



AGENDA REPORT SUMMARY

Meeting Date: February 14, 2023

Subject **Approve and adopt a resolution for Final Adjustments to FY22/23
Budget Appropriations**

Prepared by: June Du, Finance Director

Approved by: Gabriel Engeland, City Manager

Attachment(s):

1. Attachment 1- General Fund Summary, Revenues, Expenditures, and Transfers
2. Attachment 2- Other Funds Summary, Revenues, Expenditures, and Transfers
3. Resolution

Initiated by:

Staff

Previous Council Consideration:

June 1, 2021; June 14, 2022

Fiscal Impact:

Budget revisions detail

Environmental Review:

Not applicable

Policy Question(s) for Council Consideration:

- Does the City Council wish to approve the proposed adjustments to the FY22/23 Budget as presented?
- Does the City Council wish to adopt the recommendation of staff to complete reconciliation and corrections of the current fiscal year budget, including direct and indirect appropriations to the Enterprise funds for services received and correctly reflecting fund balances?

Summary:

City Manager

GE

Reviewed By:

City Attorney

JH

Finance Director

JD



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On June 14, 2022, City Council approved the FY22-23 Mid-Term operating budget and FY22-26 capital improvement budget. Throughout the past six months, staff has actively monitored actual revenues and expenditures. This report provides an update to the City Council on the General Fund operating budget for the remainder of FY22-23 and outlines proposed budget adjustments to all City Funds.

Staff Recommendation:

Approved the recommended adjustments to the FY22/23 budget appropriations as presented.



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Discussion/Analysis

At the December 2021 Council retreat, City staff notified the City Council of an in-year budget deficit of \$2M as well as known but unbudgeted expenditures of \$2.6M. The budget errors were in addition to underfunding of Workers' Compensation, Dental, General Liability, and Fleet and Equipment. The underfunding of these expenditures needed to be corrected by the close of the budget. Since this meeting staff has worked to provide the expected level of government service to residents, as well as implement Council goals and priorities, while also making the corrections to the operating budget.

At the direction of the Council, staff has restored funding in benefits, Workers' Compensation, General Liability, Fleet and Equipment Replacement, and increased the General Fund reserve to 20% (from 15.6%). In addition to restoring the above listed funds, staff has corrected nearly \$2.6M in actual expenditures that were unbudgeted. This was completed while reducing the operating deficit from \$2M to the current projected deficit of \$402,000.

Staff will continue to provide exceptional services to the public, and implement the Council goals, while eliminating the current projected in-year deficit of \$402,000 by June 30, 2023, bringing the final recommended changes to the City Council for approval.

Subsequent events:

On June 14, 2022, City Council adopted changes to the Mid-Term FY22/23 budget. Since this date, the City Council further approved \$340,000 in additional appropriations to the general fund and changed the grant reimbursement appropriation policy, which resulted in an additional \$40,000 in appropriated funds.

Please see the summary of changes below.

Corrections:

- American Rescue Plan Act (ARPA) revenue recognition: The City received ARPA funding in an amount total to \$7M in July of 2021 and August of 2022, in payments of approximately \$3.5M each. The current biennial budget included revenues of \$7M in ARPA funding; however, due to a substantial shortfall in funding from the FY20/21 budget, the initial ARPA payment of \$3.5M, received in July of 2021 the City cost to recognize those revenues in the previous fiscal year to complete the audit and close the books. Because of this action, the current biennial budget needs to have revenues reduced by a corresponding amount of approximately \$3.5M.



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- Purchasing commitment budget carryover: Per the City’s financial policy, “... *Operating expenditure appropriations not spent during the fiscal year lapse at year-end except for encumbrance or commitment, as in the form of finalized purchase orders, made during the fiscal year that has not been completed as year-end...*”, staff identified \$917,514 such purchase orders in General Fund, \$174,896 in Wastewater Fund and \$15,396 in Solid Waste Fund during the review, those purchase commitments were not included in the budget carryover during the June 14 budget review process.

Enterprise Administrative Fee Study:

On June 14, 2022, during the Mid-Term Budget review, staff presented the CPI and other corrections to the City’s Enterprise Fund administrative fees. Furthermore, the City hired the NBS to conduct the indirect cost allocation study in conjunction with the city’s direct cost allocation study. Per the results of these studies, the net changes are \$644,405 to the Wastewater Fund, and \$511,649 to the Solid Waste Fund, respectively.

Below is the summary of the General Fund summary before any departmental requests.

Table 1 General Fund Budget Summary (In Million) _Part 1					
	6/14 CC meeting budget (1)	CC subsequent Event (2)	Error Corrections (3)	Enterprise Admin Fee Study (4)	Revised GF Budget (5)=(1)+(2)+(3)+(4)
Budgeted Revenues	53.43	0.04	-3.60	0.85	50.72
Budgeted Expenditures	-48.26	-0.38	-0.96	0.31	-49.29
Net	5.18	-0.34	-4.55	1.16	1.44
Transfer In	0.23	0.00	0.00		0.23
Transfer Out	-2.88	0.00	0.00		-2.88
Surplus/ (Shortfall)	2.53	-0.34	-4.55	1.16	-1.21

Departmental Budget Changes

- Community Development (\$287K in net revenues):

For the past six months, the City has collected \$4.26M in community development fees, \$58.7K above the annual budget of \$4.2M. Staff is anticipating an additional \$ 1.05M by the end of the fiscal year. Meanwhile, the department is requesting an additional \$750,000 professional services



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fee and \$13,000 in another operating expenditure budget to provide the services to the permitting and staff developments. Overall, the department anticipates an additional \$287,000 in net revenue to the General Fund.

