



CITY OF MOUNTAIN VIEW

MEMORANDUM

Finance and Administrative Services Department

DATE: December 8, 2020

TO: Honorable City Council

FROM: Rafaela O. Duran, Principal Financial Analyst
Suzanne Niederhofer, Assistant Finance and Administrative
Services Director
Jesse Takahashi, Finance and Administrative Services Director

VIA: Kimbra McCarthy, City Manager

SUBJECT: **Analysis of Fiscal Year 2019-20 Audited Financial Results for the General Operating Fund and General Fund Available Balance**

PURPOSE

To provide an analysis of Fiscal Year 2019-20 audited financial results for the General Operating Fund (GOF) and General Fund available balance (including one-time revenues and expenditure savings).

BACKGROUND

Final audited numbers have been used for the purposes of this report. Some amounts will not match the Comprehensive Annual Financial Report (CAFR) as certain revenue and expenditure reclassifications have been made for financial statement reporting purposes. In addition, the CAFR groups all General Fund revenues and expenditures together, including reserves. The City defines "operating" as the recurring revenues and expenditures supporting ongoing City services. These classification differences do not affect the evaluation of the GOF's financial position. For purposes of this analysis, one-time General Fund revenues and expenditures have been reclassified to conform to the City's definition of operating and are presented separately.

ANALYSIS

Fiscal Year 2019-20 GOF Audited Financial Results

The GOF accounts for recurring unrestricted revenues and general operating expenditures. It is a subset of, and distinguished from, the General Fund, which accounts for total unrestricted revenues and total General Fund expenditures, including reserves and nonrecurring revenues and expenditures in nonoperating accounts.

The Fiscal Year 2018-19 Audited and Fiscal Year 2019-20 Adopted Budget, Adjusted Budget, and Audited results for the GOF are as follows (dollars in thousands):

	<u>2018-19 Audited</u>	<u>2019-20 Adopted Budget</u>	<u>2019-20 Adjusted Budget⁽¹⁾</u>	<u>2019-20 Audited</u>	<u>Variance of Audited to Adjusted</u>
Revenues	\$146,010	148,324	150,172	142,667	(7,505)
Expenditures ⁽²⁾	(137,279)	(145,415)	(146,744)	(136,911)	9,833
Rebudgets ⁽³⁾	<u>(962)</u>	<u>-0-</u>	<u>2,501</u>	<u>(1,229)</u>	<u>(3,730)</u>
Operating Balance	<u>\$ 7,769</u>	<u>2,909</u>	<u>5,929</u>	<u>4,527</u>	<u>(1,402)</u>

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- (1) The Adjusted Budget includes the Adopted Budget and encumbrance carryovers from prior fiscal years, increases for reimbursed expenditures, grants and donations, and any budget adjustments approved during the fiscal year.
- (2) Expenditures for Fiscal Year 2018-19 include \$6.5 million transfer to the General Non-Operating Fund for the new Sustainability CIP, \$4.0 million toward the CalPERS liability, \$2.0 million transfer to the Capital Improvement Reserve, \$2.0 million transfer to the Transportation Reserve, \$1.0 million transfer to the General Fund Reserve, and \$1.0 million towards the OPEB liability. Adopted Expenditures for Fiscal Year 2019-20 include \$1.0 million transfer to the General Non-Operating Fund for the Sustainability CIP, \$4.0 million toward the CalPERS liability, \$2.0 million transfer to the General Fund Reserve, and \$3.0 million transfer to the Capital Improvement Reserve. The Adjusted and Actual Expenditures exclude the \$3.0 million transfer to the Capital Improvement Reserve as approved by City Council. Amounts are net of budget savings of \$2.3 million for both Fiscal Years 2018-19 and 2019-20.
- (3) Rebudgets include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

The Fiscal Year 2019-20 total audited revenues are \$7.5 million (5.0 percent) below the Adjusted Budget, \$5.7 million (3.8 percent) below the Adopted Budget, and \$3.3 million (2.3 percent) lower than the Fiscal Year 2018-19 total audited revenues. The Fiscal Year

2019-20 total audited expenditures are \$9.8 million (6.7 percent) below the Adjusted Budget, \$8.5 million (5.8 percent) below the Adopted Budget, and essentially the same as the Fiscal Year 2018-19 total audited expenditures.

