3,795,000	153.87%
Total Revenue	\$ 240,240,964	\$ 252,868,964	\$ 31,582,266	\$ 284,451,230	\$ 44,210,266	18.40%

The property tax category includes both secured and unsecured taxes. Proceeds from property taxes came in approximately \$1.7 million lower than the budgeted estimate of \$60.3 million. This performance is entirely attributable to the negative decision received from the County regarding a large property tax possessory interest appeal (e.g., Levi's Stadium).

The increase in the sales tax category which includes public safety sales tax is primarily due to the accrual of sales tax proceeds for May and June 2019, totaling \$10.3 million. This revenue category is difficult to forecast due to the volatile nature of business to business and retail sales tax categories. Staff will continue to monitor these revenues and revise future projections in the upcoming budget as necessary.

The Other Taxes category includes franchise tax, TOT, and documentary transfer tax. This revenue category ended the fiscal year \$6.2 million higher than budgeted primarily due to higher collections of

TOT and franchise taxes. Higher than anticipated TOT collections include one-time accruals of \$4.1 million. Normalizing for these accruals, actual performance exceeded the budget by \$1.5 million due to high room and occupancy rates that the City's hotels continue to experience. As these revenues are volatile, the City will continue to watch, and conservatively estimate these revenues in the upcoming forecasts. Franchise taxes came in \$1.0 million higher than its final budget of \$4.3 million.

Licenses and Permits ended the year \$4.6 million above budgeted estimates primarily related to significantly higher activity with building permits issued. These additional revenues are restricted for developer activities and is recommended to be allocated to a separate building reserve as part of this document.

Revenue from Other Agencies includes the redistribution of land sale proceeds and ground leases, in addition to State-mandated reimbursements. This category came in significantly higher than the final budget, with approximately \$17.5 million in actual revenues compared to a budget of \$1.5 million. This major increase is a result of one-time land sale proceeds due to the City from the sale of the Great America Theme Park, discussed earlier, that was accrued at year-end as the property transaction occurred in June 2019.

The Other Fees for Services category encompasses various fees associated to plan check and zoning, engineering, fire prevention, as well as community service revenue from recreational activities. In FY 2018/19, revenue in this category totaled \$45.8 million, or \$4.2 million higher than the final budget. This increase can be attributed to fire permit fees which were \$1.5 million higher than its budget, while plan check and sign fees and plan and zoning fees were \$2.7 million higher than their budgeted estimates.

Interest earnings ended the year \$2.6 million higher than budget due to higher than budgeted investment rates as noted in the monthly investment report for June 2019 as presented to the City Council in September 2019, and accruals.

Rent collections totaled \$8.8 million through June 30, 2019, which was \$2.3 million lower than the budgeted estimate of \$11.1 million. This is primarily a result of lower than anticipated performance rent revenue related to non-NFL events at the Stadium (\$2.7 million). A budget augmentation is included in this document as these revenues are expected to continue to underperform in FY 2019/20.

Contribution In-Lieu revenues are directly related to the revenues collected by the City's Electric Utility Department, Silicon Valley Power (SVP). Per the City's charter, SVP pays 5% of their gross cash revenues as contribution in-lieu of taxes. As a result of SVP's lower cash revenue collections through June 30, 2019, the City's General Fund also received less from this revenue source.

Comparison of budget to actual expenditures are shown in Tables 2 and 3, with Table 2 showing by function and Table 3 showing by category. Overall, departments ended the fiscal year within their final budget, resulting in \$17.9 million in expenditure savings.

