



CITY OF MILPITAS AGENDA REPORT (AR)

Item Title:	Open the Public Hearing and Adopt Resolutions to Approve the Fiscal Year 2021-22 Operating Budget for the City of Milpitas and the Milpitas Housing Authority, Approve the Fiscal Year 2021-22 Gann Appropriations Limit, Authorize Various Financial Actions, Fiscal Policies and Budget Guidelines, Amend the Classification Plan for Alignment with the FY 2021-22 Budget, the Minimum Wage Increase, and Salary Schedules Consistent with Previous Council Action
Category:	PUBLIC HEARING Leadership and Support Services
Meeting Date:	6/1/2021
Staff Contact:	Lauren Lai, Director of Finance, 408-586-3111
Recommendations:	<ol style="list-style-type: none"> 1) Open the public hearing and move to close the hearing following any speakers. 2) Adopt the following Resolutions: <ol style="list-style-type: none"> a. Joint Resolution of the City Council and Milpitas Housing Authority to approve the Fiscal Year 2021-22 Operating Budget the City of Milpitas and the Milpitas Housing Authority, approve the Appropriations Limit, Fiscal Policies and Budget Guidelines and authorizing various financial actions by the City Manager, including Approving and Authorizing the Execution of Various Contracts and Payments over \$100,000. b. Amending Resolution No. 1626, the Classification Plan, to authorize additional positions and amend budgeted allocated positions. c. Amending Resolution No. 1626, the Classification Plan, to adjust the hourly rate ranges for classifications due to a minimum wage increase pursuant to Ordinance No. 292. d. Amending Resolution No. 1626, the Classification Plan, to adjust the Salary Schedules for all IAFF, Mid-CON, PROTECH, MEA, Miscellaneous Unrepresented and Fire Unrepresented Classifications.

Background:

This agenda report is supplemental to the FY2021-22 Proposed Operating Budget ([Proposed Budget](#)) and City Manager transmittal letter. It also incorporates the City Council May 11 budget study session ([Agenda Report](#)) and previous Council actions that impact the FY2021-22 budget and provides updates to the fiscal policies and budget guidelines. The American Rescue Plan Act (ARPA) will be discussed as a separate agenda item on June 8, with additional deliberation in August and Fall 2021. Any required budget amendments resulting from these discussions will be brought forward for Council consideration at that time.

On May 11, staff presented the Proposed Budget and the General Fund 10-Year forecast, the final tally of the Open Townhall survey, and the recommended changes to the fiscal policies and budget guidelines. Staff also presented the Council referrals for Main Street revitalization and small business assistance.

A public hearing notice was published related to the adoption of the FY 2021-22 budget and the Gann Appropriations Limit.

Analysis:

This staff reports transmits the [FY 2021-22 Proposed Budget](#), documents Council requested changes to the Proposed Budget, responds to Council referrals from the May 11 FY 2021-22 Operating Budget Study Session and the May 19 Council Meeting, and various resolutions related to budget adoption.

May 11, 2021 FY 2021-22 Proposed Budget Study Session and Other Council Actions that Impact the Proposed Budget

During the May 11 session, Council discussed and approved the Main Street revitalization, budget actions for which are incorporated into the Proposed FY2021-22 General Fund budget, increasing sponsorship and appropriations by \$50,000 respectively and increasing the Public Art Fund and Capital Improvement Project Fund 331 by \$12,500, respectively. Council directed Staff to consider small business assistance via ARPA funding. Also, Council had questions about the Chief Fire Enforcement Officer position. In response to these questions, staff issued an information memorandum on May 21, 2021 (see attached) providing additional information and clarification to information provided at the May 11, 2021 Budget Study Session.

On May 18, Council adopted the resolution of intent to levy the landscaping and lighting maintenance assessment district no. 95-1 (LLMD 95-1 McCarthy Ranch) and the Proposed Budget is updated accordingly.

On May 7, Council conducted a public hearing to discuss allocation amounts for FY21-22 Community Development Block Grant (CDBG) funding and to approve an amendment to the FY20-21 Annual Action Plan. Since the City received FY21-22 formula allocation of \$673,059 and CDBG-CV tranche 3 funding of \$582,236, the FY2021-22 Proposed Budget was adjusted to match the total of \$1,255,295.

Water and Sewer Fund Balances

The Proposed Budget for the Water Fund and Sewer Fund included unassigned fund balances. Subsequent to May 11, Staff segregated these estimated unassigned FY 2021-22 ending fund balances into the various designated fund balances in accordance with Council approved fiscal reserve policies, such as Capital Reserves for Emergencies, Rate Stabilization Reserve, CalPERS Reserve and Infrastructure Repair.

