



CITY OF MOUNTAIN VIEW

MEMORANDUM

Finance and Administrative Services Department

DATE: December 7, 2021

TO: Honorable City Council

FROM: Grace Zheng, Assistant Finance and Administrative
Services Director
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 2020-21 Audited Financial Results for the General
Operating Fund and General Fund Available Balance**

PURPOSE

To provide an analysis of Fiscal Year 2020-21 audited financial results for the General Operating Fund (GOF) and General Fund available balance (including one-time revenues and expenditure savings).

BACKGROUND

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.

This memorandum provides an analysis of the financial GOF financial results for Fiscal Year 2020-21 using final audited numbers. Some amounts will not match the Annual Comprehensive Financial Report (ACFR) as certain revenue and expenditure reclassifications have been made for financial statement reporting purposes. In addition, the ACFR 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 the 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 2020-21 GOF Audited Financial Results

The Fiscal Year 2019-20 Audited and Fiscal Year 2020-21 Adopted Budget, Adjusted Budget, and Audited results for the GOF are as follows (dollars in thousands):

	2019-20 <u>Audited</u>	2020-21 <u>Adopted Budget</u>	2020-21 <u>Adjusted Budget⁽¹⁾</u>	<u>2020-21 Audited</u>	Variance of Audited to Adjusted
Revenues	\$142,667	144,162	146,531	143,706	(2,825)
Expenditures ⁽²⁾	(136,911)	(144,021)	(149,801)	(136,811)	12,990
Excess ERAF ⁽³⁾	-0-	-0-	-0-	6,841	6,841
Rebudgets ⁽⁴⁾	<u>(1,229)</u>	<u>-0-</u>	<u>4,113</u>	<u>(5,235)</u>	<u>(9,348)</u>
Operating Balance	\$ <u>4,527</u>	<u>141</u>	<u>843</u>	<u>8,501</u>	<u>7,658</u>

(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 2019-20 include a \$1.0 million transfer to the General Non-Operating Fund for the Sustainability CIP, \$4.0 million toward the CalPERS liability, and a \$2.0 million transfer to the General Fund Reserve. Amounts are net of budget savings of \$4.0 million for both Fiscal Years 2019-20 and 2020-21.

(3) Revenue for Fiscal Year 2020-21 includes \$6.8 million Property Tax – Excess ERAF (Education Revenue Augmentation Fund) in order to ensure the budget was balanced. This revenue is considered one-time in nature and was recorded in the General Non-Operating Fund as one-time revenue in prior fiscal years.

(4) Rebudgets include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

The Fiscal Year 2020-21 total audited revenues are \$2.8 million (1.9%) below the Adjusted Budget and slightly higher than the Adopted Budget and Fiscal Year 2019-20 Audited. The Fiscal Year 2020-21 total audited expenditures are \$13.0 million (8.7%) below the

Adjusted Budget, \$7.2 million (5.0%) below the Adopted Budget, and essentially the same as the Fiscal Year 2019-20 total Audited expenditures.

The Countywide Shelter-In-Place order that began on March 17, 2020 in response to the COVID-19 pandemic continued to negatively impact the City's revenues. Most notable is the loss of Transient Occupancy Tax (TOT) revenue, \$5.1 million lower in Fiscal Year 2020-21 compared to Fiscal Year 2018-19, the last full year prior to the pandemic. Sales Tax and Service Charge revenues were also hit hard with the closure of some stores, the Center for the Performing Arts closed, and Recreation classes, camps, and rentals canceled. Despite the revenue losses, the City's GOF was able to remain balanced, primarily due to expenditure savings. In addition, as recommended to the City Council on April 27, 2021, the Excess Education Revenue Augmentation Fund (ERAF) funds, normally considered a limited-period revenue source, are being utilized in Fiscal Years 2020-21 and 2021-22 to smooth the impacts of lost revenue and ensure the GOF remains balanced. Consequently, \$6.8 million in ERAF funds contributed to the GOF Operating Balance of \$8.5 million. Excluding this limited-period funding source, the GOF would have a balance of \$1.7 million. As will be noted near the end of this report, this funding was critical to enable funding \$13 million in important allocations in the Fiscal Year 2021-22 Budget.

