



CITY OF MILPITAS AGENDA REPORT (AR)

Item Title:	FY 2020-21 Second Quarter Financial Status Report and Mid-Year Budget Amendments
Category:	Leadership and Support Services
Meeting Date:	2/16/2020
Staff Contact:	Walter C. Rossmann, 408-586-3111
Recommendation:	<ol style="list-style-type: none">1. Review the FY 2020-21 Quarterly Financial Status Report for the Quarter Ending December 31, 2020;2. Approve FY 2020-2021 Mid-Year Budget Amendments; and3. Establish the "Public Art" Capital Improvement Project

Executive Summary:

This staff report provides a mid-year 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 2020-21 as of December 31, 2020, and COVID-19 related expenditure update.

The General Fund is projected to incur a net revenue loss of \$13.8 million. Therefore, staff is bringing forward for Council approval budget amendment recommendations which will rebalance the FY 2020-21 budget without the use of the Budget Stabilization Reserve and establish a FY 2021-22 Future Deficit Reserve of approx. \$1.5 million. The major recommended actions include the repayment of a 2014 General Fund loan to the TASP fund in the amount of \$5.4 million; a reversal of FY 2019-20 General Fund Contribution for Infrastructure Improvements in the amount of \$4 million, which is currently not needed due to deferral of infrastructure projects; net decrease expenditures by approx. \$6.2 million through personnel and non-personnel reductions including the defunding of 13.75 permanent FTEs and \$0.7 million in funding for temporary positions. The reductions in permanent and temporary positions are only possible due to the managed hiring and expenditure freeze implemented as directed by Council. The reductions in positions and the funding of the FY 2021-22 Future Deficit Reserve are the first steps toward balancing the next year's deficit of \$7.5 million.

Between mid-March 2020 and end of December, the City incurred \$4.2 million of budgeted and unbudgeted personnel (\$3.7 million) and non-personnel (\$0.5 million) costs in response to the pandemic. Of the \$4.2 million, \$962,595 was reimbursed from federal Corona Virus Relief Funds and up to \$675,000 may be reimbursed by FEMA based on potentially eligible expenditures of \$845,000. The federal government is working on another \$1.9 trillion stimulus package, which includes support for local governments at this time. With a similar sized federal stimulus package approved by Congress in Spring 2020, the City received \$962,595. Even a commensurate amount will not cover the \$1.6 million of COVID-19 related expenditures incurred during the first six months of the current fiscal year and in the foreseeable future the City will continue to incur costs.

Background:

On June 2, 2020, the City Council approved the Fiscal Year (FY) 2020-21 Adopted Operating Budget in the amount of \$220.3 million and the General Fund Budget in the amount of \$117.1 million. After adoption of the budget, staff monitors and tracks revenues and expenditures for all funds with an emphasis on the General Fund and Enterprise Funds. Consistent with the Council adopted Fiscal Policies, staff is bringing forward budget amendment recommendations at mid-year.

On November 17, 2020, as part of the FY 2020-21 Quarterly Financial Status Report for the Quarter Ending September 30, 2020 staff presented an update to the FY 2020-21 revenue estimates with downward adjustments of \$12.8 million and Operating Transfers-In reduction by \$0.4 million offset with reductions in expenditures in the amount of \$2.6 million resulting in a shortfall of \$10.6 million. With the receipt of actual revenues for the quarter ending December 31, 2020, staff updated revenue projections. With the updated revenue estimates, staff projects a net decline of approximately \$13.8 million of revenues versus adopted budget for Fiscal Year 2020-21. This decline in revenues is primarily attributable to economically sources such as Transient Occupancy Tax, Sales Tax and Charges for Services partially offset with Sales Tax Measure F and Intergovernmental Revenue.

With the guidance of the City Council, staff has actively been managing the worst economic downturn since the Great Depression with the implementation of several major budget strategies such as non-personnel expenditure reductions, deferral of capital projects, a managed hiring freeze, position reduction analysis, and working with the City's bargaining units to achieve wage and benefits cost reductions. Further, the voters approved Measure F, a ¼ Cent local Sales Tax and in past years, the City Council has set aside reserves to help mitigate the fiscal impact of the inevitable recession.