Budget Guidelines

In order to streamline acceptance of donations for this purpose as well as for other programs, as part of the FY 2021-22 Proposed Budget, staff included an amendment to the City's budget guidelines authorizing the City Manager to adjust appropriations for receipt of donations up to \$100,000 under certain conditions. If this budget guideline amendment is approved by the City Council as part of the adoption of the Fiscal Year 2021-22 budget, future acceptance of donations for this program would be handled administratively. However, that revision as summarized on May 11 did not include updating the year-end close and carry-over process, which would further enhance efficiency. The current budget guidelines allow staff to carry forward appropriations from one fiscal year to the next fiscal year related to grant revenues received. Staff seeks Council approval to also apply this concept to donations, thereby updating the budget guidelines section #8 as follows:

“Unspent appropriations that are authorized and funded by grant revenues or donations from the prior fiscal year will automatically be carried over to the current year's budgets. Unspent City funded grant appropriations from prior fiscal year will automatically be carried over to the current year's budgets.”

FY 2021-22 Citywide Budget Summary (All Funds)

The table below includes the Council requested amendments to the FY 2021-22 Proposed Budget which include the one-time funding for Main Street Revitalization activities and adjustment for CDBG funding. The FY 2021-22 Proposed Budget continues to fund the same service level with very minor changes. The FY 2021-22 citywide budget of \$195.2 million has decreased by \$25.1 million, or 11.4 percent, in comparison to the Fiscal

Year 2020-21 Adopted Budget of \$220.3 million. Citywide, funded full-time equivalent (FTE) benefited positions are decreasing by 23.75 positions from 439.25 positions to 415.5 positions, or 5.4 percent.

As shown in Table 1 below, the FY 2021-22 Proposed Budget is balanced with \$195.2 million in revenues (including Transfers In) and \$195.2 million in expenditures (including Transfers Out). The FY 2021-22 revenue across all funds of \$195.2 million is a net decrease of \$25.1 million, or 11.4%, compared to the FY 2020-21 adopted revenue of \$220.3 million. This is primarily due to lower revenues in the General Fund related to the Pandemic.

The FY 2021-22 expenditures across all funds of \$195.2 million is a net decrease of \$25.1 million, or 11.4%, compared to FY 2020-21 adopted expenditures of \$220.3 million. The reductions are primarily in personnel costs and capital improvement contributions due to decreased funding for community improvement projects and bond funded projects, in the amount of \$17 million. As part of the Council approved FY 2020-21 Mid-Year actions, 13.75 positions were defunded. In addition, this proposed budget includes recommendations to defund 8.0 positions, eliminate 3.0 positions and add one position. Detailed descriptions of the Proposed Budget position changes by City Service Area (CSA) are provided in the Proposed Budget. This budget mostly maintains the Council approved service level.

Table 1 – FY 2021-22 Citywide Budget Summary (All Funds)

Citywide Revenues and other Financing Sources

	FY 2020-21 Adopted Budget	FY 2021-22 Proposed Budget	% Change from Prior Year Adopted
General Fund	\$117.1	\$110.8	(5.3)%
Housing Authority	0.7	1.0	42.9%
Other Funds	15.7	16.4	4.5%
Water Fund	40.4	31.5	(22)%
Sewer Fund	26.8	21.8	(18.7)%
Net Operating Funds Total	200.7	172.9	(13.9)%
Capital Projects Funds	19.6	13.7	(30.1)%
Total	\$220.3	\$195.2	(11.4)%

Citywide Expenditures

	FY 2020-21 Adopted Budget	FY 2021-22 Proposed Budget	% Change from Prior Year Adopted
Personnel Services	\$105.6	\$99.5	(5.7) %
Supplies & Contractual Services	57.5	55.8	(3.0)%
Capital Outlay	2.0	1.0	(50.0)%
Operating Transfers Out	11.9	12.1	0.8%
Subtotal	177.0	166.6	(5.9)%
Capital Improvements	39.7	22.3	(43.8)%
Debt Service	3.6	4.5	25.0 %
Total	\$220.3	\$195.2	(11.4)%

FY 2021-22 General Fund Budget

The Proposed Fiscal Year 2021-22 General Fund budget of \$110.8 million is balanced without the use of reserves or ARPA funding. The Fiscal Year 2021-22 General Fund revenues are estimated at \$110.8 million, a decrease of \$6.2 million, or 5.3 percent in comparison to the Fiscal Year 2021-22 General Fund revenue estimate of \$117 million. The decrease in revenue is primarily due to reductions in estimates from Transient Occupancy Tax (\$5.7 million), Sales Tax (\$2.7 million), and charges for services (\$3.6 million) such as fees related to recreation activities offset by Measure F Sales Tax (\$6.3 million) and Property Tax (\$4.4 million).

