



AGENDA REPORT SUMMARY

Meeting Date: Month day, year

Subject Adopt Mid-Year 22 Budget update

Prepared by: John Furtado, Finance Director

Approved by: Gabriel Engeland, City Manager

Attachment(s):

1. Attachment 1 – Capital Projects Revised List FY 22-26Title
2. Attachment 2 – Revenue, Expenses, and Fund Balances Other Funds
3. Attachment 3 – General Fund Summary, Revenues, Expenditures, and Transfers Out.

Initiated by:

Staff

Previous Council Consideration:

June 2021

Fiscal Impact:

Budget revisions detail

Environmental Review:

Not applicable

Policy Question(s) for Council Consideration:

- Does the Council wish to adopt The Midyear Budget as presented, or with recommended changes?

Summary/ Background:

On June 1, 2021, the City Council approved the 2021-2023 Biennial Operating Budget, and as of December 31, 2021, six months of the 2021-23 budget cycle have been completed. Throughout the budget cycle, staff actively monitors actual revenues and expenditures and prepares a status update report to the Council at six-month intervals. These updates provide staff with opportunities to advise Council on major budget trends (revenue and expenditure) and propose changes where necessary to meet ongoing service demands or modifications related to economic or other factors.

Reviewed By:

City Manager

GE

City Attorney

JH

Finance Director

JE



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This report provides an informational update to the City Council for the General Fund Operating Budget for Fiscal Year 2021-22, and outlines proposed budget adjustments for other funds.

Staff Recommendation:

Adopt the Mid-Year 2022 Budget amendments as presented

Discussion/Analysis

Every six months City Departments complete an in-depth review of their budgets in preparation for an update to the City Council. Departments evaluate their revenues and expenditures, as well as operational trends, and recommend necessary adjustments. In addition, each department evaluates service-level needs and identifies any adjustments necessary to respond to changes in the community's demand for services or changes in Council policy or direction.

The Finance Department evaluates major non-departmental revenue sources (sales tax, property tax, real property transfer tax, business license tax, transient occupancy tax, etc.) to determine if any, mid-year adjustments are needed. Finance staff also evaluate any changes in compensation or cross-departmental expenses, such as medical costs or CalPERS rates, and recommend adjustments as needed.

On March 10th the newly formed Financial Commission subcommittee met with City staff and discussed the proposed changes, the subcommittee proposed some suggestions and changes that were incorporated in the analysis. Staff thereafter prepared the report and presented it to the Financial Commission at their March 21st, 2022, meeting. The commissioners discussed the report and voted unanimously to recommend that the city council approve the Mid-year budget as presented.

Summary of General Fund Budget for FY 2022

Table 1 outlines projected changes in resources available and their proposed uses in the General Fund for FY2021-2022. These resources are classified into 3 relevant areas as seen on the next page.



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Table 1	
General Fund Summary (In millions)	
<i>Projected revenue increase</i>	Amount
Sales Tax	0.40
Property Tax	1.60
Documentary Transfer tax	0.15
Business License Tax	0.04
Recreation Revenue	0.13
Community Development Fees	-
<i>Total Revenue Increases</i>	2.32
<i>One time Items</i>	
Release of Notes Receivable	1.70
FY 21 Operating Surplus	1.21
Unemployment Fund Balance	0.45
<i>Total One Time Available Funds</i>	3.4
<i>Expenditure reductions</i>	
Rosita Park COP *	0.17
Community Center loan*	0.62
Anticipated Salary Savings	0.25
CIP Savings from Project review	0.28
<i>Total Expense reductions</i>	1.3
<i>Total Available</i>	7.0

*Funding will now come from the Park in Lieu Fund

Revenues

General Fund revenue is monitored in several categories, including general revenue and departmental revenue. General revenue includes City-wide revenues such as sales and property taxes. Departmental revenue represents monies generated by the activities of operating departments. For example, in Community & Economic Development, revenue is generated through the issuance of building permits and planning fees charged on a cost recovery basis.