Since the Countywide Shelter-In-Place order that began on March 17, 2020, in response to the COVID-19 pandemic, the City's revenues have been negatively impacted from these restrictions. Although some of the restrictions have been eased, the current and future economic impacts continue to remain uncertain. The significant loss of revenue in Fiscal Year 2019-20, however, was offset by expenditure savings and reductions to certain discretionary reserve transfers. Consequently, the GOF ended the fiscal year with a positive balance.

A discussion of variances by revenue and expenditure categories follows.

Revenues

The Fiscal Year 2018-19 Audited and Fiscal Year 2019-20 Adopted Budget, Adjusted Budget, and Audited results for GOF revenues are as follows (dollars in thousands):

	<u>2018-19</u> <u>Audited</u>	<u>2019-20</u> <u>Adopted</u> <u>Budget</u>	<u>2019-20</u> <u>Adjusted</u> <u>Budget</u>	<u>2019-20</u> <u>Audited</u>	<u>Variance</u> <u>of Audited</u> <u>to Adjusted</u>
Operating Revenues:					
Property Taxes	\$ 51,451	57,091	57,091	54,839	(2,252)
Sales Tax	24,390	21,433	21,433	19,452	(1,981)
Other Local Taxes	15,131	18,771	18,771	15,880	(2,891)
Use of Money and Property	22,316	22,657	22,657	22,345	(312)
Licenses, Permits and Franchise Fees/ Fines and Forfeitures	6,448	6,420	6,420	6,364	(56)
Intergovernmental	728	522	573	795	222
Charges for Services	2,963	3,081	3,081	2,094	(987)
Miscellaneous Revenues	4,817	1,989	2,811	3,273	462
Interfund Revenue and Transfers	<u>17,766</u>	<u>16,360</u>	<u>17,335</u>	<u>17,625</u>	<u>290</u>
 Total Operating Revenues	 <u>\$146,010</u>	 <u>148,324</u>	 <u>150,172</u>	 <u>142,667</u>	 <u>(7,505)</u>

A summary of revenues by category follows:

- The July 1, 2019 City (GOF) property tax roll included growth for both secured and unsecured assessed values (AV) (including recaptured Proposition 8 value and roll reductions from resolved appeals), resulting in an 8.6 percent increase compared to the prior year tax roll. Property tax revenues totaling \$54.8 million are \$2.3 million (3.9 percent) below budget and \$3.4 million (6.6 percent) higher than the Fiscal Year 2018-19 Audited. The variance between budget and actual is primarily due to the over projection of secured property taxes.
- Sales tax revenues are \$2.0 million (9.2 percent) below budget, entirely related to the impact of COVID-19, and \$4.9 million (20.2 percent) lower than the Fiscal Year 2018-19 Audited. However, the implementation of a new system in the spring of 2018 by the California Department of Tax and Fee Administration (CDTFA) resulted in the delay of sales tax remittances to agencies, and approximately \$1.6 million received in Fiscal Year 2018-19 was identified as late payment for Fiscal Year 2017-18. After excluding the late payments, Fiscal Year 2019-20 sales tax is \$3.3 million (14.8 percent) lower than the adjusted actual Fiscal Year 2018-19 sales tax of \$22.8 million.
- Other Local Taxes are \$2.9 million (15.4 percent) below budget, primarily related to the impact of COVID-19 on Transient Occupancy Tax (TOT) revenue, and \$749,000 (5.0 percent) higher than the Fiscal Year 2018-19 Audited. The comparison to Fiscal Year 2018-19 Audited is primarily the net difference of \$1.5 million lower TOT revenues related to the impact of COVID-19 offset by \$2.2 million more Business License Tax revenue resulting from the first year of the restructured Business License Tax being phased in over three years. Utility Users Tax revenues are \$136,000 (1.8 percent) more than budget and essentially the same as Fiscal Year 2018-19 Audited.
- Use of Money and Property revenues, including both Investment Earnings and Rents and Leases, are \$312,000 (1.4 percent) below budget and essentially the same as the Fiscal Year 2018-19 Audited. Investment Earnings are \$459,000 (15.7 percent) and \$502,000 (17.5 percent) higher than budget and Fiscal Year 2018-19 Audited, respectively. Although the Federal Open Market Committee (FOMC) reduced the benchmark interest rate a total of 225 basis points during Fiscal Year 2019-20, the portfolio is still benefiting from higher yielding investments made in prior fiscal years and a larger total portfolio. Rents and Leases revenues are \$771,000 (3.9 percent) and \$474,000 (2.4 percent) below budget and Fiscal Year 2018-19 Audited, respectively. This is primarily due to rent deferrals and waivers related to COVID-19. Included in Rents and Leases revenues is approximately \$1.4 million revenue