**Table 2 - General Fund Expenditures and Transfers Out
Final Budget vs. Actual by Function**

Function	FISCAL YEAR 2018/19					
	Final Budget	Cash Expenditure	Accrued Expenditure	Total Expenditure	Variance Favorable/ (Unfavorable)	Percent Variance
General Government						
Mayor and City Council Of \$	833,851	\$ 763,852	\$ 7,517	\$ 771,369	\$ 62,482	7.49%
City Attorney's Office	2,187,159	2,017,304	4,831	2,022,136	165,023	7.55%
City Clerk's Office	2,212,709	1,625,262	346	1,625,607	587,102	26.53%
City Manager's Office	7,098,487	6,235,682	68,467	6,304,149	794,338	11.19%
Finance	12,434,682	11,903,488	35,367	11,938,854	495,827	3.99%
Human Resources	3,640,473	3,394,931	7,560	3,402,491	237,982	6.54%
Information Technology	13,127,860	12,483,023	0	12,483,023	644,836	4.91%
Total General Government	41,535,220	38,423,541	124,088	38,547,629	2,987,591	7.19%
Public Works	25,775,783	24,310,013	329,690	24,639,703	1,136,080	4.41%
Community Development	15,835,545	13,491,756	5,648	13,497,404	2,338,141	14.77%
Parks and Recreation	19,845,650	19,558,229	158,682	19,716,911	128,739	0.65%
Public Safety						
Fire	50,669,013	50,604,088	59,540	50,663,628	5,385	0.01%
Police	67,378,193	63,082,102	94,551	63,176,653	4,201,540	6.24%
Total Public Safety	118,047,206	113,686,190	154,091	113,840,281	4,206,925	3.56%
Library	10,466,088	10,155,409	47,385	10,202,793	263,294	2.52%
Non-Departmental	15,181,796	8,868,842	39,874	8,908,716	6,273,080	41.32%
Subtotal Expenditures	246,687,288	228,493,981	859,457	229,353,438	17,333,851	7.03%
Transfers Out	28,797,744	28,245,039	0	28,245,039	552,705	1.92%
Total Uses of Funds	\$ 275,485,032	\$ 256,739,020	\$ 859,457	\$ 257,598,477	\$ 17,886,556	6.49%

Expenditure savings occurred primarily due to a difference between how retirement costs were budgeted and how the Unfunded Actuarial Accrued Liability (UAAL) contributions are actually paid. The remaining savings were due to vacancy savings; in total departments generated net salary and benefits savings in the amount of \$12.4 million. To ensure service delivery to our residents, these savings were offset with higher than budgeted as-needed salary and overtime expenditures. Additionally, savings were achieved in the Materials, Services and Supplies and Capital Outlay expenditure categories, resulting in overall expenditure savings of \$17.9 million in the General Fund.

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

Category	FISCAL YEAR 2018/19					
	Final Budget	Cash Expenditure	Accrued Expenditure	Total Expenditure	Variance Favorable/ Unfavorable	Percent Variance
Salaries						
Salary and Wages - Regular	\$ 102,316,395	\$ 100,679,838	\$ 0	\$ 100,679,838	\$ 1,636,557	1.60%
Salary and Wages - As Needed	6,232,860	6,414,356	(5,229)	6,409,127	(176,267)	(2.83%)
Overtime	8,409,957	9,292,580	0	9,292,580	(882,623)	(10.49%)
Other	3,141,675	3,911,434	0	3,911,434	(769,759)	(24.50%)
Subtotal Salaries	120,100,887	120,298,207	(5,229)	120,292,978	(192,091)	(0.16%)
Benefits						
Retirement - Safety	26,339,684	23,481,067	0	23,481,067	2,858,617	10.85%
Retirement - Miscellaneous	20,318,555	13,447,015	0	13,447,015	6,871,540	33.82%
Health	9,829,250	8,479,248	0	8,479,248	1,350,002	13.73%
Social Security	3,526,704	3,152,198	0	3,152,198	374,506	10.62%
Retiree Healthcare	3,914,222	3,226,582	0	3,226,582	687,640	17.57%
Other Benefits	4,513,148	4,097,093	4,025	4,101,118	412,030	9.13%
Subtotal Benefits	68,441,563	55,883,203	4,025	55,887,229	12,554,334	18.34%
Materials, Services and Supplies	44,651,768	39,984,274	860,661	40,844,935	3,806,833	8.53%
Interfund Services	11,323,818	11,259,869	0	11,259,869	63,949	0.56%
Capital Outlay	2,169,252	1,068,426	0	1,068,426	1,100,826	50.75%
Transfers Out	28,797,744	28,245,039	0	28,245,039	552,705	1.92%
Total Uses of Funds	\$ 275,485,035	\$ 256,739,015	\$ 859,457	\$ 257,598,472	\$ 17,886,556	6.49%

Through excess revenue of \$44.2 million, expenditure savings of \$17.9 million, and net reallocation to other required reserves of \$4.4 million, the City ended the year with additional fund balance totaling \$57.7 million. As described previously, a net \$30.7 million was attributable to the budgetary change in reporting to a modified accrual basis.