Analysis:

This staff report provides a mid-year 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 2020-21 as of December 31, 2020, and COVID-19 related expenditure update. Additionally, staff is bringing forward updated General Fund revenue estimates for FY 2020-21 based on revenues received as of 12/31/2020 as well as mid-year budget amendment and position defunding recommendations for Council consideration. The majority of budget amendment recommendations are brought forward in an effort to re-balance the General Fund due to the significant revenue loss caused by the enduring pandemic as well as to reduce ongoing expenditures, which will positively impact the currently projected FY 2021-22 deficit of \$7.5 million.

Quarterly Financial Status Report for the Quarter Ending December 31, 2020

The summary information below as well as the attachments comprise the FY 2020-21 Quarterly Financial Status Report for the Quarter ending December 31, 2020 for the General Fund and Enterprise Funds. Major revenue sources and expenditures for these funds are discussed below. The attachments provide a variance analysis of budget versus actual expenditures and revenues for the second quarter of FY 2020-21 as well as prior year actual expenditures and revenues for the second quarter of FY 2019-20 for comparison purposes.

General Fund

On June 2, 2020, the City Council approved the FY 2020-21 Adopted Operating General Fund Budget in the amount of \$117.1 million. The budget comprised of \$112.6 million of ongoing revenues with \$4.48 million from reserves offsetting ongoing expenditures of \$117.1 million. With the estimated net revenue reductions of \$13.8 million due to COVID-19, staff is recommending various budget amendments to rebalance the General Fund budget.

Revenues (Attachment 1)

For the six months ending December 31, 2020, the General Fund has received \$28.1 million, or 24.89%, of the FY 20-21 amended operating budget of \$113.2 million. The amended budget is comprised of \$112.6 millions of the adopted budget and various budget amendments totaling \$623,905 (e.g.: state grants of \$621,405, Youth Advisory Commission Community Service Scholarships of \$2,500). An update on major revenue sources is provided below.

- **Property Taxes and Redevelopment Property Tax Trust Fund (RPTTF):** For the six months ending December 31, 2020, \$6.9 million, or 18.68%, of the \$36.9 million budget has been received. Revenues are 6% higher than last year at the same time. Current revenue projections from the County of Santa Clara estimate \$36.9 million in total revenue for the City, which is the same as budgeted revenues. The County does not anticipate disbursing ERAF (Educational Revenue Augmentation Fund), which results in \$2 million in lost property tax revenue for the City.

- Sales & Use Tax: For the six months ending December 31, 2020, \$7.6 million, or 26.84%, of the \$28.4 million budget has been received. Revenues are 16.65% less than last year at the same time, due to the effects of COVID-19 and shelter-in-place orders, which resulted in less consumption overall. Therefore, staff has adjusted the revenue estimates downward by \$5.1 million, or 18%, to \$23.3 million based on the latest projection from the City's sales tax consultant and tax receipts received in the first quarter of the current fiscal year. With this revenue adjustment, for the six months ending December 31, 2020, approx. 33% of revenue has been received, which is on par with previous fiscal years.

As part of the November 3rd General Election, voters approved Measure F with 60.36% of ballots cast supporting the local sales tax. Staff submitted all required documents to the California Department of Tax and Fee Administration for the implementation of the ¼ cent sales tax by April 1, 2021. Therefore, staff recommends recognizing receipt of the first quarter of Measure F estimated at \$1.2 million.

