



## CITY OF MILPITAS AGENDA REPORT (AR)

<b>Item Title:</b>	<b>Review the FY 2019-20 Quarterly Financial Status Report for the Quarter Ending September 30, 2019</b>
<b>Category:</b>	Consent Calendar-Leadership and Support Services
<b>Meeting Date:</b>	11/19/2019
<b>Staff Contact:</b>	Walter C. Rossmann, Finance Director, 408-586-3111
<b>Recommendation:</b>	Review the FY 2019-20 Quarterly Financial Status Report for the Quarter Ending September 30, 2019

### **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.

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 September 30, 2019.

On October 25, staff sent a draft version of this report to the Finance Subcommittee for review and let the Subcommittee know that the final version of the report will be agendaized on the consent calendar for the Nov. 19, 2019 City Council meeting.

### **Analysis:**

The summary information below as well as the attachments comprise the FY 2019-20 Quarterly Financial Status Report for the Quarter ending September 30, 2019 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 first quarter of FY 2019-20 as well as prior year actual expenditures and revenues for the first quarter of FY 2018-19 for comparison purposes.

### **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 one-time 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**

For the three months ending September 30, 2019, the General Fund has received \$10.4 million, or 8.8%, of the FY 19-20 amended operating budget of \$118.8 million. The amended budget is comprised of \$118.8 million of the adopted budget and a budget amendment of \$34,200. An update on major revenue sources is provided below.

- Property Taxes and Redevelopment Property Tax Trust Fund: For the three months ending September 30, 2019, \$76,000, or 0.3%, of the \$34.8 million budget has been received. Most property tax revenue is received in the second half of the fiscal year, so it is normal to see low revenues for the first quarter. Revenues are 18% less than last year at the same time which is due to receiving less Supplemental Taxes in the current year as projected by the County and included in the City's revenue estimate for the current year. Current revenue projections from the County of Santa Clara estimate \$35.5 million in total revenue for the City, which would be \$0.7 million, or 2%, above budgeted revenues.
- Sales & Use Tax: For the three months ending September 30, 2019, \$2.2 million, or 8.2%, of the \$27.2 million budget has been received. Revenues are 48% 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. Staff will monitor this revenue source and may bring adjustments to the budgeted estimates as part of the mid-year budget review.
- Franchise Fees: For the three months ending September 30, 2019, \$0.5 million, or 10.8%, of the \$4.9 million budget has been received. Revenues are 128% higher than last year at the same time which is due to the timing of payments received.
- Hotel/Motel (TOT) Tax: For the three months ending September 30, 2019, \$2.4 million, or 12.5%, of the \$19.6 million budget has been received. Revenues are 25% 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 slightly below budgeted estimates due to a reduction of activity at hotels. Staff will monitor this revenue source and may bring adjustments to the budgeted estimates as part of the mid-year budget review.
- License and Permits: For the three months ending September 30, 2019, \$1.6 million, or 11.0%, of the \$15.2 million budget has been received. Revenues are 52% less than last year at the same time which is due to the receipt of payment in September of last year for a building permit related to a large development. Staff will monitor this revenue source and may bring adjustments to the budgeted estimates as part of the mid-year budget review.
- Charges for Services: For the three months ending September 30, 2019, \$1.5 million, or 22.2%, of the \$7.3 million budget has been received. Revenues are 8% higher than last year due to increased Planning revenue as well as an increase of reimbursements for overhead and labor associated with billable staff time. Revenue received for the first quarter, as projected, is on track to meet the budgeted estimate.

### Expenditures

For the three months ending September 30, 2019, the General Fund has utilized \$39.2 million, or 31.6%, of the FY 19-20 amended operating budget of \$124.4 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 150,000 of increased department appropriations as approved by Council during the first quarter of the fiscal year. At the end of the first quarter, total expenditures plus encumbrances are above the par of 25% by 6.6 percentage points, or \$8.1 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), the Equipment Fund for information technology equipment replacement (\$300,000), and the Council approved Utility Rate Assistance Program (\$100,000). Regardless, staff will monitor expenditures to ensure that departments will not exceed their appropriations.

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

Revenues: For the three months ending September 30, 2019, \$9.5 million of charges for services, or 28.3%, of the \$33.6 million budgeted has been received. Total revenue received amounts to \$9.6 million, or 27.9%, of the \$34.3 million budgeted.

Expenditures: For the three months ending September 30, 2019, \$6.7 million, or 23.0%, of the \$29.2 million amended budgeted has been spent.

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

Revenues: For the three months ending September 30, 2019, \$4.6 million of charges for services, or 24.3%, of the \$19.1 million budgeted has been received. Total revenue received amounts to \$4.7 million, or 23.7%, of the \$19.7 million budgeted.

Expenditures: For the three months ending September 30, 2019, \$3.8 million, or 25.5%, of the \$14.8 million amended budgeted has been spent.

### **Fiscal Impact:**

There is no fiscal impact from this report; it is intended to provide an update of the City's financials comparing budget versus actual expenditures and revenues for the first quarter of FY 2019-20 as well as comparing prior year actual expenditures and revenues for the first quarter of FY 2019-20.

### **California Environmental Quality Act:**

N/a

### **Recommendation:**

Review the FY 2019-20 Quarterly Financial Status Report for the Quarter Ending September 30, 2019

### **Attachments:**

1. FY 2019-2020 Revenue Report for Fiscal Year-To-Date September 30, 2019
2. FY 2019-2020 General Fund Expenditures by Department September 30, 2019
3. FY 2019-2020 Water and Sewer Funds Financial Status for Fiscal Year-To-Date September 30, 2019