A discussion of variances by revenue and expenditure categories follows.

Revenues

The Fiscal Year 2019-20 Audited and Fiscal Year 2020-21 Adopted Budget, Adjusted Budget, and Audited results for GOF revenues are as follows (dollars in thousands):

	2019-20 <u>Audited</u>	2020-21 Adopted <u>Budget</u>	2020-21 Adjusted <u>Budget</u>	2020-21 <u>Audited</u>	Variance of Audited to Adjusted
Operating Revenues:					
Property Taxes	\$ 54,839	57,207	57,207	59,783	2,576
Sales Tax	19,452	19,604	19,604	18,058	(1,546)
Other Local Taxes	15,880	17,237	17,237	13,717	(3,520)
Use of Money and Property	22,345	22,571	22,571	22,195	(376)
Licenses, Permits, and Franchise Fees/ Fines and Forfeitures	6,364	6,232	6,232	5,677	(555)
Intergovernmental	795	702	702	782	80
Charges for Services	2,094	2,315	2,315	1,941	(374)
Miscellaneous Revenues	3,273	1,872	4,052	4,358	306
Interfund Revenue and Transfers	<u>17,625</u>	<u>16,422</u>	<u>16,611</u>	<u>17,195</u>	<u>584</u>
Total Operating Revenues	<u>\$142,667</u>	<u>144,162</u>	<u>146,531</u>	<u>143,706</u>	<u>(2,825)</u>

A summary of revenues by category follows:

- The July 1, 2020 City GOF property tax roll saw increased secured and decreased unsecured assessed values (AV) (including recaptured Proposition 8 value and roll reductions from resolved appeals), resulting in a net 8.7% increase compared to the prior year tax roll. Property tax revenues totaling \$59.8 million are \$2.6 million (4.5%) higher than budget and \$4.9 million (9.0%) more than the Fiscal Year 2019-20 Audited. The variance between budget and actual is primarily due to the higher than budgeted supplemental, property tax in lieu of Vehicle License Fees (VLF) and unsecured property tax revenue.
- Sales tax revenues are \$1.5 million (7.9%) below budget and \$1.4 million (7.2%) lower than the Fiscal Year 2019-20 Audited. This includes \$1.3 million of additional sales tax the City received for the second quarter of 2020, which was not recognized at 2019-20 fiscal year-end. After adjusting to exclude the unanticipated prior fiscal

year additional taxes, the adjusted Audited is \$16.8 million, \$2.8 million (14.2%) below budget. The decrease is primary due to the continued impact of COVID-19.

- Other Local Taxes are \$3.5 million (20.4%) below budget, primarily related to the impact of COVID-19 on TOT revenue, and \$2.2 million (13.6%) lower than the Fiscal Year 2019-20 Audited. The comparison to Fiscal Year 2019-20 Audited is primarily the net difference of \$3.7 million lower TOT revenues related to the impact of COVID-19 offset by \$1.7 million more Business License Tax revenue resulting from the second year of the restructured Business License Tax being phased in over three years.
- Use of Money and Property revenues, including both Investment Earnings and Rents and Leases, are \$376,000 (1.7%) below budget and essentially the same as the Fiscal Year 2019-20 Audited. Investment Earnings are \$460,000 (13.6%) lower than the Fiscal Year 2019-20 Audited and essentially the same as budgeted. The Federal Open Market Committee (FOMC) reduced the benchmark interest rate five times, a total of 225 basis points, during Fiscal Year 2019-20. This negatively impacted the City's interest earnings. Rents and Leases revenues are \$397,000 (2.0%) below budget and \$310,000 (1.6%) more than Fiscal Year 2019-20 Audited. This is primarily due to standard annual rent adjustments per lease agreements offset by 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 \$555,000 (8.9%) below budget and \$687,000 (10.8%) lower than the Fiscal Year 2019-20 Audited primarily due to decreased franchise fee and parking violation revenues.
- Intergovernmental Revenues are \$80,000 (11.4%) higher than budget, and \$13,000 (1.6%) lower than Fiscal Year 2019-20 Audited. The variance to budget is primarily due to grants and reimbursements that are received but not budgeted; the variance to the prior fiscal year Audited is primarily due to a reduction in County reimbursements received.
- Charges for Services are \$374,000 (16.2%) and \$153,000 (7.3%) below budget and the Fiscal Year 2019-20 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, Center for the Performing Arts revenue, and Short-Term Rental registrations due to the impact of COVID-19.