- Franchise Fees: For the six months ending December 31, 2020, \$1.3 million, or 23.75%, of the \$5.5 million budget has been received. Revenues are 10.2% less than last year at the same time which is due to the timing of receipt as franchise fees are typically received a month in arrears. Further, the franchise fees from PG&E are received annually in the final quarter of the fiscal year. By including December sanitation fees in amount of \$0.22 million and CATV (Cable Television) for the second quarter in amount of \$0.11 million, both received in January 2021, then total fees received for the second quarter period is \$1.6 million, or 29.63% of the \$5.5 million budget.
- Transient Occupancy Tax: For the six months ending December 31, 2020, five months of revenue in the amount of \$1.6 million, or 12.21%, of the \$13.5 million budget has been received. Revenues are 76.61% less than last year at the same time, due to the effects of COVID-19 and shelter-in-place orders which restricted travel. Revenues for TOT have been trending below budgeted estimates due to continuous reduction of activity at hotels. Therefore, staff has adjusted the revenue estimate downward by \$9.4 million, or 69.52%, to \$4.1 million. With this revenue adjustment, for the six months ending December 31, 2020, approx. 40% of revenue has been received.
- License and Permits: For the six months ending December 31, 2020, \$3.9 million, or 39.65%, of the \$9.9 million budget has been received. Revenues are 39.48% less than last year at the same time which is due to the effects of COVID-19 that greatly affected Building permits and Plan Check fee revenues. Therefore, staff has adjusted the revenue estimate downward by \$0.5 million, or 5%, to \$9.4 million. With this revenue adjustment, for the six months ending December 31, 2020, approx. 42% of revenue has been received.
- Charges for Services: For the six months ending December 31, 2020, \$1.7 million, or 21.67%, of the \$7.8 million budget has been received. Revenues are 49.02% lower than last year due to the effects of COVID-19. Therefore, staff has adjusted the revenue estimate downward by \$2.9 million, or 37%, to \$4.9 million. With this revenue adjustment, for the six months ending December 31, 2020, approx. 34% of revenue has been received.

Expenditures (Attachment 2)

For the six months ending December 31, 2020, the General Fund has utilized \$60.4 million, or 50.10%, of the FY 20-21 amended operating budget of \$120.5 million. The amended budget is comprised of \$117.1 million of the adopted budget, \$2.8 million of carryover encumbrances from the previous fiscal year for goods and services as well as approximately \$619,140 of net increased department appropriations as approved by Council during the first half of the fiscal year (e.g. LEAP Grant of \$300,000, Non-competitive Planning Grant \$310,000, and Bulletproof Vest Partnership Grants of \$9,405, Youth Advisory Commission Community Service Scholarships of \$2,500; contractual services reduction of \$20,499). At the end of the second quarter, total expenditures plus encumbrances are above the par of 50% by 0.10% or \$0.1 million primarily due to purchases of goods and contractual services related to carryover encumbrances, along with \$0.3 million completed transfers-out to the Information Technology Replacement Fund. Total expenditures without encumbrances is at 45.4% at the end of the second quarter primarily due to the instituted managed hiring and expenditure freeze.

COVID-19 Related Expenditures

It has been nearly one year that the former President declared the national emergency related to COVID-19. Staff activated the Emergency Operations Center to monitor the impact on our City and respond to the pandemic including the launch of a mobile testing facility, providing staff support to County testing sites, implementing a small business grant program, and keeping our facility and staff safe.

Between mid-March and end of December 2020, the City incurred \$4.2 million of budgeted and unbudgeted personnel (\$3.7 million) and non-personnel (\$0.5 million) costs in response to the pandemic. of the \$4.2 million, less than \$1.0 million was reimbursed from federal Corona Virus Relief Funds and up to \$675,000 may be reimbursed by FEMA based on potentially eligible expenditures of \$845,000. Staff has been engaged with FEMA since June 2020 and actively sought reimbursements since September 2020. However, the City has not received approval for any reimbursement requests yet.

The federal government is working on another \$1.9 trillion stimulus package, which includes support for local governments. With a similar sized federal stimulus package approved by Congress in Spring 2020, the City received \$962,595. Even a similar amount will not cover the \$1.6 million of COVID-19 related expenditures incurred during the first six months of the current fiscal year including the unanticipated expenditures (for the second quarter of FY 2020-21) of \$242,125 detailed in the next section.

Unanticipated Expenditure Reserve

In accordance with the City Council approved Budget Guidelines, as part of the quarterly financial status reports, staff is reporting on the use of the Unanticipated Expenditure Reserve for the second quarter. All expenditures are related to COVID-19.