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- **General Revenue**

- **Sales Tax** – Sales tax revenues are anticipated to increase by approximately \$0.4 million, based on the most recent estimates by HDL the City’s consultant.
- **Property Tax** –Property tax revenue is estimated to increase by \$1.6 million also based on our property tax consultants HDL as well as staff projections on the unsecured roll and Educational Revenue Augmentation Funds (ERAF).
- **Documentary Transfer Tax** – This category has already exceeded the original budget and staff is anticipating a total increase of \$150K.
- **Business license tax** –Is anticipated to increase over budget by \$0.04K

- **Departmental Revenue**

Department revenues- Recreation revenue is expected to be higher by \$130,000 primarily due to the easing of COVID restrictions as well as the opening of the community center. While other departmental revenues are expected to be on target with the original budget.

Administrative Fees – The General Fund receives revenue amounting to \$918,500 related to staff costs incurred towards the Sewer and Solid waste Funds. Historically these have been treated as revenue for the general fund which is not an appropriate way to account for the funds. These should be treated as an offset to costs that are already incurred in the General Fund; therefore staff is proposing to remove this revenue from the general fund and reduce expenditure by the same amount.

One Time Items

- The close of the FY 2021 Financial year yielded a surplus of \$1.2 million
- The repayment of the housing loan granted to the prior City manager has freed up \$1.7 million
- The Fund balance available in the Unemployment Fund stands at \$546,000, while historically annual payments have not exceeded \$10,000 to \$20,000 staff is proposing that \$0.45 million of these funds be made available towards more urgent needs

In summary, the total of one time available funds is \$3.4 million that can be used towards balancing some of the cities one time needs which are shown in table 2, on the next page.



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Table 2 outlines Funding needs for the proposed midyear budget and is forward-looking towards the Capital projects funding for FY 23.

TABLE 2	
Funding Needs (in millions)	
Fund Name	FY 22
General Liability	0.16
Workers Compensation	0.57
Dental Fund	0.10
Storm Drain Fund	0.02
Equipment Replacement	0.90
CIP for FY 23	6.05
Operating Reserve	1.00
CALPERS UAL Prepayments	
Total Funding Needs	8.80
Unfunded CIP for FY23	(2.09)

Expenditures

Staff has reviewed expenditures related to Personnel and Operations & Maintenance for FY22. Staff anticipates that we will have citywide salary savings of \$0.25 million by the end of the year due to vacancies.

During the council retreat, staff had sought direction if the Council would be willing to consider the use of Park in Lieu funds towards eligible expenses. The subcommittee and the Financial Commission agreed that this was a good idea and therefore the debt service payments for the Rosita Park and newly built community center are now moved out of the General Fund to the Park in Lieu fund for a General Fund expense reduction of \$0.87 million.

No changes in other appropriations are recommended.

Staff also reviewed the Capital projects list (**Attachment 1**), as based on the financial year-end we anticipated that we would be short by \$2 million to fund the FY 22 CIP. Staff was able to identify projects that could be removed, reduced, or find an alternative funding source. This exercise turned



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a negative \$2 million into a surplus CIP reserve of \$0.28 million in the General Fund as seen in Table 3.

Table 3		
CIP General Fund Summary (In Millions)		
	Original Budget Amount	Actual Budget Amount
<i>Project Summary</i>		
Estimated Prior Appropriated	6.41	7.88
Projected FY 2022 Expenditure	5.55	5.55
Cancelled / Reduced Projects	-	-
<i>Total Revenue Increases</i>	11.96	13.43
<i>Funding Available</i>		
CIP Reserves	11.48	11.48
Community Center Reserve	0.68	0.68
<i>Total Funding Available</i>	12.16	12.16
<i>Projected Excess/ (Shortfall)</i>	0.20	(1.26)
<i>Mid Year Adjustments</i>		
<i>Cancelled / added Project Funding</i>		1.55
<i>Net Surplus / (Deficit in CIP Reserves GF)</i>		0.28

Key changes were made to the following CIP projects

Community Chamber AV Equipment Project – The current project funding from the Peg fund is anticipated to be sufficient to complete the project therefore \$116,000 of General fund commitments are being released.