- Miscellaneous Revenues are \$306,000 (7.6%) 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 was a result of strike team services rendered for wildfires throughout the State. Compared to Fiscal Year 2019-20 Audited, Miscellaneous Revenues are \$1.1 million (33.2%) higher, primarily as a result of additional reimbursements received in Fiscal Year 2020-21 from strike team reimbursements.
- Interfund Revenues and Transfers are \$584,000 (3.5%) above budget, primarily as a result of higher Capital Improvement Projects (CIP) administrative overhead. The Fiscal Year 2020-21 revenues are \$430,000 (2.4%) lower than Fiscal Year 2019-20 Audited primarily due to lower transfers from General Fund Reserves.

Expenditures

The Fiscal Year 2019-20 Audited and Fiscal Year 2020-21 Adopted Budget, Adjusted Budget, and Audited results for GOF expenditures are as follows (dollars in thousands):

	<u>2019-20 Audited</u>	<u>2020-21 Adopted Budget</u>	<u>2020-21 Adjusted Budget</u>	<u>2020-21 Audited</u>	<u>Variance of Audited to Adjusted</u>
Operating Expenditures:					
Salaries and Benefits:					
Salaries and All Pays	\$ 64,899	71,000	72,879	68,292	4,587
Retirement	20,247	24,668	24,668	21,672	2,996
Health Benefits	8,963	11,213	11,213	9,090	2,123
All Other Benefits	<u>7,076</u>	<u>7,416</u>	<u>7,416</u>	<u>6,875</u>	<u>541</u>
	101,185	114,297	116,176	105,929	10,247
Supplies and Services					
Capital Outlay/	17,611	19,575	23,020	17,753	5,267
Equipment Replacement	2,797	2,820	3,276	2,899	377
Interfund Expenditures					
and Transfers	8,318	10,329	10,329	10,230	99
Debt Service	-0-	1,000	1,000	-0-	1,000
Budget Savings	Included	(4,000)	(4,000)	Included	(4,000)
Transfer to GNOF	1,000 ⁽¹⁾	-0-	-0-	-0-	-0-
Transfer to GF Reserve	2,000	-0-	-0-	-0-	-0-
CalPERS Contribution	<u>4,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Operating Expenditures	<u>\$136,911</u>	<u>144,021</u>	<u>149,801</u>	<u>136,811</u>	<u>12,990</u>

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

A summary of expenditures by category follows:

- During Fiscal Year 2020-21, 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 \$10.2 million (8.8%) favorable variance in Salaries and Benefits compared to Adjusted and \$8.4 million (7.3%) compared to Adopted. This variance is higher than normal due, in large part, to the impacts of the pandemic.

- Historically, the GOF typically realizes savings in Supplies and Services. For Fiscal Year 2020-21, there were savings of \$5.3 million (22.9%) compared to Adjusted and \$1.8 million (9.3%) compared to Adopted. However, of this amount, encumbrances totaling \$2.3 million were identified to be carried over into Fiscal Year 2021-22. Including these encumbrances, the variance to Adjusted Budget would be reduced to \$3.0 million or 12.7%.
- The GOF's \$2.4 million contribution to the Equipment Replacement Reserve occurred as budgeted. The remaining capital outlay has a favorable variance of \$377,000 (41.7%) compared to budget; \$290,000 of this has been encumbered to be expended in Fiscal Year 2021-22.