Table 1: Unanticipated Expenditure Reserve Uses

Description	Amount
Additional Cleaning Services and Supplies	\$82,793
Communication and Outreach	4,488
Personal Protective Equipment (Isolation Suits/Face Shields, Nitrile Gloves and Masks, Sanitizing Wipes, Disinfectants)	43,476
First Responder UV Sterilizer	14,680
Legal Services (Best, Best and Krieger)	28,362
Mobile and County Testing Sites	19,762
Employee Quarantine Housing and Testing	7,856
Emergency Operations Center (EOC) Staffing	20,159
Miscellaneous COVID-19 Expenditures	20,549
TOTAL for the Quarter Ending December 31, 2020	\$ 242,125

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

Revenues: For the six months ending December 31, 2020, \$16.9 million of charges for services, or 54.2%, of the \$31.2 million budget has been received. Total revenue received amounts to \$17.0 million, or 53.3%, of the \$31.9 million budget.

Expenditures: For the six months ending December 31, 2020, \$14.1 million, or 49.5%, of the \$28.6 million amended budget has been spent.

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

Revenues: For the six months ending December 31, 2020, \$9.9 million of revenue received amounts to \$9.9 million, or 47.6%, of the \$20.9 million budget.

Expenditures: For the six months ending December 31, 2020, \$8.5 million, or 46.3%, of the \$18.3 million amended budget has been spent.

FY 2020-21 Mid-Year General Fund Rebalancing

Table 2 below summarizes staff’s recommendations to rebalance the current year General Fund budget with the line item detail provided in Attachment 4. As mentioned above, the estimated net revenue loss is \$13.8 million, which includes \$1.6 million for Fire Mutual Aid Reimbursements (offset by expenditures), \$1.2 million in Measure F funds, and approximately \$1 million of the Corona Virus Relief funds reimbursement. With Council approval of the budget amendment recommendations summarized in the table below and described in the following sections of this report, the FY 2020-21 budget will be rebalanced without the use of the Budget Stabilization Reserve and the surplus used to establish a FY 2021-22 Future Deficit Reserve of approx. \$1.5 million.

Specifically, staff recommends repayment of a 2014 General Fund loan to the TASP fund in the amount of \$5.4 million and a reversal of FY 2019-20 General Fund Contribution for Infrastructure Improvements in the amount of \$4 million. This contribution benefitted the General Government CIP Fund, which has an estimated fund balance of \$13 million by the end of FY 2020-21. The reversal of the contribution will leave about \$9 million to pay for the recommended FY 2021-22 and future capital needs in the amount of \$3.1 million. With a decrease of the CFD 2008 transfers-in of \$0.4 million, these actions result in a net increase of transfers-in in the amount of \$9.0 million and a net remaining shortfall of all sources to the General Fund in the amount of \$4.7 million.

In order to offset this shortfall, staff recommends to net decrease expenditures by approx. \$6.2 million through personnel and non-personnel reductions including the defunding of 13.75 permanent FTEs and \$0.7 million in funding for temporary positions. The increase to expenditures is fully covered by revenue.

With these recommended actions, the excess funds in the amount of \$1.5 million is recommended to be placed in the FY 2021-22 Future Deficit Reserve. The ongoing reductions in permanent and temporary positions and the funding of the FY 2021-22 Future Deficit Reserve are the first steps toward balancing the next year’s deficit of \$7.5 million.

