



CITY OF MILPITAS AGENDA REPORT (AR)

Item Title:	Review the FY 2021-22 Quarterly Financial Status Report for the Quarter Ending December 31, 2021
Category:	Consent Calendar-Leadership and Support Services
Meeting Date:	2/15/2022
Staff Contact:	Lauren Lai, Finance Director, 408-586-3111
<u>Recommendation:</u>	Review the FY 2021-22 Quarterly Financial Status Report for the Quarter Ending December 31, 2021

Background:

On June 1, 2021, the City Council approved the Fiscal Year (FY) 2021-22 Adopted Operating Budget in the amount of \$195.2 million and the General Fund Budget in the amount of \$110.8 million. After adoption of the budget, staff monitors revenues and expenditures for all funds with an emphasis on the General Fund and Enterprise Funds.

Analysis:

This staff report provides a quarterly update on budget versus actual revenues and expenditures of the General, Water and Sewer Funds, the City's major operating funds. The summary information below as well as the attachments comprise the FY 2021-22 Quarterly Financial Status Report for the quarter ended December 31, 2021. Major revenue sources and expenditures for these funds are discussed below. The attachments provide a more detailed summary of budget versus actual revenues and expenditures for the second quarter of FY 2021-22 as well as prior year actual for comparison purposes.

General Fund

On June 1, 2021, the City Council approved the Fiscal Year (FY) 2021-22 Adopted Operating General Fund Budget in the amount of \$110.8 million. As of December 31, 2021, the City received \$31.9 million in revenues, or 28.6% of the FY21-22 amended revenue budget and incurred \$60.3 million in expenditures, or 53.2% of the FY21-22 amended operating budget. Revenues and expenditures are seasonal with cash flow fluctuations due to timing of revenue receipts and City services rendered. As such, actual percentage of revenues may not match the lapsed time period of the quarterly report (i.e. 28.6% of revenue versus 50% for 6-month time period).

Revenues

As mentioned above, the six months ending December 31, 2021, the General Fund has received \$31.9 million, or 28.6% of the FY 2021-22 amended revenue budget of \$111.3 million. The amended revenue budget represents \$110.8 million adopted budget and \$0.5 million carryover of grants. Overall, General Fund revenues are 13.3% greater than last year at the same time. The FY 2021-22 adopted budget did assume a higher, recovering revenue, which is discussed further below by major categories.

General Fund Revenues by Categories	Amended Budget	Receipt 12/31/2021	Outstanding	% Receipt	FY21 Receipt 12/31/2020
Property Tax	\$41,269,917	\$ 6,989,282	\$ 34,280,635	16.9%	\$6,889,059
Sales and Use Tax	25,633,000	9,230,978	16,402,022	36.0%	7,616,230
Sales and Use Tax - Measure F	6,308,250	2,004,837	4,303,413	31.8%	0
Licenses, Permits & Fines	10,276,817	4,241,015	6,035,802	41.3%	3,927,972
Transient Occupancy Tax	7,713,639	2,738,832	4,974,807	35.5%	1,641,923
Operating Transfer In	6,552,931	2,096,466	4,456,466	32.0%	2,221,994
Franchise Fees	5,751,133	1,367,806	4,383,327	23.8%	1,309,561
Charges for Services	4,225,969	1,830,627	2,395,342	43.3%	1,693,790
Intergovernmental	1,674,752	422,407	1,252,345	25.2%	1,702,486
Other Taxes	1,023,421	655,847	367,574	64.1%	488,104
Use of Money and Property	500,000	169,461	330,539	33.9%	527,073
Other Revenues	383,000	121,726	261,274	31.8%	118,677
Grand Total	111,312,829	31,869,283	79,443,546	28.6%	28,136,869