Asset Management System Project – The project is not anticipated to be undertaken in the near future therefore \$150,000 appropriated is released.

Emergency Operations Center Project (EOC)– The newly built community center was constructed to house an emergency operations center. The construction meets emergency service



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standards, including seismic standards, and was designed to operate independently from the grid in an emergency. Additionally, the community center EOC has operational capabilities that the proposed EOC would not contain. Taking this into account, staff has identified funds to complete the conversion of the standalone EOC project identified in the CIP to transition to the community center. This project conversation reduced costs by a minimum of \$1.5M, while also allowing for the purchase of multiple emergency generators which will eliminate this need for this expense in the Equipment Replacement Fund. The emergency generators currently owned by the City have all exceeded their expected operational life.

Annual Civic Facilities Improvement Project – Return to work for city employees is set to begin May 1st. Currently, almost 65% of City Hall staff share workspace or workstations with other employees, causing overcrowding at City Hall. Additionally, there is no permanent designated meeting space for the public or staff in City Hall. The few offices that are designated for only one staff member are often too small to be utilized for meeting space. Staff had identified the Los Altos Youth center (LAYC) as an ideal location to construct offices, allowing appropriate space for employees, and modern meeting space for the public and staff. To accommodate the first phase of this change, the CIP project has been increased by \$250,000.

Staff worked with the Subcommittee of the Financial Commission to review a list of unfunded expenses in the original budget and the following was proposed, which was subsequently accepted by the Financial Commission.

The **General Liability Fund** had a \$200,000 funding shortfall in the original budget. Rather than fund at the recommended 80% level in one year, the Subcommittee recommended funding at the 70% level this year, with an increase to the 80% level in the next Fiscal Year. We recommend moving \$160,000 from the General Fund to the General Liability Fund

The **Worker's Compensation Fund** was underfunded in the original budget by \$500,000, the latest actuary report from Bickmore Actuarial projects a need of an additional \$366,000 therefore the requested transfer is \$566,000. \$450,000 will come from the Unemployment Fund and the balance \$126,000 will be moved from the General Fund

The **Dental Fund** has accumulated a negative fund balance of \$94,747 as of the close of FY 21 Audited financial statements. A transfer of \$100,000 is recommended from the General Fund to the Dental Fund.



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The **Storm Drain Fund** has accumulated a negative fund balance of \$23,939 as of the close of FY 21 Audited financial statements and is currently fully funded by the General Fund. A transfer of \$23,939 is recommended from the General Fund to the Storm Drain Fund.

The **Equipment Replacement Fund** is projected to have a negative fund balance of \$900,000 by the end of FY 23, during the Council retreat staff had presented immediate needs of \$3 million. Staff currently recommends moving \$900,000 from the General Fund to the Equipment Replacement Fund to cover the immediate, programmed shortfall. City staff will have to create and implement a Fleet and Equipment Replacement plan to address the remaining unfunded needs.

The Financial policies for the City recommend a 20% **Operating Reserve** for the General Fund, based on the current level of expenditure the amount needed to bring the reserve to 20% would be \$1.6 million. The operating reserve currently stands at 16.6%. The subcommittee discussed this in detail and recommended that we build the reserve back up over time, and no longer use the operating reserve to fund operations. The Subcommittee is recommending a transfer of \$1 million from the General Fund Unreserved fund balances be moved to the operating reserve, increase the balance to 18.5% this year, with the additional transfer in the coming fiscal year to return to 20%. Additionally, the subcommittee asked for information on if 20% is sufficient as an operating reserve.