The budget savings of \$4.0 million takes into consideration the anticipated savings in expenditure accounts. The Fiscal Year 2020-21 Audited amounts indicated in the table do not include a total of \$2.6 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):

	2020-21 Adjusted <u>Budget</u>	2020-21 <u>Audited</u>	<u>Encumbrances</u>	Variance of Audited Plus Encumbrances <u>to Adjusted</u>	% Savings from Adjusted <u>Budget</u>
Department:					
City Council	\$ 385	226	-0-	159	41.3%
City Clerk	783	680	-0-	103	13.2%
City Attorney	2,465	2,092	75	298	12.1%
City Manager	6,664	5,698	285	681	10.2%
Information Technology	5,985	5,438	263	284	4.7%
Finance and Administrative Services	7,949	6,380	355	1,214	15.3%
Community Development	2,074	1,647	146	281	13.5%
Public Works	12,815	11,210	499	1,106	8.6%
Community Services	18,739	15,212	306	3,221	17.2%
Library Services	7,050	5,395	43	1,612	22.9%
Fire	29,416	29,208	135	73	0.2%
Police	45,452	40,741	519	4,192	9.2%
Nondepartmental ⁽¹⁾	14,024	12,884	-0-	1,140	8.1%
Budget Savings	<u>(4,000)</u>	<u>Included</u>	<u>-0-</u>	<u>(4,000)</u>	100.0%
Total Operating Expenditures	<u>\$149,801</u>	<u>136,811</u>	<u>2,626</u>	<u>10,364</u>	6.9%

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

All departments ended the 2020-21 fiscal year with expenditures below the Adjusted Budget.

Fiscal Year 2020-21 GOF Balance Available

As previously discussed, the City's GOF ended the 2020-21 fiscal year with a positive operating balance of \$8.5 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 from Fiscal Year 2020-21	\$ 8,501
Remaining Available Balance from Prior Fiscal Years	9,312
Midyear Allocations Approved by City Council	(1,647)
One-Time Revenues and Expenditure Savings:	
Property Taxes – Excess ERAF	-0- ⁽¹⁾
Unspent Limited-Period Expenditures	1,334
Miscellaneous Revenues	307
Child-Care Center Rent	<u>201</u>
Subtotal	<u>\$18,008</u>
Allocations in the Fiscal Year 2021-22 Adopted Budget:	
Limited-Period Expenditures	(3,962)
Compensated Absences Reserve	(2,734)
CIP Reserve	(2,000)
Strategic Property Acquisition Reserve	(2,000)
General Fund Reserve	(1,300)
Payment to CalPERS	(1,000)
Subtotal of Allocations	<u>(12,996)</u>
Remaining Unallocated Balance Available	<u>\$ 5,012</u>

⁽¹⁾ Property Taxes – Excess ERAF was recorded in the General Operating Fund in the Fiscal Year 2020-21.

Including the GOF balance, the remaining balance available from prior fiscal years less midyear allocations approved by the City Council, one-time revenues, and expenditure savings, there was a total of \$18.0 million available for allocation through Fiscal Year 2020-21.

Allocations in the Fiscal Year 2021-22 Adopted Budget include new limited-period expenditures of \$4.0 million; transfers of \$2.7 million to the Compensated Absences Reserve, \$2.0 million to the CIP Reserve, \$2.0 million to the Strategic Property Acquisition Reserve, and \$1.3 million to the General Fund Reserve; and an additional payment of \$1.0 million towards the City's retirement obligation. This results in a **remaining unallocated balance of \$5.0 million as of June 30, 2021.**

CONCLUSION

Total Fiscal Year 2020-21 GOF revenues are \$143.7 million (excluding Excess ERAF), \$2.8 million (1.9%) below the Adjusted Budget and essentially the same as the Adopted Budget. Total Fiscal Year 2020-21 GOF expenditures are \$136.8 million, \$13.0 million (8.7%) below the Adjusted Budget and \$7.2 million (5.0%) below the Adopted Budget. This does not include the \$2.6 million in encumbrances outstanding at the end of Fiscal Year 2020-21. The GOF ended Fiscal Year 2020-21 with a positive operating balance \$1.7 million and including Excess ERAF funds amounts to \$8.5 million, which provided critical funding for Fiscal Year 2021-22 limited-period expenditures and transfers to reserves. The remaining unallocated balance is \$5.0 million.

An updated estimate of the City's financial position for Fiscal Year 2021-22 and preliminary projections for Fiscal Year 2022-23 will be presented to Council in February 2022 with the Midyear Budget Status Report.

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