- **Police Department (\$155K in net expenditures):**

The police department is requesting an additional \$155,000 expenditure appropriation. The request includes \$65,000 in crossing guard services and \$ 90,000 to cover the utility costs.

The crossing guard services were discussed and approved by the City Council prior to the adoption of the current budget but were not included in error.

The \$90,000 in utility costs is an annual item but was not included in the current budget in error.

- **Engineering Department (\$92.4K net expenditures):**

The engineering division is requesting \$92,400 to hire Heydari consulting group to manage ongoing projects. The City is contracting services with Heydari in place of filling two open vacancies that would manage these projects.

- **Park and Recreation (\$11K in net revenues)**

- 1) The community center rental budget to actual is currently at 92%, \$68,455. The department is anticipating an additional \$75,000 in revenue by the end of the fiscal year.
- 2) The department will also expand facility hours for the community center and senior program; the part-time staff cost is approximately \$20,000, and the increasing senior membership and future rentals will cover it.
- 3) To re-certify the City of Los Altos as an age-friendly city, the department requests \$30,000 in funding for the program. No revenue is anticipated from this request.
- 4) Summer Concerts. Additional \$36,000 for the contract services. The requests include sound services and live band costs based on six concert schedules. Staff also anticipate \$7,000 in revenue through concert sponsorships.
- 5) 4th of July and Spring Family Fun Series. The division is requesting \$8,000 to cover the event supplies. A \$3,000 sponsorship for the events is anticipated.



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- **City Administrative (\$91K in net expenditures)**
 - 1) The Finance Department has experienced critical personnel loss for the first part of the fiscal year. Due to the staffing issue, City hired Eide Bailly to assist with the FY22 Audit; the cost of the contract is \$35,000.
 - 2) In conjunction with Prop 218 Sewer Rate Study, City hired the NBS to conduct the citywide indirect cost allocation plan. The cost of the contract is \$15,000.
 - 3) To implement upcoming FY24 budget preparation, the Finance department contracted with OpenGov to provide zero-based budget planning software. The department is requesting \$25,000 from this budget appropriation.
 - 4) The City Clerk's office requests \$16,000 to cover the cost of KMVT contract for the remainder of the fiscal year.
- **Other Budget Adjustments (\$0.85M in net revenues/transfers)**
 - 1) Transient Occupancy Tax/ Hotel Tax. As of November 2022, the City has collected \$767K, 47.6% of the TOT tax. Staff anticipates an additional \$50,000 in tax revenue by the end of the fiscal year.
 - 2) To balance the General Fund budget, the staff proposes not to transfer the \$1M as planned to fund additional CalPERS unfunded accrued liability, which was a planned expenditure from the City's "Covid Stabilization Fund" approved by the City Council for the current fiscal year.
 - 3) Staff is estimating increases in the insurance claims by the end of FY23 and requesting \$200,000 appropriation to replenish the fund balance.



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Table 2 General Fund Budget Operating Requests				
Department	Descriptions	Expenditures	Revenues	Net
Community Development	Plan Check Fee		1,050,000	
	Professional Services for Plan Checks	750,000		
	Cost for Amend Municode	4,000		
	Staff training and development	3,000		
	Advertising/Office Supplies	6,000		
	Subtotal	763,000	1,050,000	287,000
Police Department	Crossing Guard Services	65,000		
	Utility Cost	90,000		
	Subtotal	155,000	-	(155,000)
Engineering	Project Manager-Heydari Consulting	92,400		
	Subtotal	92,400	-	(92,400)
Park and Recreation	Community Center Rental		75,000	
	Expanding Facility Hours	20,000	20,000	
	Funding to re-Certify the City as an Age-Friendly City	30,000		
	Summer Concerts	36,000	7,000	
	July 4th and Spring Family Fun Events	8,000	3,000	
	Subtotal	94,000	105,000	11,000
City Administration	FY22 Audit Services- Eide Bailly	35,000		
	Indirect Cost Allocation Study_ NBS	15,000		
	FY24 Zero-Based Budget Software- OpenGov	25,000		
	KMVT	16,000		
	Subtotal	91,000	-	(91,000)



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Other Budget	Increase TOT Tax revenue projection	50,000	
	Transfer to Liability Fund	200,000	
Adjustments	Reduce the transfer to CALPERS UAL	(1,000,000)	
	Subtotal	(800,000)	50,000 850,000
Surplus/ (Shortfall)			809,600

Conclusion

\$402K will be reduced from the City's General Fund balance. The proposed budget changes are summarized in the tables below. Staff will continue to review the financial records and will bring forward the changes if it is needed on a case-by-case basis. At this time, staff recommends that the City Council approve the final cleanup changes requested to the FY22-23 budget as presented in this report.

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Surplus/ (Shortfall)	2.53	-0.34	-4.55	1.16	-1.21

Table 1 General Fund Budget Summary (In Million)- Part Two			
	Revised GF Budget (5)=(1)+(2)+(3)+(4)	Operating Request (6)	Final Revised Budget (7)=(5)+(6)
Budgeted Revenues	50.72	1.21	51.93
Budgeted Expenditures	-49.29	-1.20	-50.48
Net	1.44	0.01	1.45
Transfer In	0.23	0.00	0.23
Transfer Out	-2.88	0.80	-2.08
Surplus/ (Shortfall)	-1.21	0.81	-0.40