



## CITY OF MILPITAS AGENDA REPORT (AR)

<b>Item Title:</b>	Report on the City of Milpitas' Third Quarter and Fourth Quarter Financial Status
<b>Category:</b>	Consent Calendar-Leadership and Support Services
<b>Meeting Date:</b>	10/1/2019
<b>Staff Contact:</b>	Walter C. Rossmann, 408-586-3111
<b>Recommendation:</b>	Review a Report on the City of Milpitas' Third Quarter and Fourth Quarter Financial Status

### **Background:**

This staff report provides an update on budget versus actual expenditures and revenues status of the City's major operating funds including the General, Water and Sewer Funds based on unaudited financial reports for FY (fiscal year) 2018-19 as of March 31, 2019 and June 30, 2019. Due to limited staff resources and turnover in Finance staff, the third quarter financials report is presented with the fourth quarter financials report. The Audited financials for Fiscal Year 2018-19 will be presented to the City Council in December 2019.

### **Analysis:**

#### ***Revenues - General Fund Financial Status***

- **Property Taxes and RPTTE:** For the twelve months ended June 30, 2019, \$33.8 million, or 101.5% of the \$33.3 million amended budget, has been received. For the nine months ended March 31, 2019, \$18.3 million, or 55% of the \$33.3 million amended budget, was received. Due to timing of property tax revenue receipts, the nine months ended March 31, 2019 did not include a few large tax payments received in the fourth quarter that amounted to \$14.8 million. The FY 18-19 property tax estimates were revised upward \$1.9 million from the FY 18-19 original projection of \$31.4 million in February 2019 as part of the Report on the Updated Five-Year Projection and General Fund Reserves for Fiscal Year Ended June 30, 2019. The projection was updated based on estimates from the City's contracted property tax consultant, which were in line with the County of Santa Clara's Assessor's Office February 2019 estimates which factored in property tax corrections and activity through December 2018.
- **Sales & Use Tax:** For the twelve months ended June 30, 2019, \$28.9 million, or 102% of the \$28.3 million amended budget, has been received. For the nine months ended March 31, 2019, \$18.2 million, or 64% of the \$28.3 million amended budget, was received. Actual revenues received were more than the amended budget due to an accounting change of the California Department of Tax and Fee Administration's (CDTFA) in the quarterly sales tax allocation to the City as well as one-time payments amounting to approximately \$2 million related to FY 2017-18 due to technical difficulties experienced at the CDTFA paid in the first two quarters of FY 2018-19. In February 2019, the FY 18-19 sales tax estimates were revised downward by \$1.9 million from the December 2018 initial estimate of \$30.2 million as part of the Report on the Updated Five-Year Projection and General Fund Reserves for Fiscal Year Ended June 30, 2019. The revised amount of \$28.3 million was kept relatively flat to the original FY 18-19 projection of \$28.5 million based on data from the City's

contracted sales tax consultant that reflected significant declines in third quarter activity from a few of the City's business to business sales tax generators for office equipment.

- **Franchise Fees:** For the twelve months ended June 30, 2019, \$5.1 million, or 107.7% of the \$4.8 million amended budget, has been received. For the nine months ended March 31, 2019, \$2.4 million, or 49.4% of the \$4.8 million amended budget, was received. Due to the timing of Franchise Fee receipts for the electric and gas franchise fees, \$1.5 million was received in April 2019, in addition to the May and June receipts that essentially included one more month of receipts for the last quarter in comparison to the third quarter. The FY 2018-19 adopted Franchise Fees was increased 18.8% over FY 2017-18 budgeted revenues, primarily due anticipated new residential units, and the related increase in franchise taxes collected from utilities as they were becoming occupied.
- **Hotel/Motel (TOT) Tax:** For the twelve months ended June 30, 2019, \$14.5 million, or 93.6% of the \$15.5 million amended budget, has been received. For the nine months ended March 31, 2019, \$8.0 million, or 51.7% of the \$15.5 million amended budget, was received. In February 2019, the FY 18-19 TOT tax estimate was revised upward \$2.8 million from the FY 18-19 original projection of \$12.7 million during February 2019 as part of the Report on the Updated Five-Year Projection and General Fund Reserves for Fiscal Year Ended June 30, 2019. This revised estimate was due to the increase in the TOT rate of 14% (from 10%) that was effective January 2019, and based upon actual trends and analysis performed against TOT estimates from a contracted consultant.
- **License and Permits:** For the twelve months ended June 30, 2019, \$11.4 million, or 91.7% of the \$12.5 million amended budget, has been received. For the nine months ended March 31, 2019, \$10.8 million, or 86.3% of the \$12.5 million amended budget, was received. The FY 18-19 Licenses and Permits revenue estimate was revised upward a total of \$2.7 million from the FY 18-19 original projection of \$9.8 million during December 2018 (remained the same in the February 2019 update) as part of the Reports on the Updated Five-Year Projection and General Fund Reserves for Fiscal Year Ended June 30, 2019. This was primarily due to the a one-time adjustment for the accounting treatment of deferred revenues and additional resources that were added to the Building and Housing Department's budget in addressing the backlog of work in FY 2018-19.
- **Charges for Services:** For the twelve months ended June 30, 2019, \$7.0 million, or 103.5% of the \$6.8 million amended budget, has been received. For the nine months ended March 31, 2019, \$5.0 million, or 75.1% of the \$6.8 million amended budget, was received. The FY 18-19 Charges for Services estimate was revised downward \$0.7 million from the FY 18-19 original projection of \$7.5 million during February 2019 as part of the Report on the Updated Five-Year Projection and General Fund Reserves for Fiscal Year Ended June 30, 2019. This was due to reimbursements for overhead and labor associated with billable staff time that have decreased in the last two years. However, FY 18-19 actual reimbursements were approximately flat to FY 17-18 reimbursements and there was not as much of a decrease as expected. Additionally, higher than estimated revenues were collected for recreation, fire, and police services in FY 18-19 as compared to FY 17-18.

