



CITY OF MILPITAS AGENDA REPORT (AR)

Item Title:	Review Fiscal Year 2019-20 Second Quarter Financial Status Report, Mid-Year Budget Amendments, and Adopt a Resolution Amending Resolution No. 1626, the Classification Plan, to Approve and Adopt the Pay Schedule Titled “All Job Classifications/Salary Table” and Approve the Three Position Changes
Category:	Leadership and Support Services
Meeting Date:	2/18/2020
Staff Contact:	Walter C. Rossmann, 408-586-3111
Recommendations:	<ol style="list-style-type: none"> 1. Review the FY 2019-20 Quarterly Financial Status Report for the Quarter Ending December 31, 2019 2. Approve FY 2019-2020 Mid-Year Budget Amendments 3. Adopt a Resolution Amending Resolution No. 1626, the Classification Plan, to Approve and Adopt the Pay Schedule Titled “All Job Classifications/Salary Table” and Approve Three Position Changes.

Background:

On June 11, 2019, the City Council approved the Fiscal Year (FY) 2019-20 Adopted Operating Budget in the amount of \$247.9 million and the General Fund Budget in the amount of \$121.6 million. After adoption of the budget, staff monitors and tracks revenues and expenditures for all funds within an emphasis on the General Fund and Enterprise Funds. Additionally, operational needs and or inadvertent oversights may necessitate mid-year budget or position adjustments.

Per the California Code of Regulations § 570.5, any CalPERS agency such as the City is required to bring all pay schedules for its CalPERS benefited employees before the governing board for review and approval.

In response to Council inquiry at the January 28, 2020 FY 2020-21 Preliminary Budget Study Session, this report transmits and discusses a vacant position status report.

Analysis:

This staff report provides a quarterly update on budget versus actual expenditures and revenues of the General, Water and Sewer Funds, the City’s major operating funds, based on unaudited financial reports for FY 2019-20 as of December 31, 2019. Additionally, staff is bringing forward mid-year budget adjustment and position change recommendations for Council consideration. The final section of this report discusses the recommendation to adopt salary tables for various employee groups and the vacant position status report as of January 31, 2020.

Quarterly Financial Status Report for the Quarter Ending December 31, 2019

The information below as well as the attachments provide an overview of the financial status for the General, Water, and Sewer funds for the Quarter ending December 31, 2019, a variance analysis of budget versus actual expenditures and revenues for the second quarter of FY 2019-20 as well as prior year actual expenditures and revenues for the second quarter of FY 2018-19 for comparison purposes. Major revenue sources and expenditures are discussed below.

General Fund

On June 11, 2019, the City Council approved the Fiscal Year (FY) 2019-20 Adopted Operating General Fund Budget in the amount of \$121.6 million. The budget comprised of \$118.8 million of ongoing revenues offsetting

ongoing expenditures of \$115.6 million and the use of unassigned reserves in the amount of \$6 million for onetime transfers-out in the amount of \$6.0 million to the General Government Capital Improvement Fund (\$4 million) and Affordable Housing and Community Benefit Fund (\$2 million). The higher ongoing estimated revenues resulted in an ongoing net operating surplus of approximately \$3.2 million.

Revenues (Attachment 1)

For the six months ending December 31, 2019, the General Fund has received \$37.7 million, or 31.59%, of the FY 19-20 amended operating budget of \$119.4 million. The amended budget is comprised of \$118.8 million of the adopted budget and various budget amendments totaling \$562,693 (e.g.: Fire Safer Grant of \$483,383, Tobacco Grants of \$26,563, Bulletproof Vest Partnership Grants of \$26,183).