The Fiscal Year 2021-22 General Fund expenditures of \$110.8 million are \$6.3 million, or 5.4% lower, in comparison to the Fiscal Year 2020-21 General Fund expenditures of \$117 million primarily due to a decrease in salaries and benefits (\$6.1 million) and services and supplies (\$1.0 million). The decrease in salary and benefits is due to four employee groups (IAFF, MPOA, MidCon and Unrep) foregoing 2021 scheduled wage increases (\$2.4 million), the defunding or elimination of 23.75 positions (\$4.6 million) and retiree medical benefits savings (\$2.5 million) offset with increased salary and related benefits for two employee groups that have not agreed to wage concessions (MEA and Protech) of 3 percent effective July 1, 2021 (\$0.4 million) and increased health care costs (\$0.4 million).

Table 2 – Five-Year General Fund Forecast

	FY20-21 Adopted Budget	FY 21-22 Proposed Budget	FY 22-23 Forecast	FY 23-24 Forecast	FY 24-25 Forecast	FY 25-26 Forecast
Revenues	117.05	\$110.80	\$116.45	\$121.57	\$126.54	\$130.68
Expenditures	117.05	(110.80)	(116.12)	(120.17)	(125.11)	(129.23)
Annual Surplus/ (Deficit)	\$0	\$0	\$0.33	\$1.40	\$1.43	\$1.45

COVID Vaccination Improvements and Restrictions Eased

Santa Clara County officials announced the release of a new public health order and transition to Yellow Tier status effective May 19, 2021. Dr. Sarah Cody briefed the press on a reduced case rate 1/3 of the rate one month ago and a positivity rate of 0.5%. In combination with 75% first dose vaccinations and close to 60% fully vaccinated has qualified for a tier transition.

The Public Health Officer rescinded the October 6 public health order and issued a new order that was effective May 19. The rescinding order now eliminates the social distance guidelines and plan requirements, removes remote work mandate, and refers to Cal Osha standards and California Department of Public Health (CDPH) current standards. This will allow more mobility and businesses to resume.

Budget and Other Resolutions

The FY 2021-22 Budget and related recommendations are approved by various resolutions as discussed below.

Budget Adoption Joint Resolution

With the adoption of the attached Joint Resolution of the City Council and Milpitas Housing Authority, the City Council approves the Fiscal Year 2021-22 Operating Budget for the City of Milpitas and the Milpitas Housing Authority as amended in this staff report per previous Council direction. Further, through the joint resolution, the Council also approves the Gann Appropriations Limit, fiscal policies and authorizes various financial actions, including the authority to award certain contracts with amounts above \$100,000, the City Manager may take during FY 2021-22. The staff report for the May 11, 2021 budget study session (see attached) details the fiscal policy and budget guideline and City Manager authority recommendations.

An attachment to the joint budget resolution identifies a list of contracts with an estimated not-to-exceed amount above the City Manager’s contract approval authority of \$100,000 as well as annual payments in excess of \$100,000 for insurance and utilities. Funding for these contracts has been incorporated into the proposed budget and/or the approved five year CIP. As part of the adoption of this budget, staff is seeking authority to award these contracts and make certain payments. The list includes annual routine contracts (e.g.: annual Operations and Maintenance for digital radio system with the Silicon Valley Regional Interoperability Authority), contracts with specific funding items related to this budget (e.g.: Valley Water wholesale water purchase), and contracts related to capital improvement projects.

The Gann Appropriations Limit – Article XIII B of the California State Constitution, more commonly referred to as the Gann Initiative or Gann Appropriations Limit, was approved by California voters in November 1979 and placed limits on the amount of proceeds of taxes that state and local governmental agencies can receive and spend each year. If an agency receives more revenue than the Appropriations Limit, the excess revenue must be returned to the taxpayers through a tax reduction or refund within the next two years. Alternatively, the agency can increase its Appropriations Limit through voters' approval.