#### ***Revenues - Water Maintenance & Operation (M&O) Funds Financial Status***

- **Charges for Services:** For the twelve months ended June 30, 2019, \$29.3 million, or 96.4% of the \$30.4 million budget, has been received. For the nine months ended March 31, 2019, \$22.8 million, or 75.0% of the \$30.4 million budget, was received. This was due to an increase of the budget from FY 17-18 in anticipation of scheduled rate increases assumed for the entire fiscal year, but which did not become effective until June 2019.

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

- **Charges for Services:** For the twelve months ended June 30, 2019, \$17.5 million, or 104.3% of the \$16.8 million budget, has been received. For the nine months ended March 31, 2019, \$13.0 million, or

77.1% of the \$16.8 million budget, was received. This was primarily driven by volume, as the City collected new revenue for a few large multifamily residential developments in FY 18-19.

### ***Expenditures - General Fund Financial Status***

For the twelve months ended June 30, 2019, the General Fund has utilized \$96.0 million, or 91.0%, of the FY 18-19 department expenditure amended budget of \$105.9 million. Additionally, \$10.0 million, or 100%, of the amended transfers out budget of \$10.0 million has been expended. Total General Fund expenditures and transfers out were \$106.0 million, or 91.5%, of the \$115.9 million amended budget for the twelve months ended June 30, 2019. For the nine months ended March 31, 2019, the General Fund utilized \$74.9 million, or 71.0%, of the FY 18-19 amended department expenditure budget of \$105.4 million. Additionally, \$9.1 million, or 100%, of the amended transfers out budget of \$9.1 was expended. Total General Fund expenditures and transfers out were \$84.0 million, or 73.3%, of the \$114.5 million amended budget for the nine months ended March 31, 2019. The savings across departments is primarily due to position vacancies throughout the year. Through June 30, 2019, there was a monthly average of 47.6 vacant full-time equivalent (FTE) positions, or 11.7%, of the 406.5 FY 18-19 amended budgeted FTEs.

### ***General Fund Year-End Summary***

For the twelve months ended June 30, 2019, total General Fund revenues and transfers in were \$111.7 million, or 101.4% of the amended budget of \$110.2 million. For the twelve months ended June 30, 2019, total General Fund expenditures and transfers out were \$106.0 million, or 91.5%, of the FY 18-19 amended budget of \$115.9 million. As noted above, revenues were better than expected primarily due to the continued strong housing market and new developments, the change in accounting of the California Department of Tax and Fee Administration's (CDTFA) in the quarterly sales tax allocation to the City, one-time payments amounting to approximately \$2 million related to FY 2017-18 due to technical difficulties experienced at the CDTFA paid in the first two quarters of FY 2018-19, and investment earnings. Expenditures savings were primarily due to position vacancies throughout the year.

### **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 third and fourth quarters for FY 2018-19. Staff will return to Council in December 2019 with final audited financials for Fiscal Year 2018-19.

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

N/a

### **Recommendation:**

Review a Report on the City of Milpitas' Third Quarter and Fourth Quarter Financial Status

### **Attachments:**

1. General Fund Expenditures by Department – March 31, 2019 (2019Q3)
2. General Fund Expenditures by Department – June 30, 2019 (2019Q4)
3. FY 2018-2019 Revenue Report For Fiscal Year-To-Date March 31, 2019
4. FY 2018-2019 Revenue Report For Fiscal Year-To-Date June 30, 2019