At the end of FY 2018/19, the General Fund ended with a surplus prior to recommended budget amendments in the amount of \$57.7 million. Table 4 below summarizes various recommended budget actions to dispose \$57.7 million in General Fund surplus by funding \$9.8 million in correction/reconciliation items and the carrying over of FY 2018/19 budget allocations, \$14.0 million in new budget augmentations and contributing \$33.9 million to the BSR and CPR.

Budget Amendments to the FY 2019/20 budget include \$1.4 million in carryover funding, \$8.5 million for corrections or reconciling items, and budget augmentations totaling \$14.0 million. These augmentations include a \$6.5 million transfer to the Special Liability Insurance Fund to replenish the required reserve amounts in the fund and fund anticipated payouts. Adjustments related to revised FLSA overtime calculations and the recent settlement for all bargaining units total \$1.0 million, while a \$0.3 million adjustment is recommended to fund a special election for the Chief of Police and ballot measure. There is also a recommended action to contribute \$3.5 million to the Pension Trust reserve, which will enable the City reach funding of approximately 5% of the total General Fund unfunded liability. The final augmentation recommended is a \$2.7 million reduction to the City's rent revenue, as Stadium non-NFL performance rent is not anticipated to generate any revenue in FY 2019/20. An additional contribution to BSR and CPR totaling \$33.9 million is recommended. The CPR contribution will be necessary to fund many of the capital improvement projects that will be considered as part of the upcoming Proposed Capital Improvement Program budget cycle. Additional funding to the BSR will provide for an economic buffer in the event of a potential economic slowdown.

Table 4 - Summary of General Fund FY 2019/20 Budget Amendments

Carryover Budgets from FY 2018/19	\$ in Millions
FLSA Non-Departmental	\$ (1.20)
E-Discovery	(0.20)
Carryover Budgets from FY 2018/19 Subtotal	(1.40)
Correction/Reconciliation	
Police Department Revenue	0.090
Water and Sewer Interdepartmental Charges	0.006
Workers' Compensation Reserve for Claims	(1.400)
Advanced Planning Fee Reserve Reconciliation	(0.600)
Building Inspection Reserve Reconciliation	(6.400)
Correction/Reconciliation Subtotal	(8.304)
Augmentation	
Special Liability Insurance	(6.500)
FLSA Overtime Fire Department	(0.350)
FLSA Non-Departmental	(0.600)
Special Election for Chief of Police and Ballot Measure	(0.270)
Civic Center Campus Renovation	(0.150)
Worker Cooperative Support	(0.100)
Pension Trust Reserve Contribution	(3.500)
Stadium Performance Rent	(2.700)
Augmentation Subtotal	(14.170)
Recommended Contributions to Reserves	
Budget Stabilization Reserve Contribution	(18.850)
Capital Projects Reserve Contribution	(15.000)
Recommended Contributions to Reserves Subtotal	(33.850)
Total General Fund Adjustments	\$ (57.72)

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. As previously described, the appropriation control level for special revenue and internal service funds are at the fund level. However, similar to the General Fund, enterprise funds include appropriations at the department level and any overages must be corrected. Budget adjustments for other funds in FY 2018/19 are detailed in Attachment 1.

Special Revenue Funds

Overall, actual revenues ended the year higher than estimates by approximately \$1.8 million and actual expenditures were lower than budget by \$8.2 million. Special Revenue Funds are established to account for specific revenue sources that are legally restricted or committed to particular purposes. By default, year-end savings in the Special Revenue Funds revert to fund balances or re-appropriated to the next year's budget through the recommended carryover of expenditures

(Attachment 4). A discussion of select Special Revenue Funds are included below.