generated from the Ameswell development. Revenue generated from the Ameswell development is earmarked for debt service related to the Police/Fire Administration Building remodel and expansion estimated to begin in Fiscal Year 2022-23. Until that time, these revenues are transferred to the Budget Contingency Reserve to be utilized for funding of limited-period items.

- Licenses, Permits, and Franchise Fees/Fines and Forfeitures are overall net \$84,000 (1.3 percent) below the Fiscal Year 2018-19 Audited and essentially the same as budgeted.
- Intergovernmental Revenues are \$222,000 (38.7 percent) and \$67,000 (9.2 percent) above budget and the Fiscal Year 2018-19 Audited, respectively. The variance to budget is primarily due to grants and reimbursements that are received but not budgeted and an increase in motor vehicle in-lieu fees collected; the variance to prior fiscal year audited is primarily due to reassigning an Officer to the Regional Auto Theft Task Force for which the City receives reimbursement from the Santa Clara County Specialized Enforcement Team Task Force.
- Charges for Services are \$987,000 (32.0 percent) and \$869,000 (29.3 percent) below budget and the Fiscal Year 2018-19 Audited, respectively. Revenues in this category are mainly derived from City Recreation programs and miscellaneous other services. The variance is primarily related to lower Recreation and Center for the Performing Arts revenue due to the impact of COVID-19. Other miscellaneous service charge revenue is essentially the same as the Fiscal Year 2018-19 Audited and \$169,000 (14.3 percent) below budget, primarily from lower than expected short-term rental registrations.
- Miscellaneous Revenues are \$462,000 (16.4 percent) above budget, primarily resulting from one-time donations and reimbursements that are not included in the Adopted Budget. The City budgets various donations and reimbursements only if they are ongoing in nature. A significant portion of the reimbursements were a result of strike team services rendered for wildfires throughout the State. Compared to Fiscal Year 2018-19 Audited, Miscellaneous Revenues are \$1.5 million (32.1 percent) lower, primarily as a result of less reimbursements received in Fiscal Year 2019-20 from strike team and Shoreline Amphitheatre events.
- Interfund Revenues and Transfers are \$290,000 (1.7 percent) above budget, primarily as a result of higher Capital Improvement Projects (CIP) administrative overhead. The Fiscal Year 2019-20 revenues are essentially the same as the Fiscal Year 2018-19 Audited.