- Property Taxes and Redevelopment Property Tax Trust Fund (RPTTF): For the six months ending December 31, 2019, \$6,500,270, or 22.89%, of the \$34.8 million budget has been received. Revenues are 5% higher than last year at the same time. Property Tax estimates from the County of Santa Clara are projecting an increase; hence, staff is recommending a budget amendment to increase Property Tax of \$1,073,000 and RPTTF \$699,000. Current revenue projections from the County of Santa Clara estimate \$36.6 million in total revenue for the City, which would be \$1.8 million, or 5%, above budgeted revenues.
- Sales & Use Tax: For the six months ending December 31, 2019, \$9.1 million, or 33.59%, of the \$27.2 million budget has been received. Revenues are 19% less than last year at the same time which is due to a change in the timing of payments received by the California Department of Tax and Fee Administration (CDTFA). The CDTFA shortened its clean-up payment from 3 months after a quarter end to 2 months after a quarter end resulting in a shift of sales tax receipts by one month of sales tax revenue this year compared to last year. After adjusting for the CDTFA's timing of payment, sales tax proceeds received year-to-date are in excess of budgeted estimates. Therefore, staff is recommending a budget amendment to increase budgeted estimates for Sales Tax by \$525,000. The revised Sales Tax estimate of \$27.7 million is 1.9% above budget revenues.
- Franchise Fees: For the six months ending December 31, 2019, \$1.5 million, or 29.5%, of the \$4.9 million budget has been received. Revenues are 5.7% higher than last year at the same time which is due to the timing of payments received.
- Hotel/Motel (TOT) Tax: For the six months ending December 31, 2019, \$6.8 million, or 34.9%, of the \$19.6 million budget has been received. Revenues are 34% higher than last year at the same time which is due to the increase in the TOT rate to 14% approved by the Council on 11/20/18. However, revenues for TOT are trending below budgeted estimates due to a reduction of activity at hotels related to renovations at two hotels and a slight softening of business travel due to economic uncertainty. Staff is recommending a budget adjustment to decrease TOT revenues by \$983,000. The revised TOT estimate of \$18.6 million is 5.2% below budgeted revenues.
- License and Permits: For the six months ending December 31, 2019, \$6.4 million, or 43.1%, of the \$14.7 million budget has been received. Revenues are 28% less than last year at the same time while building permit activity remained constant in comparison to the same period last year. Staff is analyzing the revenue decrease and will return to Council as part of the FY 2020-21 Master Fee Schedule Study Session with a preliminary analysis. Staff is recommending that this revenue source be decreased by \$1,314,000. The revised License and Permits estimate of \$13,434,486 is 9.8% below budgeted revenues.
- Charges for Services: For the six months ending December 31, 2019, \$3.3 million, or 47.7%, of the \$7.0 million budget has been received. Revenues are 8.7% lower than last year due to overstated police service charges from prior year that was corrected in the third quarter. Revenue received for the second quarter, as projected, is on track to meet the budgeted estimate.

Expenditures (Attachment 2)

For the six months ending December 31, 2019, the General Fund has utilized \$64.8 million, or 51.85%, of the FY 19-20 amended operating budget of \$124.9 million. The amended budget is comprised of \$121.6 million of the adopted budget, \$2.7 million of carryover encumbrances from the previous fiscal year for goods and services as well as approximately \$656,211 of increased department appropriations as approved by Council during the first half of the fiscal year (e.g. Fire Safer Grant of \$483,383, Velocity Pumper for Fire Department \$120,082, Tobacco Grant of \$26,563, and Bulletproof Vest Partnership Grants of \$26,183). At the end of the second quarter, total expenditures plus encumbrances are above the par of 50% by 1.85% or \$2.3 million primarily due to purchases of goods and contractual services related to carryover encumbrances, along with \$6.8 million completed transfers-out to the General Government Capital Improvement Fund (\$4 million), Affordable Housing and Community Benefit Fund (\$2 million), the Storm Drain Capital Improvement Fund (\$500,000), and the Equipment Fund for information technology equipment replacement (\$300,000). Regardless, staff will monitor expenditures to ensure that departments will not exceed their appropriations.