Table 2: FY 2020-21 Mid-Year Rebalancing Budget Adjustment Recommendations

<u>Description</u>	<u>Recommended Adjustment</u>
Revenue Estimates Adjustments for Decreases (e.g.: Hotel/Motel Tax, Sales Tax, Charges for Services)	(\$18.16)
Revenue Estimate Adjustments for Increases (e.g.: Sales Tax – Measure F, Coronavirus Relief Fund, Fire Mutual Aid Administrative Reimbursement, Delta Dental Benefit Reserve Realignment)	2.80
Revenue Increases Offset by Expenditure (e.g.: Fire Mutual Aid Reimbursement, Lease Revenue Capitalized Interest)	1.58
<i>Net Revenue Decrease</i>	(\$13.78)
Net Transfers-In (e.g.: (CFD 2008, TASP Loan Repayment, Reversal of FY 2019-20 General Fund Contribution for Infrastructure Improvements)	9.04
Total Sources Adjustment (Revenues and Transfers-In)	(\$ 4.74)
Expenditure Increases Offset by Revenue (e.g.: Fire Mutual Aid Reimbursement, Lease Revenue Capitalized Interest)	\$ 1.58
Personnel Expenditure (e.g.: Retiree Medical, MPOA Wage Concession, Recreation Temporary Salaries)	(3.83)
Non-Personnel Expenditure (e.g.: Recreation Service Savings, Decrease Library Funding, Housing Element Consultant)	(1.03)
Ongoing Position and other Personnel Cost Reductions	(1.49)
Departments’ Budgets Anticipated Personnel Cost Savings	(1.40)
Total Net Expenditure Adjustment	(\$6.19)

The information below itemizes by categories the recommended budget adjustments with the dollar amount and item number related to the recommended budget amendment. The item number references detailed explanations which can be found in the attachment titled "FY 2020-21 Mid-Year Budget Adjustment Recommendations" (Attachment 5). In this attachment, the recommended budget amendments are grouped by departments and further described. Information on the ongoing position reductions can be found in Attachment 6.

1. Revenue estimate and Transfers-In adjustments: The itemized revenue and Transfers-In adjustments net total a decrease to the budget of \$4.7 million.
 - Decrease in Building Revenues (-\$364,000) (Item #1)
 - Decrease Fire Prevention Revenues (-\$144,000) (Item #17)
 - Decrease in Sales tax Revenues (-\$3,865,734) (Item #26)
 - Decrease in Transient Occupancy Tax Revenues (-\$9,352,683) (Item #27)
 - Decrease in Recreation Revenues (\$-2,775,000) (Item #61)
 - Decrease in Passport Program Revenues (\$-90,000) (Item #11)
 - Decrease in Use of Money and Property Revenue (\$-364,000) (Item #47)
 - Increase in Intergovernmental Revenue Related to (Mutual Fire Aid Reimbursement, Coronavirus Relief, Employment Development Department, Regional Auto Theft Task Force) (\$2,544,515) (Item #19, 20, 24, 39 and 41)
 - Increase in revenue related to capitalized interest Lease Revenue Bond payment (\$411,938) (Item #44)
 - Increase in Other Revenues related to Delta Dental Refund (\$220,000) (Item #55)
 - Adjustment to CFD 2008 Transfer-in (-\$395,000) (Item #49)
 - TASP Loan Repayment (\$5,431,671) (Item #29)
 - FY 2019-20 General Fund Contribution for Infrastructure Improvements Reversal (\$4,000,000) (Item #58)

2. Personnel Expenditure Adjustments: The personnel expenditure adjustments amount to \$4.2 million in savings.
 - Retiree Medical Plan Contribution Savings (-\$2,544,141) (Item #35)
 - MPOA MOU 5% Adjustment (-\$537,377) (Item #23)
 - Executive Staff Car Allowance Suspension (-\$39,600) (Item #51)
 - Recreation Temporary Salaries (-\$731,952) (Item #61)
 - Advancing FY21-22 Position and Temporary Salary Reduction (-\$1,490,424) (Item #63)
 - Fire Reimbursement for COVID-19 and Fire Season Mutual Aid (\$1,164,957) (Item #21)

3. Non-personnel Expenditure Adjustments: The one-time net non-personnel adjustments net total \$0.62 million in savings. The Lease Revenue Interest payment is offset with receipt of corresponding revenue. The increase in Fire personnel expenditure is offset with receipt of Fire mutual aid reimbursement.
 - Housing Element Consultant (-\$80,000) (Item #3)
 - Recreation Community Services Department Adjustments (-\$679,071) (Item #63)
 - Lease Revenue Interest Payment (\$411,938) (Item #45)
 - Additional Library Hours Funding Adjustment (-\$160,624) (Item #61)
 - Net Zero Vacancy Savings Allocation to Departments - The FY 2020-21 General Fund Budget includes assumed Vacancy Savings in the amount of \$3,057,627 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 #39)
 - Coffee Service Elimination (-\$9,900) (Item #55)
 - Façade Pilot Program (-\$50,000) (Item #15)
 - Employee Recognition Program (-\$23,675) (Item #11)