Expenditures

The Fiscal Year 2018-19 Audited and Fiscal Year 2019-20 Adopted Budget, Adjusted Budget, and Audited results for GOF expenditures are as follows (dollars in thousands):

	<u>2018-19 Audited</u>	<u>2019-20 Adopted Budget</u>	<u>2019-20 Adjusted Budget</u>	<u>2019-20 Audited</u>	<u>Variance of Audited to Adjusted</u>
Operating Expenditures:					
Salaries and Benefits:					
Salaries and All Pays	\$ 62,949	67,699	67,437	64,899	\$2,538
Retirement	16,723	22,134	22,133	20,247	1,886
Health Benefits	8,675	10,887	10,887	8,963	1,924
All Other Benefits	<u>6,547</u>	<u>7,408</u>	<u>7,408</u>	<u>7,076</u>	<u>332</u>
	94,894	108,128	107,865	101,185	6,680
Supplies and Services	17,128	18,552	22,435	17,611	4,824
Capital Outlay/ Equipment Replacement	3,086	2,772	3,297	2,797	500
Interfund Expenditures and Transfers	5,671	8,263	8,447	8,318	129
Budget Savings	Included	(2,300)	(2,300)	Included	(2,300)
Transfer to GNOF	6,500 ⁽¹⁾	1,000 ⁽¹⁾	1,000 ⁽¹⁾	1,000 ⁽¹⁾	-0-
Transfer to GF Reserve	1,000	2,000	2,000	2,000	-0-
Transfer to Trans Res	2,000	-0-	-0-	-0-	-0-
Transfer to Cap Imp Res	2,000	3,000	-0-	-0-	-0-
CalPERS Contribution	4,000	4,000	4,000	4,000	-0-
OPEB Contribution	<u>1,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Operating Expenditures	<u>\$137,279</u>	<u>145,415</u>	<u>146,744</u>	<u>136,911</u>	<u>\$9,833</u>

⁽¹⁾ The City Council approved \$6.5 million from Fiscal Year 2018-19 and \$1.0 million from Fiscal Year 2019-20 to fund the Sustainability CIP.

A summary of expenditures by category follows:

- During Fiscal Year 2019-20, more positions were vacated than filled due, in part, to a slowdown in recruitment and onboarding as the COVID-19 closures began. Also, over one-third of the vacancies were filled through promotions, creating additional vacancies. Despite recruitment efforts, there were still many unfilled positions resulting in a \$6.7 million (6.2 percent) favorable variance in Salaries and Benefits

compared to Adjusted and \$6.9 million (6.4 percent) compared to Adopted. This is higher savings than the last five fiscal years average of \$5.6 million.

- Historically, the GOF typically realizes savings in Supplies and Services. For Fiscal Year 2019-20, there were savings of \$4.8 million (21.5 percent) compared to Adjusted and \$941,000 (5.1 percent) compared to Adopted. However, of this amount, encumbrances totaling \$3.1 million were identified to be carried over into Fiscal Year 2020-21. Including these encumbrances, the variance to Adjusted Budget would be reduced to \$1.7 million or 7.6 percent.
- The GOF's \$2.2 million contribution to the Equipment Replacement Reserve occurred as budgeted. The remaining capital outlay has a favorable variance of \$500,000 (47.6 percent) compared to budget; \$399,000 of this has been encumbered to be expended in Fiscal Year 2020-21.

The budget savings of \$2.3 million takes into consideration the anticipated savings in expenditure accounts. The Fiscal Year 2019-20 Audited amounts indicated in the table do not include a total of \$3.5 million of encumbrances outstanding as of the end of the fiscal year. In accordance with the City Charter, appropriations for lawful encumbrances remaining at the end of each fiscal year are reappropriated in the following fiscal year.

Expenditures by Department

A summary of the GOF audited expenditures compared to Adjusted Budget by department are as follows (dollars in thousands):