Water Maintenance & Operation (M&O) Fund (Attachment 3)

Revenues: For the six months ending December 31, 2019, \$18.3 million of charges for services, or 54.4%, of the \$33.6 million budgeted has been received. Total revenue received amounts to \$18.5 million, or 53.9%, of the \$34.3 million budgeted.

Expenditures: For the six months ending December 31, 2019, \$13.9 million, or 47.6%, of the \$29.2 million amended budgeted has been spent.

Sewer Maintenance & Operation (M&O) Fund (Attachment 3)

Revenues: For the six months ending December 31, 2019, \$9.8 million of charges for services, or 51.2%, of the \$19.1 million budgeted has been received. Total revenue received amounts to \$10.0 million, or 50.6%, of the \$19.7 million budgeted.

Expenditures: For the six months ending December 31, 2019, \$10.7 million, or 72.0%, of the \$14.8 million amended budgeted has been spent primarily due to the encumbrance and quarterly payments that amount to \$7 million to the City of San Jose for operation of the Wastewater Treatment Plant.

Budget Amendment Recommendations (Attachment 4)

The summary information below describes by categories the recommended budget adjustments with the dollar amount and item number related to the budget amendment. The item number references detailed explanations which can be found in the attachment titled "FY 2019-20 Mid-Year Budget Adjustment Recommendations" (Attachment 4). In this attachment, the recommended budget amendments are grouped by Operating and Capital budget amendments and by departments. In summary, if Council approves the recommendations in this section, the General Fund Unassigned Reserve balance will be reduced by \$1.7 million from \$10.9 million to \$9.2 million and the Affordable Housing Fund Ending Fund balance will be increased by \$2.0 million from \$1.6 million to \$3.6 million.

1. Alignment of revenue estimates with 6 months of proceeds received
 - a. Decrease in Building revenues (-\$1,314,000) (Item #1)
 - b. Increase Affordable Housing Fund revenues (\$2,000,000) (Item #3)
 - c. Net increase in major General Fund tax revenues (\$1,314,000) (Item #8-11)
 - d. Decrease in Recreation Tournament Fees Revenue Adjustment (-\$12,000) (Item #21)
2. Net-zero re-alignment of revenue sources for certain capital projects
 - a. Street Resurfacing 2018 Project (Item #C2)
 - b. Street Resurfacing 2018-19 Project (Item #C3)
 - c. Street Resurfacing Project 2019-20 (Item #C4)
 - d. Montague Expwy Widening at Great Mall Pkwy (Item #C5)
3. Non-personnel Expenditure Adjustments

- a. City Attorney Reimbursable charges (\$125,000 offset with revenues from developers) (Item #5)
 - b. Milpitas Assistance Program for recreation programs (\$30,000) (Item #22)
 - c. Early retirement of debt: IT Phone and Networking Equipment Lease Purchase and LAN/WAN Project (\$576,813) (Item #14)
 - d. Net Zero Vacancy Savings Allocation to Departments: The FY 2019-20 General Fund Budget includes assumed Vacancy Savings in the amount of \$2,732,255 budgeted in the Non-Departmental budget. This net-zero action allocates the assumed Vacancy Savings to departments based on current year-to-date personnel expenditure trends. (Item #18)
4. Correction of inadvertent errors
- a. Landscape Maintenance District 95-1: reimbursement to Irvine Corporation for landscape service performed (\$80,000) (Item #6)
 - b. Annual debt payment for IT Phone and Networking Equipment Lease Purchase (\$202,222) (Item #13)
 - c. Fire Command Vehicles Upfitting (\$34,399) (Item #16)
 - d. LAN/WAN Project Accounting Correction (Item #C1)
 - e. Street Resurfacing 2018-19 Project (\$1,600,000 transfer from the General Fund and \$1,600,000 transfer from the Gas Tax Fund) (Item #C3)

Position-related Amendment Recommendations

Staff is recommending three front-line position changes to improve service delivery and align the position complement to current service demands for Building, Safety and Housing Department and the Engineering Department and to align the salary range of the Budget Manager position. Staff has provided a description and justification of the recommended position changes below and identified the annual cost impact. Any salary and related benefits cost increases of Council approved recommendations will be absorbed within existing appropriations for FY 2019-20 and incorporated into the development of the FY 2020-21 Proposed Budget. None of the recommended position amendments will increase the Council approved number of authorized positions.