- Property Taxes and Redevelopment Property Tax Trust Fund: Most property tax revenue is received in December and April. For the six months ending December 31, 2021, \$7.0 million, or 16.9%, of the \$41.3 million budget has been received. The revenue forecast estimates \$41.3 million in total property tax revenue for the City of Milpitas based on the County of Santa Clara (County) projections. Compared to the County's most recent update on November 5, 2021, the County's property tax projections are net \$1.2 million higher than the adopted budget of \$41.3 million. However, such variance primarily relates to ERAF allocation, which the County cautions in municipal budgeting due to pending litigation.
- Sales & Use Tax: Sales tax is usually collected one quarter in arrears. As of December 31, 2021, the City has received four months of sales tax receipt. Revenues are 21% higher than last year at the same time primarily due to higher consumption and inflation. HdL estimates Sales & Use tax revenue at approximately \$1 million higher than the adopted budget.
- Sales & Use Tax – Measure F: The district tax became operative April 1, 2021 and sunsets in eight years. Sales tax is usually collected one quarter in arrears. As of December 31, 2021, the City has received four months of sales tax receipt. HdL estimates Measure F revenue at approximately \$6.2 million.
- Franchise Fees: Franchise fees are typically received a month in arrears. Sanitation franchise fees attributed to September have not yet been received. Revenues are 4% higher compared to last year at the same time. While the revenue is trending higher than last year, business operations are not yet at pre-pandemic level. Franchise fee revenue is estimated to be approximately \$0.5 million lower than the adopted budget.
- Hotel/Motel (TOT) Tax: Revenues are 67% higher than last year at the same time primarily due to easing of COVID-19 restrictions. However, current projections show the TOT may not reach budgeted assumption of 50% pre-pandemic revenue level, which will be addressed in the recommended Mid-Year budget amendments.
- License and Permits: For the six months ending December 31, 2021, \$4.2 million, or 41.3%, of the \$10.3 million budget has been received. Revenues are 8% higher than last year at the same time.

- Charges for Services: Revenues are 8% higher than last year at the same time, especially in building and planning divisions. COVID-19 restrictions have gradually eased compared to prior year, which suffered shelter-in-place restrictions.
- Use of Money and Property: Revenues are 71% lower than last year at the same time due to lower invested cash balance. Per Council direction, in June 2020, staff transferred \$33.9 million of General Fund CalPERS reserve to establish the Section 115 Pension Trust, which is recorded in an Internal Service Fund.

Expenditures

For the six months ending December 31, 2021, the General Fund has utilized \$60.3 million, or 53.2%, of the FY 21-22 amended operating budget of \$113.3 million. The amended operating budget represents \$110.8 million of the adopted appropriation, \$2.1 million of carryover encumbrances, \$0.4 million carryover grants as well as \$0.03 million of increased department appropriations as approved by Council during the first and second quarter of the fiscal year. As of December 31, 2021, expenditures are trending 3.1% higher than last year primarily due to higher encumbrances of contractual services and utility costs. Staff will continue to monitor expenditures relative to Council authorized appropriations.

Staff would like to highlight the following items that are anomalies and/or current trends.

- The budget assumed utility cost savings related to the construction of three energy saving infrastructure projects. As parts of the construction have been delayed, the energy cost savings will be lower than assumed in the adopted budget. Moreover, water utility costs are also trending 20% higher compared to last year as City resumes more in-office operations.
- Due to vacancies, Police Department expenditure is trending 6% lower compared to last year.
- City Attorney's Office expenditures are 97% of amended budget due to encumbrances of the annual contracts in the first two quarters.

General Fund Expenditures by Departments	Amended Budget	Total YTD Expenditure Including Encumbrance	% of Amended Budget	FY21 YTD Expenditure Including Encumbrance
Building Safety & Housing	\$5,911,424	2,853,963	48.3%	2,960,395
City Attorney	1,029,100	998,216	97.0%	546,926
City Clerk	570,791	266,958	46.8%	295,427
City Council	611,388	195,474	32.0%	212,725
City Manager	2,090,831	951,568	45.5%	1,026,599
Economic Development	937,307	441,095	47.1%	435,154
Engineering	3,747,077	1,728,944	46.1%	1,929,658
Finance	4,269,384	2,483,603	58.2%	2,339,355
Fire	26,656,469	14,906,100	55.9%	14,982,400
Human Resources	1,955,154	1,240,794	63.5%	1,139,623
Information Technology	3,707,302	1,869,706	50.4%	2,039,789
Non-Departmental	8,562,592	5,357,275	62.6%	5,170,072
Planning	2,204,207	1,217,029	55.2%	1,224,837
Police	35,968,197	16,778,362	46.6%	17,723,117
Public Works	9,363,863	6,012,433	64.2%	6,314,980
Recreation & Community Services	5,373,353	2,639,946	49.1%	1,747,745
Transfers Out	340,590	340,590	100.0%	300,000
Grand Total	113,299,029	60,282,055	53.2%	60,388,802

Grants and Donations

In accordance with City Council approved Budget Guidelines, the City Manager has the authority to accept grants and donations up to \$100k or less. Staff is reporting on these accepted grants and donations in the second quarter.