City Affordable Housing Fund

This fund accounts for the City's Below-Market Price Purchase (BMP) Program, promotes and facilitates the construction and retention of affordable housing. Revenues in this fund are received from developer in-lieu fees, principal and interest repayments on housing loans, and interest income on pooled investments. In FY 2018/19, revenues received from developer in-lieu fees and principal and interest repayments on housing loans were \$318,000 lower than anticipated, reflecting a slower year for note repayments and delay on the completion of housing projects, respectively. Expenditures ended the year below budgeted appropriations by approximately \$6.3 million. Of that amount, a \$5.0 million developer loan commitment was approved and appropriated in FY 2018/19 but not disbursed due to the timing of project. This amount will be carried over and anticipated to be disbursed in FY 2019/20. Remaining unspent funds of \$1.3 million are savings from contractual services and special program disbursements resulting from the low number of BMP homeownership and a delay in launching a pilot program.

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 less than budget by \$1.6 million, reflecting the timing of grant expenditures which will be re-appropriated to be spent in FY 2019/20. The main driver for unspent appropriations is attributed to funds that are set aside for specific activities to be undertaken by a special type of nonprofit called a Community Housing Development Organization (CHDO). Due to the complexity for organizations to become a CHDO, the City has been unable to award funds for a CHDO project. As a result, the funds are re-appropriated at the beginning of each new fiscal year but not spent.

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. FY 2018/19 revenues exceeded budget by approximately \$1.6 million, reflecting early loan repayment amounts and higher than anticipated interest earn on pooled investments. Expenditures ended the year below budgeted appropriations by \$228,000, primarily in the contractual services category which are re-appropriated and anticipated to be spent in FY 2019/20.

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 revenues 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. FY 2018/19 revenues were \$608,000 higher than budget due to the change from a cash basis to modified accrual basis.

While there are overall savings in the Special Revenue funds, actual expenditures exceeded

appropriations in the Convention Center Maintenance District and the Fire Operating Grant Trust Fund. In the Convention Center Maintenance District Fund, expenditures exceeded budget due to accruals (Attachment 1). Furthermore, corrective action for the Fire Operating Grant Trust Fund is discussed in further details in the Capital Projects, Special Revenues, Grants, and Donations Reconciliation section of this report.

Internal Service Funds

Fleet Operations Fund

The Fleet Operations Fund ended the year with actual expenditures exceeding budgeted appropriations by \$15,000 due to an overstatement of encumbrances that carried over to FY 2019/20. An appropriation action is required to increase the budget by \$15,000 using the fund's Unrestricted Fund Balance (Attachment 1). Additionally, staff will liquidate the unneeded amount of the encumbrance to reflect true anticipated costs.

Special Liability Insurance Fund

This fund insures 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 litigation expenses, the City's insurance deductible, and settlements or jury verdicts in litigation matters. The source of revenue for this fund is fees charged to citywide departments. At the end of FY 2018/19, this fund incurred payouts from settlements and higher legal services expenditures that exceeded the budget by approximately \$500,000, which were paid using available balance from reserves. In order to restore the Reserves for Claims balance back to \$4.0 million and in order to provide the anticipated financial resources to cover any settlements paid during FY 2019/20, staff recommends a transfer of \$6.5 million from the General Fund as part of the budget adjustment recommended in this report.

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 2018/19, expenditures exceeded budgeted levels in the Workers' Compensation by approximately \$51,000 due to higher than budgeted claims expenditures, which will require a budget adjustment to correct the overage. Additionally, the City experienced a greater volume of claim activities and those claims along with older maturing claims were paid using available balance from reserves, which decreased the reserve level by \$1.4 million. To maintain the Council authorized reserve level of \$2.5 million and ensure that sufficient resources are available to cover any unforeseen costs arising from the City's Workers' Compensation Insurance Program, staff recommends a transfer of \$1.4 million from the General Fund to replenish this reserve as part of the FY 2019/20 budget adjustment.