1. Amend three budgeted vacant positions to align positions to Departments' operational needs:
 - a. 1.0 vacant Office Specialist to 1.0 Building Permit Technician Position (Building, Safety and Housing Department).
The Permit Center Counter primarily receives technical questions at the counter and over the phone related to building permits and development requirements. To enhance customer service and to deliver high quality services to the Milpitas community now and for the long term, as well as to assist with the backlog of building permits it is recommended to delete 1.0 Office Specialist position and add 1.0 Building Permit Technician position as the duties of a Building Permit Technician are better aligned with the requirements of the position. The additional Building Permit Technician will assist with the routing of Building Permits and Plans as well as provide assistance with reducing the backlog of permit activity in the Permit Center. Having an additional Permit Technician will assist with cross training and coordination with other departments (increased annual costs: \$15,951).
 - b. 1.0 Building Inspector to 1.0 Plan Checker Position (Building, Safety and Housing Department).
The recommendation of deleting 1.0 vacant Building Inspector position and add 1.0 Plan Checker continues to align the position needs with the current workload. It provides improved high-quality service delivery at the Permit Center. During the last year it has been observed that service demand versus capacity for Plan Review has been greater than service demand versus capacity for Building Inspections. A Plan Checker will provide Plan Check services to assist with the backlog of plan checks in the Permit Center. An additional Plan Checker will assist with cross training and coordination with other departments (increased annual costs: \$11,617).
 - c. 1.0 Assistant Civil Engineer to 1.0 Associate Civil Engineer Position (Engineering Department):
The recommendation to delete 1.0 vacant Assistant Civil Engineer and add 1.0 Associate Civil Engineer in the Traffic Engineering function will increase the candidate pool allowing the City to fill the position with an entry or journey level candidate. Further, it will promote staff retention for

an entry-level candidate as they can advance to the journey level if qualified (increased annual costs: \$31,102).

2. Adjustment of the salary range for the Budget Manager position: Per the job description, the City's Budget Manager is responsible for planning, organizing, directing, and personally performing professional budgeting activities in conformance with the principles and procedure of public finance, budgeting, and budgetary control; for the development, maintenance, and operation of the City's Annual Budget; and for providing financial information and analysis to aid in executive management decision making. Additionally, the Budget Manager position is responsible for the oversight of the City's investment, debt management and risk management functions. Based on duties of overseeing several citywide functions, staff initiated a compensation study completed by a consultant. The consultant compared the duties and compensation for the position with six local cities. Based on the study, staff recommends increasing the salary range by approximately 12% from between \$104,794.82 and \$137,940.40 to between \$117,755.16 to \$155,000.04, which is one (1) percentage point below the median of comparable cities. Staff also discussed the salary adjustment with the Mid-Management and Confidential Unit, the applicable bargaining unit, which supports the salary range adjustment (increased annual costs: \$25,537).

Salary Table Approval (Attachments 5 and 6)

As required by State law, staff prepared a resolution (Attachment 5) which includes the most current Salary Table (Attachment 6) for your review and approval. The salary table is consistent with Council approved Memoranda of Understandings and salary ranges granted for unrepresented employees including the City Manager classification. Additionally, the salary table corrects an inadvertent salary range error for the Customer Services Supervisor classification.