Grants:

1. Office of Traffic Safety Grant for FY21-22 appropriated to Police Department - \$50,000
2. Office of Emergency Services Grant for FY21-22 appropriated to Police Department - \$10,000
3. Walmart Community Grant for FY21-22 appropriated to Police Department - \$2,700

Donations:

1. Holiday Magic Event – City Ventures Homebuilding, LLC for Holiday Magic appropriated to Recreation & Community Services - \$1,000
2. Holiday Magic Event – LPMD Architects for Holiday Magic appropriated to Recreation & Community Services - \$1,000
3. Holiday Magic Event – HMM Engineers for Holiday Magic appropriated to Recreation & Community Services - \$500
4. Holiday Magic Event – Metropolitan Planning Group for Holiday Magic appropriated to Recreation & Community Services - \$500
5. Holiday Magic Event – McManagement Services Inc for Holiday Magic appropriated to Recreation & Community Services - \$1,000
6. Holiday Magic Event – Toll Bros. for Holiday Magic appropriated to Recreation & Community Services - \$1,000
7. Holiday Magic Event – Robson Homes Holiday Magic appropriated to Recreation & Community Services - \$1,000
8. Holiday Magic Event – Milpitas Charity Bingo for Holiday Magic appropriated to Recreation & Community Services - \$5,000
9. Holiday Magic Event – Robert Rowland for Holiday Magic appropriated to Recreation & Community Services - \$500
10. Holiday Magic Event – Elan Preschool for Holiday Magic appropriated to Recreation & Community Services - \$1,000
11. Holiday Magic Event – Scott Burns for Holiday Magic appropriated to Recreation & Community Services - \$500
12. Holiday Magic Event – Bay View Golf Club LLC for Holiday Magic appropriated to Recreation & Community Services - \$2,500
13. Holiday Magic Event – ELT for Holiday Magic appropriated to Recreation & Community Services - \$1,000
14. Holiday Magic Event – Amazon appropriated to Recreation & Community Services - \$25,000

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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 each respective quarter.

Table 1: Unanticipated Expenditure Reserve Uses

Description	Amount
Peckham & McKenney Executive Recruitment	26,000
Weed Abatement	20,016
Better Block	17,577
Additional Cleaning Services and Supplies (COVID Related)	8,057
CA Dept. of Tax and Fee Admin (Measure F State One-Time Cost)	7,812
Legal Services (Best Best and Krieger, COVID Related)	3,099
Emergency Operations Center (EOC, COVID Related)	2,624

Communication and Outreach (COVID Related)	100
TOTAL for the Quarter Ending December 31, 2021	\$ 85,285

Water Maintenance & Operation (M&O) Fund Financial Status

Revenues: For the six months ended December 31, 2021, \$16.3 million of charges for services, or 52.5%, of the \$31.1 million budgeted has been received. Total revenue received amounts to \$16.4 million, or 52.0%, of the \$31.5 million budgeted.

Expenditures: For the six months ended December 31, 2021, \$24.1 million, or 84.3%, of the \$28.6 million amended budgeted has been spent. Wholesale water purchase for the entire fiscal year is encumbered in the first quarter.

Sewer Maintenance & Operation (M&O) Fund Financial Status

Revenues: For the six months ended December 31, 2021, \$10.7 million of charges for services, or 51.7%, of the \$20.7 million budgeted has been received. Total revenue received amounts to \$10.7 million, or 51.1%, of the \$20.9 million budgeted.

Expenditures: For the six months ended December 31, 2021, \$13.5 million, or 77.3%, of the \$17.5 million amended budgeted has been spent.

Policy Alternative:

Alternative 1: Do not review the report.

Pros: There are no pros to not review the report.

Cons: Not reviewing the report may be interpreted that the data is incorrect.

Reason not recommended: Staff is reporting actual unaudited financial data to inform the Council and the public on the City's financial status.

Fiscal Impact:

There is no fiscal impact to receive this informational report. It is intended to provide a financial update of the City's General, Water and Sewer funds for the quarter ended December 31, 2021. No budget amendment is recommended.

California Environmental Quality Act:

The action being considered has no potential for causing a significant effect on the environment and is exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15061 (b)(3).

Recommendation:

Review the FY 2021-22 Quarterly Financial Status Report for the Quarter Ending December 31, 2021

Attachments:

1. FY 2021-22 Revenue Report for Fiscal Year-To-Date December 31, 2021
2. FY 2021-22 General Fund Expenditures by Department December 31, 2021
3. FY 2021-22 Water and Sewer Funds Financial Status for Fiscal Year-To-Date December 31, 2021