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. This fund ended the year below budgeted appropriations by approximately \$1.0 million. Unspent funds were a result of workload that exceeded staffing capacity, which required staff to prioritize new vehicles/equipment purchases rather than vehicle replacements. Additionally, upon further review of existing equipment, staff determined that it was prudent to defer equipment replacements due to their low mileage and good condition.

Enterprise Funds

Cemetery Fund

The Cemetery Fund accounts for the operation of the City's two cemeteries. This fund receives majority of its revenues from interment related service charges at Mission City Memorial Park. Total service charges remained flat year-on-year and was below projected revenues by \$61,000. FY 2018/19 operating costs were \$62,000 lower than budget due to less than expected materials costs relating to lower sales, and capital outlay. Operating costs have been consistently higher than revenues due to the ongoing maintenance required at the properties. Past operations deficits were covered by General Fund transfers and future operations deficits will continue to be subsidized by 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 2018/19, the City transitioned to a new operations management vendor for the Convention Center. The FY 2018/19 final budget reflects the original vendor's operating budget. As of June 30, 2019, both revenues and expenditures came in above the final budgeted amounts due to a change in methodology on how food and beverage revenue and expenditures are reported.

The City's agreement with the new vendor became effective in March 2019. From this period through the end of FY 2018/19, convention center operating surplus totaled \$1.6 million. Of this surplus, \$1.5 million was transferred to the Public Buildings Capital Fund for CIP expenditures, resulting in a net \$0.1 million fund balance change.

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. Total service charges increased 6.2% when compared to the prior year, including one-time adjustments for the accrual of revenue. Electricity consumption for the twelve-month period was lower than expected, resulting in lower cash revenues collected. Total revenues exceeded budget by approximately \$7 million due to other non-operational activities, such as development related fees, dark fiber lease income, and pooled investment income.

For FY 2018/19, a change in the budgetary basis for reporting revenue and expenditures resulted in additional accrued revenues totaling \$35.8 million with \$34.0 million in service charges; and additional accrued expenses totaling \$17.5 million with \$16.7 million in resource/production costs.

Total unrestricted fund balance ended the year \$30.2 million better than planned. This is mainly attributable to overall operations cost savings of \$3.7 million and recognition of \$20.7 million more in wholesale energy sales credit than budgeted, in addition to the large noncore revenues discussed above. Starting in FY 2019/20, wholesale energy sales transactions will be recorded as revenue instead of a credit net against wholesale resources purchases expense.

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.

As shown in Attachment 3, actual cash receipts totaled \$38.8 million, which is \$2.0 million under the revenue estimate of \$40.8 million. However, the accrued revenue for services rendered in June that are not billed until July totaled \$2.7 million, resulting in the total revenue coming in slightly higher than the budgeted estimate. Including an accrual of \$0.03 million, actual expenditures totaled \$42.7 million, ending the year \$1.2 million below the final budget. This is primarily due to vacancy savings.

While overall performance of revenues and expenditures resulted in savings of \$1.9 million, the FY 2018/19 budget included a use of fund balance totaling \$3.1 million. A net of \$1.2 million of fund balance was used to cover 2018/19 expenditures.

Solid Waste Fund

The Solid Waste Fund accounts for the operations of the City's solid waste collection and disposal system. This fund receives majority of its revenues from user service charges and other fees for street sweeping, household hazardous waste, and Clean-Up Campaign services. Total service charges increased 17.1% year-on-year and \$2.5 million higher than planned due to rate increase and accrued revenues. Total operating expenses exceeded appropriations by \$1.3 million also due to accrual.

For FY 2018/19, modified accrual accounting methodology was implemented resulting in additional accrued revenues accrued totaled \$1.8 million with \$1.7 million in fees; and additional accrued expenses totaled \$2.3 million with \$1.4 million in resource/production costs. A FY 2018/19 budget amendment is included in Attachment 1 to correct the overage that resulted from the accrual. It should also be noted that the FY 2018/19 budget included a use of fund balance. Fund performance ended with \$1.1 million in excess revenue which partially offsets the programmed use of fund balance.