	2019-20 Adjusted Budget	2019-20 Audited	Encumbrances	Variance of Audited Plus Encumbrances to Adjusted	% Savings from Adjusted Budget
Department:					
City Council	\$ 428	304	-0-	124	29.0%
City Clerk	857	796	4	57	6.7%
City Attorney	2,499	2,036	69	394	15.8%
City Manager	5,514	4,549	256	709	12.9%
Information					
Technology	5,703	5,460	158	85	1.5%
Finance and					
Administrative					
Services	7,531	6,389	425	717	9.5%
Community					
Development	2,102	1,723	236	143	6.8%
Public Works	12,239	10,122	1,058	1,059	8.7%
Community Services	18,110	15,802	590	1,718	9.5%
Library Services	6,813	5,890	22	901	13.2%
Fire	26,039	25,712	124	203	0.8%
Police	43,283	40,386	567	2,330	5.4%
Nondepartmental ⁽¹⁾	10,926	10,742	-0-	184	1.7%
Transfer to GNOF	1,000	1,000	-0-	-0-	0.0%
Transfer to GF Res	2,000	2,000	-0-	-0-	0.0%
CalPERS					
Contribution	4,000	4,000	-0-	-0-	0.0%
Budget Savings	<u>(2,300)</u>	<u>Included</u>	<u>-0-</u>	<u>(2,300)</u>	100.0%
Total Operating					
Expenditures	<u>\$146,744</u>	<u>136,911</u>	<u>3,509</u>	<u>6,324</u>	4.3%

(1) Nondepartmental expenditures include Interfund Transfers for equipment replacement and Interfund Expenditures and Transfers.

All departments ended the 2019-20 fiscal year with expenditures below the Adjusted Budget.

Fiscal Year 2019-20 GOF Balance Available

As previously discussed, the City’s GOF ended the 2019-20 fiscal year with a positive operating balance of \$4.5 million. The table below details the General Fund balance, including one-time revenues and expenditure savings, budgeted transfers, and limited-period expenditure allocations (dollars in thousands):

GOF Balance	\$ 4,527
Remaining Available Balance from Prior Fiscal Years	6,296
Mid-Year Allocations Approved by City Council	(1,941)
One-Time Revenues and Expenditure Savings:	
Property Taxes – Excess ERAF	4,707
Unspent Limited-Period Expenditures	905
Miscellaneous Revenues	386
Child-Care Center Rent	<u>201</u>
Subtotal	<u>15,081</u>
Allocations in the Fiscal Year 2020-21 Adopted Budget:	
Limited-Period Expenditures	(3,869)
Compensated Absences Reserve	(1,300)
General Fund Reserve	<u>(600)</u>
Subtotal of Allocations	<u>(5,769)</u>
Remaining Unallocated Balance Available	<u>\$ 9,312</u>

Including the GOF balance, the remaining balance available from prior fiscal years less mid-year allocations approved by City Council, one-time revenues, and expenditure savings, there was a total of \$15.1 million available for allocation through Fiscal Year 2019-20.

Allocations in the Fiscal Year 2020-21 Adopted Budget include new limited-period expenditures of \$3.9 million, \$1.3 million to the Compensated Absences Reserve, and \$600,000 to the General Fund Reserve. This results in a **remaining unallocated balance of \$9.3 million**. Staff will return to Council with a recommendation and seek direction for the use of these funds with the Midyear Budget Status Report in February 2021.

CONCLUSION

Total Fiscal Year 2019-20 GOF revenues are \$142.7 million, \$7.5 million (5.0 percent) below the Adjusted Budget and \$5.7 million (3.8 percent) below the Adopted Budget. Total Fiscal Year 2019-20 GOF expenditures are \$136.9 million, \$9.8 million (6.7 percent) below the Adjusted Budget and \$8.5 million (5.8 percent) below the Adopted Budget. This does not include the \$3.5 million in encumbrances outstanding at the end of Fiscal Year 2019-20. The GOF ended Fiscal Year 2019-20 with a positive operating balance of \$4.5 million, which provided funding for Fiscal Year 2020-21 limited-period expenditures and transfers to reserves. The remaining unallocated balance is \$9.3 million.

An updated estimate of the City's financial position for Fiscal Year 2020-21 and preliminary projections for Fiscal Year 2021-22 will be presented to Council in February 2021 with the Midyear Budget Status Report.

ROD- SN-JT/HH/1/FIN
572-12-08-20M