Based on the attached analysis, using the population and per capita personal income change factors provided by the State of California, the City's Appropriations Limit for FY2021-22 has been computed to be \$119,175,291. Appropriations subject to the limitation in FY2021-22 budget total \$82,333,227 that is \$36,842,064 less than the computed limit. The City has not exceeded its annual Appropriations Limit in any single fiscal year since this requirement was approved by the voters in 1979.

Personnel Related Resolutions

Based on the FY 2021-22 Proposed Budget as amended in this staff report based on Council direction, staff is bringing forward several personnel related resolutions to amend the classification plan for all employees as it relates to authorized positions, changes to hourly rate ranges for certain classifications due to an increase in the City's minimum wage, and salary schedule amendments based on previous Council direction consistent with MOUs for the various bargaining groups.

Authorized positions – This resolution aligns the number of positions on the Authorized Position List and amends specific budgeted allocated positions consistent with the FY 2021-22 Proposed Budget as amended in this staff report by adding one (1) additional budgeted FTE, deleting / eliminating 3 budgeted FTEs, defunding 21.75 budgeted FTEs, reallocating 2 budgeted FTEs, transferring ½ (0.5) budgeted FTE, and amending titles for 4 budgeted FTEs to reflect the position responsibilities.

Minimum Wage Adjustments – This resolution adjusts the hourly rate ranges upwards of 7 classifications with the bottom of the hourly range set at the new minimum wage of \$15.65 per hour. Consistent with the City Council approved ordinance, the minimum wage is scheduled to increase by \$0.25 from \$15.40 to \$15.65 by July 4, 2021 based on the February 2021 annual CPI increase for the San Francisco, Oakland, San Jose Metropolitan Statistical Area.

Salary Schedules for Council Approved Wage Increases – This resolution is required per the California Code of Regulations § 570.5. Per State law, the City is required to bring all pay schedules before the governing board for review and approval. The updated salary schedules reflect a contractual 3% wage increase effective July 4, 2021 for employees represented by the Municipal Employee Association (MEA) and Professional and Technical Group (PROTECH). International Association of Firefighters (IAFF), Mid-Management and Confidential Unit (MidCON) negotiated with the City to forego the 2021 scheduled salary increase. The City Council approved the elimination of the July 4 scheduled wage increase for Unrepresented Miscellaneous group, the Unrepresented Fire group, and Unrepresented Management Employees in December 2020.

Fiscal Impact:

The FY 2021-22 Budget for City of Milpitas and the Milpitas Housing Authority, upon adoption, for all funds including debt service, will be \$195,169,140.

Recommendations:

- 1) Open the public hearing and move to close the hearing following any speakers.
- 2) Adopt the following Resolutions:
 - a. Joint Resolution of the City Council and Milpitas Housing Authority to approve the Fiscal Year 2021-22 Operating Budget the City of Milpitas and the Milpitas Housing Authority, approve the Appropriations Limit, Fiscal Policies and Budget Guidelines and authorizing various financial actions

by the City Manager, including Approving and Authorizing the Execution of Various Contracts and Payments over \$100,000.

- b. Amending Resolution No. 1626, the Classification Plan, to authorize additional positions and amend budgeted allocated positions.
- c. Amending Resolution No. 1626, the Classification Plan, to adjust the hourly rate ranges for classifications due to a minimum wage increase pursuant to Ordinance No. 292.
- d. Amending Resolution No. 1626, the Classification Plan, to adjust the Salary Schedules for all IAFF, Mid-CON, PROTECH, MEA, Miscellaneous Unrepresented and Fire Unrepresented Classifications.

Attachments:

1. City of Milpitas Resolutions:
 - a. Joint Resolution to approve the Fiscal Year 2021-22 Operating Budget for the City of Milpitas and the Milpitas Housing Authority, approve the Appropriations Limit, and authorize various financial actions by the City Manager, including Approval of Contracts and Payments over \$100,000.
 - b. Amend the Classification Plan to adjust the number of positions on the Authorized Position List, amend specific budgeted, allocated positions and establish classification title changes.
 - c. Amend the Classification Plan to amend the hourly rate and ranges for classifications due to a minimum wage increase pursuant to the minimum wage ordinance.
 - d. Amend the Classification Plan to adjust the Salary Schedules for all IAFF, Mid-Management Confidential, PROTECH, Miscellaneous Unrepresented and Fire Unrepresented Classifications.
2. Location of the [Fiscal 2021-22 Proposed Budget](#) and May 11, 2021 [Staff Report](#)
3. May 21, 2021 Information Memorandum “Additional Information – Proposed Fire Prevention Reorganization and Elimination of the Chief Fire Enforcement Officer Position”