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 2018/19, actual revenues slightly exceeded the budgeted estimate by 1.1% or \$0.08 million. Of the total amount, \$6.5 million is actual cash collections and \$0.6 million is accrued revenue for June services. Actual expenditures exceeded the final budget by approximately \$1.0 million or 16.9%. This overage is attributable to the timing delay in billing in the resource and production costs category. In prior years, the June bill for resource costs was received and paid by City in July of the following fiscal year. In an effort to "catch up" with payments, funds to pay the June 2019 bill were encumbered in the same fiscal year, as opposed to the following fiscal year. This additional encumbrance was not accounted for during the development of the operating budget, leading to the overage. To correct this, a budget amendment is recommended in Attachment 1 to appropriate additional funds from fund balance. After the adjustment above, the total unrestricted fund balance amounts to just over \$4.0 million at year-end. Due to the additional use of fund balance to correct the overage in FY 2018/19, the contribution to the Construction Reserve had to be reduced in FY 2019/20 and FY 2020/21 by \$0.3 million and \$0.2 million, respectively, to ensure the fund ended in a positive position.

Water Utility Fund

The Water Utility Fund account 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, 2019, cash revenue receipts were just under \$48.0 million, or \$2.3 million below the budgeted estimate of \$50.3 million, while accrued revenue reached \$2.2 million, for total revenue collections of \$50.2 million. Even with accruals for June services not yet billed or received, revenue came in slightly lower than the budget. This is primarily due to lower than budgeted water sales. Actual expenditures also came in lower than anticipated, with \$48.3 million cash expenditures and \$1.2 million accrued expenditures, totaling \$49.5 million. The expenditure savings is primarily due to vacancy savings and wholesale water cost savings. Savings in the latter category is consistent with lower collections in the charges for services revenue category, as the City collected less in water revenue and spent less in the respective water purchases.

Retirement Liability

A contribution of \$3.5 million is recommended in this report from the General Fund to the Pension Trust Fund. As summarized in Table 5, for this fiscal year, a total of \$5.25 million contribution to the pension trust fund is budgeted to address the unfunded liability. In total, reserve levels are projected at \$26.2 million, or approximately 5% of the City's net pension liability amount, based on the figures to be reported in the Consolidated Annual Financial Report GASB 68 Report.

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

Fund	Pension Stabilization Reserve Balance as of June 30, 2019	FY 2019/20 Amended Budget	Estimated Pension Stabilization Reserve for June 30, 2020	New Projected Unfunded Liability	Projected Pension Stabilization Reserve Percent of Unfunded Liability
General Fund	\$16,381,504	\$3,500,000	\$19,881,504	\$396,400,620	5%
Electric	4,329,866	330,381	4,660,247	94,238,259	5%
Water	140,672	856,425	997,097	20,265,133	5%
Sewer	61,125	330,023	391,148	7,949,753	5%
Water Recycling	9,599	39,460	49,059	997,087	5%
Solid Waste	20,094	194,306	214,400	4,365,625	5%
Total	\$20,942,860	\$5,250,595	\$26,193,455	\$524,216,477	5%

Capital Projects, Special Revenues, Grants, and Donations Carryover Reconciliation

Estimates were used to carryover unspent Capital Improvement Program (CIP) funds from FY2018/19 to FY 2019/20 during the FY 2019/20 and FY 2020/21 adopted budget process. Attachment 4 - FY 2019/20 Amendments - Summary of CIP, Special Revenues, Grants, and Donations details a reconciliation of those project carryover true-up amounts based on actual year-end activity totaling (\$4.6) million with final CIP carryover of \$205 million. The actions included in Attachment 4 are recommended as part of the FY2019/20 Budget Amendment in this report. In addition to the year-end true-up amounts for capital projects, the appropriation carryover of donations and reimbursements of \$2.2 million, grants of \$8.0 million, and unspent special revenues that are

neither donations or grants of \$6.9 million are included in Attachment 4. The Police Department and Fire Department exceeded budgeted appropriations in the Police Operating Grant Trust Fund and Fire Operating Grant Trust Fund, respectively. Revenues are anticipated to be received in FY 2019/20 to reimburse the departments for these expenditures. Budget amendments to recognize the anticipated revenues are detailed in Attachment 2.