- Community Promotions Program (-\$25,000) (Item #7)
4. Ongoing Position and other Personnel Cost Reductions: Due to the current year and next year's budget shortfall, staff is recommending reducing expenditures by defunding 13.75 FTE, reducing funding for temporary staff and funding shifts. The reductions in permanent and temporary positions are only possible due to the managed hiring and expenditure freeze implemented as directed by Council. With the recommended defunding of 13.75 vacant positions, there will still be over 30 vacant positions across all departments. With the defunding of these positions, the Administration may continue filling a limited number of positions to minimize service level impacts. As part of the FY 2021-22 Proposed Budget, staff will bring forward recommendations to defund for a to-be-determined period these 13.75 FTEs.

The current year savings are approx. \$1,490,424 and ongoing savings are approx. \$2.6 million. Below are the titles of position reductions including an item number. The FY 2020-21 Mid-Year Position and other Personnel Cost Reduction Recommendations (Attachment 6) provides a detailed description, impact and mitigation for each budget proposal by the referenced item number.

- a. Defunding of vacant positions to offset budget shortfall
 - Plan Review Staffing Reduction (-\$60,167) (Item #P2)
 - Building Inspector Staffing Reduction (-\$65,827) (Item #P3)
 - Land Development Staffing Reduction (-\$67,347) (Item #P7)
 - Risk, Debt and Investment Oversight Staffing Reduction (-\$54,709) (Item #P8)
 - Fire Prevention Staff Reduction (-\$58,500) (Item #P10)
 - Human Resources Staff Reduction (-\$45,851) (Item #P11)
 - Information Technology Staff Reduction (-\$64,689) (Item #P12)
 - Facility Maintenance Staffing Reduction (-\$49,507) (Item #P13)
 - Storm Maintenance Staffing Reduction (-\$52,031) (Item #P14)
 - Sports Center Office Assistant Defunding (-\$29,359) (Item #P16)
 - Community Center Public Services Assistant Defunding (-\$40,428) (Item #P17)
 - Program Coordinator Defunding (-\$48,232) (Item #P18)
 - Recreation Services Assistant III Defunding (-\$33,790) (Item #P19)
 - Recreation Services Assistant IV Defunding (-\$37,748) (Item #P20)
 - b. Defunding of temporary positions and funding shifts
 - Building Safety Career Entry Program Defunding (-\$634,948) (Item #P1)
 - City Council Intern Defunding (-\$73,700) (Item #P4)
 - City Manager Intern Defunding (-\$18,602) (Item #P5)
 - Economic Development Intern Defunding (-\$15,600) (Item #P6)
 - Finance Staff Funding Alignment (-\$26,625) (Item #P9)
 - Seasonal Maintenance Worker (-\$12,767) (Item #P15)
5. Department Budget Anticipated Savings Adjustments: due to the managed hiring and expenditure freeze, departments are generating expenditure savings. Departments' budgets are recommended to be reduced by \$1.4 million to realize a portion of these savings primarily to fund the FY 2021-22 Future Deficit Reserve.
- Police Department position vacancy savings (-\$734,765)
 - Building Safety and Housing Department position vacancy savings (-\$182,440)
 - Recreation and Community Services Department position vacancy savings (-\$147,244)
 - Engineering Department position vacancy savings (-\$135,551)
 - Fire Department non-personnel expenditure savings (-\$100,000)

Staff recommends various adjustment to other funds which are mostly related to adjustments in the General Fund such as retiree medical plan contribution savings or elimination of the coffee service. The capital budget recommended adjustments including funding reductions, a funding request to upgrade the reporting software in the utility billing system, and various reimbursements and funding reallocations. Additionally, staff recommends establishing the Public Art Capital Project (CP 3489) for all public art related work including staff time funded by the Public Art Fund.