The Subcommittee also reviewed the **Capital projects** list for FY 23, given that the needs were \$6.05 million the subcommittee decided to recommend the balance of available resources be reserved for the CIP, thus leaving approximately \$2 million of it unfunded at this time.

The Subcommittee also recommended that staff investigates the options of Setting up **Annual discretionary payments (ADP)** to CALPERS to reduce the unfunded liability, the committee felt that this needs to be reviewed at year-end if any surplus funds can be identified. The current recommendation is to fund an ADP at \$1 million in the next Fiscal Year, which will bring the unfunded total in the budget to \$3 million unfunded in the coming year.

The Financial Commission agreed with the above suggestions and recommended that the City council prioritize funding them first in case there is an additional surplus identified once the FY 22 books were closed.



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Changes to Other Funds

Staff recommends changes to Other Funds as highlighted below:

Other FY22 Changes – New Funds

- **Information Technology Fund** – The General Fund has a reserve balance of \$1,108,582 plus \$350,000 That the Council allocated from American Rescue Plan Act (ARPA) Funds towards the new Financial system, in the current process IT projects are identified as part of the CIP process and funds are moved to the CIP for use when incurred. Staff is proposing that in order to better manage and fund Technology needs in the future we create a separate Internal service fund to record and track all technology infrastructure needs and spending.
- **PERS and OPEB Stabilization Fund** – Council Approved the Prepayment of CALPERS Unfunded liability \$5 million (UAL) as well as \$1.5 million towards the OPEB CERBT Trust fund. Staff has completed those payments and is proposing that the Funds available in the General Fund reserve be moved to a newly created PERS and OPEB Stabilization fund from which the payment to CALPERS will be recorded. The rationale behind this is that we do have staff costs in the enterprise funds that need to contribute towards the UAL and CERBT payments, Staff determines based on the FY 21 audited financials and amount of \$254,612 and \$38,002 be moved from the sewer fund and the solid waste fund respectively towards their contribution of the payments, these monies shall remain in this fund until a future Discretionary payment is made to CAPERS
- **Outside Funding – Grants Fund** – The City undertakes several projects that are grant-funded such as Caltrans Grants or other one-time grants that are related to the CIP. Some of these grants are paid in advance while others are on a reimbursement basis (we do the work first and then submit it to get repaid). Past practice has been to book these receivables within the CIP fund where it lacks transparency and is difficult to identify. With several other funding sources, it is difficult to track causing several reimbursements to be delayed or not acted on. The new process will be transparent in terms of the receivables that can be reviewed within the new outside funding Fund.

Other funds (Attachment 2)

Attachment 2 provides a listing of all other funds in the City; no major changes have been made to these except for the below.



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Vehicle Registration Fund- This fund had an opening fund balance of \$529,401 and received a further \$579,000 of pending funding from VTA. Eligible projects that were previously planned to be completed from the Traffic in Lieu fund have now been programmed to this fund \$550,000.

In Lieu Parkland Fund – The Eligible costs of servicing the annual Debt for the Rosita Park (\$167,400) and the community Center (\$622,090) have been programmed to this fund.

Conclusion

As of the Mid-Year budget update, revenue projections, including general revenue and department fees and charges, are trending higher than the original budget projections as adopted in May 2021, notwithstanding the proposed changes above. Overall, expenditures also appear to be on target with budget projections. It is expected that the FY22 operating budget will continue to be balanced, largely due to the stimulus funding received via ARPA, this funding has proved to be vital in helping the city navigate the FY 22 & 23 budget years by providing the much-needed bridge revenue as the economy opens and impacted revenues begin to recover. Other significant foreseeable challenge will be the rate of inflation, which is far exceeding our revenues and could cause unforeseen cost escalations across the board.

Any further surplus remaining at year-end can be considered for use to address the unfunded needs mentioned in this report.