Recommended Additional Positions

The approval of several positions is recommended in this report to address critical operational gaps currently in the Finance and Electric Utility Department in several key areas. The Finance Department is responsible for providing utility bills to Santa Clara customers for residential, industrial and commercial uses of electric, water, sewer, and solid waste activities. Over the past several years, the City's electric utility began the roll out of automated meters that transmit usage data, through wireless transmitters to systems that interface daily data to the City's Utility Billing System. Approximately 47,000 of the City's 54,000 electric customers are equipped with automated metering devices. During this roll out, in spring 2019, it was determined that there were insufficient transmitter devices located throughout the City to fully transmit usage data from a customer in order to issue a utility bill. As a result, backlogs have increased, and overtime and temporary staff has been used to address the delayed billing. While additional equipment is on order and will be installed, it has been determined that additional staffing is required to address the backlog, provide sufficient supervision, and manage the City's utility billing systems (including customer service needs). The addition of one Sr. Management Analyst, one Utility Services Technician, one Customer Service Supervisor, and two Customer Service Representatives are recommended in the Finance Department Utility Billing Division. In addition, one Meter Data Analyst position in the Electric Utility Department is recommended to ensure sufficient resources are allocated to research data issues that arise from the transmission of a customer's usage information to the billing system.

Separately, a review of the Electric Utility procurement staffing has necessitated a need for one additional Contracts Manager in the Finance Department to focus on upcoming procurements and ensure contract compliance.

Funding to support these positions, cover temporary staffing and associated supplies and materials costs is recommended in the budget amendments in this document. The estimated costs to be funded by the Electric Utility Operating Fund is approximately \$798,000 in FY 2019/20 and \$1.2 million in FY2020/21. Details of this budget amendment are included in Attachment 2.

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. Overall, most City funds ended FY2018/19 in positive net positions. 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); a summary of a reconciliation of carryover capital projects, special revenue, grant, and

donation funds (Attachment 4); and a summary of beginning and ending fund balance adjustments for each fund due to actual results (Attachment 5). Approval of Budget Amendments included in Attachment 1, 2, 4 and 5 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.

ALTERNATIVES

1. Note and file the FY 2018/19 Budget Year-End Report.
2. Approve the Budget Amendments set forth in the Budget Year-End Report (five affirmative Council votes required for revenue actions only).
3. Approve the addition of one Sr. Management Analyst, one Utility Services Technician, one Customer Service Supervisor, one Contracts Manager, and two Customer Service Representatives in the Finance Department and one Meter Data Analyst in the Electric Utility Department.
4. Approve the Budget Amendments for FY 2018/19 and FY 2019/20, as set forth in this Report (five affirmative Council votes required for revenue actions only).
5. Do not note and file the FY 2018/19 Budget Year-End Report and do not approve the related Budget Amendments.
6. Do not approve seven new positions in the Finance and Electric Utility Departments and the related Budget Amendments.
7. Other action the Council deems appropriate.

RECOMMENDATION

Alternatives 1, 2, 3 and 4:

1. Note and file the FY 2018/19 Budget Year-End Report;
2. Approve the Budget Amendments set forth in the Budget Year-End Report (five affirmative Council votes required for revenue actions only);
3. Approve the addition of one Sr. Management Analyst, one Utility Services Technician, one Customer Service Supervisor, one Contracts Manager, and two Customer Service Representatives in the Finance Department and one Meter Data Analyst in the Electric Utility Department, and
4. Approve the related FY 2018/19 and FY 2019/20 Budget Amendments as set forth in 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 2018/19 Budget Amendments
2. FY 2019/20 Budget Amendments

3. Summary of Other Funds Performance
4. FY 2019/20 Budget Amendments - Summary of CIP, Special Revenues, Grants, and Donations Reconciliation
5. Summary of Beginning and Ending Fund Balance Adjustments