1. Other Funds Budget Adjustments

- Housing Element Consultant (-\$80,000) (Item #5)
- Hetch Hetchy lease (\$500) (Item #47)
- Irvine Purchase Order Increase (\$6,756) (Item #15)
- Retiree Medical Plan Contribution Savings Other Funds (\$289,899) (Item #35)
- TASP Fund Balance Adjustment due to Loan Repayment (-\$5,431,671) (Item #31)
- Public Art Fund Balance Adjustment (\$97,500) (Item #34)
- Coffee Service Elimination (\$1,100) (Item #53)

2. Capital Budget Adjustments

a. Funding reductions

- CP 3438 – Annual Tree Replacement Program (-\$60,000) (Item #C1)
- CP 3416 – General Plan Update (-\$750,000) (Item #C16)

b. Funding Increase

- CP 3435 – Finance System Upgrade (\$100,000) (Item #C4)

c. Reimbursements and Funding Reallocations

- CP 3411 – Sinclair LLMD Improvement 98-1 (\$41,125) (Item #C3)
- CP 2019 – TASP Recycled Water Distribution Reimbursement Correction (-\$599,609) (Item #C6)
- CP 7076 – Well Upgrade Project (-\$1,500,000) (Item #C8)
- CP 7121 – Automated Water Meter Replacement (\$2,600,000) (Item #C12)
- CP 3416 – General Plan Update (-\$750,000) (Item #C16)
- CP 3489 – Establish Public Arts Project (-\$97,000) (Item #C18)

Policy Alternatives:

Alternative 1: Do not approve FY 2020-21 Mid-Year Budget Amendment Recommendations

Pros: None.

Cons: The recommended budget amendment recommendations include adjustments to revenue and expenditure estimates based on current trends.

Reason not recommended: Not approving the FY 2020-21 Mid-Year budget amendment recommendations will require other budget reductions or the use of the Budget Stabilization Reserve.

Alternative 2: Do not approve defunding of 13.75 FTEs

Pros: None.

Cons: The defunding of positions aligns position levels to current operational needs and service levels provided.

Reason not recommended: The defunding of positions is required to rebalance the FY 2020-21 budget and start balancing the next year's deficit of \$7.5 million.

Fiscal Impact:

The recommended budget amendments will rebalance the FY 2020-21 budget without the use of the Budget Stabilization Reserve and establish a FY 2021-22 Future Deficit Reserve of approx. \$1.5 million. The major recommended actions include the repayment of a 2014 General Fund loan to the TASP fund in the amount of \$5.4 million; a reversal of FY 2019-20 General Fund Contribution for Infrastructure Improvements in the amount of \$4 million, which is currently not need due to deferral of infrastructure projects; net decrease expenditures by approx. \$6.2 million through personnel and non-personnel reductions including the defunding of 13.75 permanent FTEs and \$0.7 million in funding for temporary positions.

The ongoing reductions in permanent and temporary positions and the funding of the FY 2021-22 Future Deficit Reserve are the first steps toward balancing the next year's deficit of \$7.5 million.

California Environmental Quality Act:

Not applicable.

Recommendation:

1. Review the FY 2020-21 Quarterly Financial Status Report for the Quarter Ending December 31, 2020;
2. Approve FY 2020-2021 Mid-Year Budget Amendments; and
3. Establish the "Public Art" Capital Improvement Project.

Attachments:

1. FY 2020-2021 Revenue Report for Fiscal Year-To-Date December 31, 2020
2. FY 2020-2021 General Fund Expenditures by Department December 31, 2020
3. FY 2020-2021 Water and Sewer Funds Financial Status for Fiscal Year-To-Date December 31, 2020
4. FY 2020-21 Mid-Year Budget Balancing Detail
5. FY 2020-21 FY 2020-21 Mid-Year Budget Adjustment Recommendations
6. FY 2020-21 Mid-Year Position and Other Personnel Cost Reduction Recommendation