In June 2018, the Customer Services Supervisor classification was created. Due to the timing of the creation of the classification of Customer Services Supervisor and the timing of both the Mid-Con Memorandum of Understanding (MOU) Wage increase and Ralph Anderson Classification Study a MOU increase of 3% in July 2018 was inadvertently overlooked as well as the Ralph Anderson Classification study, which included the Senior Accountant salary amendment of 2.9% for which the Customer Services Supervisor classification was aligned to was also overlooked. As a result, the Salary Table will include the corrected salary range for the Customer Services Supervisor. The monthly salary range is currently \$7,372.67 to \$9,704.52 and it is recommended to adjust the salary range to \$7,814.21-\$10,285.23.

Vacant Position Status Report (Attachment 7 and 8)

At the January 28, 2020 FY 2020-21 Preliminary Budget Study Session, the City Council requested information regarding vacant positions. In response to Council request, this report transmits the Vacant Position Status Report as of January 31, 2020 sorted by department and by recruitment phase. Additionally, the report provides comments explaining delays in the filling of positions. Recruitments take on average 3 months for non-sworn positions not hired by the Police Department and 4-6 months for sworn positions and non-sworn positions in the Police Department due to additional backgrounding requirements.

Currently, the City has 57.50 positions, or about 13% of authorized positions, in various phases of the recruitment process. As detailed in the report, recruitments for 28 positions, or more than 49%, are either in the backgrounding phase or actively ongoing. For the remaining recruitments of 29.5 positions, the recruitment is in the preparation phase or delayed for various reasons. Recruitments experience delays for various reasons such as development of exam materials, review and update of position requirements due to changing organizational needs, coordination with our bargaining units, availability of contracts to perform backgrounds, insufficient candidate pool, candidates declining a formal job offer as they are given counter offers, and organizational restructuring proposals brought forward through the annual budget process for Council consideration.

Policy Alternatives:

Alternative 1: Do not approve FY 2019-20 Mid-Year Budget Amendment Recommendations

Pros: Not approving certain budget amendment recommendations will result in less utilization of the General Fund Unassigned Reserve.

Cons: The recommended budget amendment recommendations include urgent funding recommendations, adjustments to revenue estimates, and corrections of inadvertent errors.

Reason not recommended: Not approving the FY 2019-20 Mid-Year budget amendment recommendations will result in not funding certain programs, adjust revenue estimates to year-to-date revenue proceeds received, and not correct inadvertent errors.

Alternative 2: Do not approve Position-related Amendment Recommendations

Pros: It will not impact future budgets.

Cons: The position-related amendments align positions to operational needs.

Reason not recommended: The position-related amendments will ensure staff can deliver front-line services more effectively and compensate staff consistent with the job description duties.

Fiscal Impact:

In summary, if Council approves the recommendations in this section, the General Fund Unassigned Reserve balance will be reduced by \$1.7 million from \$10.9 million to \$9.2 million; the Affordable Housing Fund Ending Fund balance will be increased by \$2.0 million from \$1.6 million to \$3.6 million.

Any salary and related benefits cost increases of Council approved position amendment recommendations will be absorbed within existing appropriations for FY 2019-20 and incorporated into the development of the FY 2020-21 Proposed Budget,

There's no fiscal impact related to the adoption of a resolution approving the salary tables for various employee groups.

California Environmental Quality Act:

Not applicable.

Recommendations:

1. Review the FY 2019-20 Quarterly Financial Status Report for the quarter ending December 31, 2019.
2. Approve FY 2019-2020 Mid-Year Budget Amendments.
3. Adopt a Resolution amending Resolution No. 1626, the Classification Plan, to approve and adopt the Pay Schedule titled "All Job Classifications/Salary Table" and approve three position changes.

Attachments:

1. FY 2019-2020 Revenue Report for Fiscal Year-To-Date December 31, 2019
2. FY 2019-2020 General Fund Expenditures by Department December 31, 2019
3. FY 2019-2020 Water and Sewer Funds Financial Status for Fiscal Year-To-Date December 31, 2019
4. FY 2019-20 Mid-Year Budget Adjustment Recommendations
5. Resolution
6. Salary Table
7. Vacant Position Status Report – Sorted by Department
8. Vacant Position Status Report – Sorted by Recruitment Phase