



## **STAFF REPORT TO THE CITY COUNCIL**

**DATE:** Meeting of February 25, 2020

**TO:** Members of the City Council

**SUBMITTED BY:** David Biggs, City Manager  
Edwin Gato, Director of Finance

**SUBJECT:** FY 2019-20 Mid-Year Budget Review and Miscellaneous Mid-Year  
Budget Appropriations and Adjustments

### **RECOMMENDED ACTION:**

Receive a report on the FY 2019-20 mid-year budget review and adopt a resolution approving various mid-year budget appropriations and adjustments.

### **FINANCE COMMISSION AND RECOMMENDATION:**

The mid-year review was presented to the Finance Commission on their special meeting on February 19, 2020. Any Commission comments will be provided to the City Council at the meeting.

### **FISCAL IMPACT OF RECOMMENDATION:**

The following table summarizes the impact to the General Fund and other funds based on what is known at Mid-Year. It is important to point out these amounts are estimates only, the economic picture is subject to change.

	<b><u>Proposed Budget Adjustments</u></b>
<b><u>General Fund Impact</u></b>	
Adjustment to the Beginning Available Fund Balance	\$ 1,088,593
General Tax Revenue (UUT)	\$ (200,000)
Program Revenues (Police & Community Development)	\$ 11,000
City Council (Lobbyist)	\$ (50,000)
Police (Training, Overhire and Recruitment Incentive)	\$ (175,000)
Communnity Development (Intern)	\$ (15,000)
Total, General Fund Impact	<u>\$ 659,593</u>
<b><u>Other Funds</u></b>	
Asset Forfeiture Fund #101	\$ (15,000)
2002-2 Hercules Village LLAD #222	\$ (40,000)
Total, Other Funds	<u>\$ (55,000)</u>
<b>Total, Citywide</b>	<b><u><u>\$ 604,593</u></u></b>

## BACKGROUND:

This report updates the Fiscal Year 2019-20 financial projections for the General Fund and proposes current year budget amendments for various City funds to reflect and respond to the City's current financial condition. Also, this report provides the City Council with updates on the financial status of the City's funds by comparing budget projections for revenues and expenditures to actual receipts and expenses as of December 31, 2019.

The discussion below is presented in the following sections:

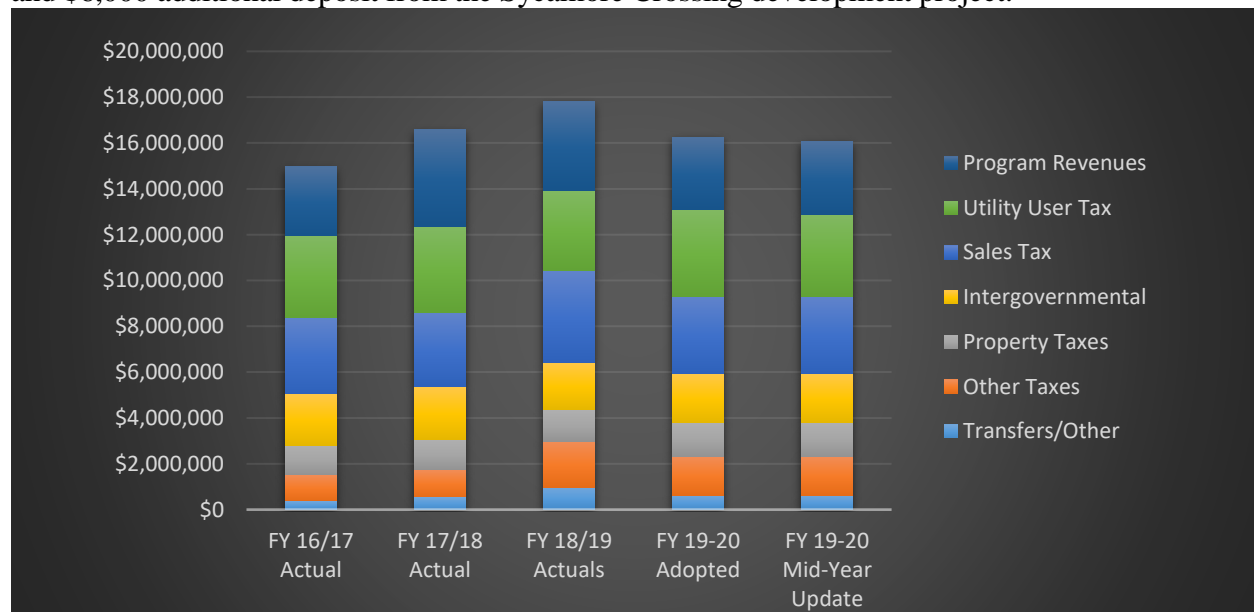
- General Fund Revenues
- General Fund Expenditures
- General Fund Annual Activity
- Non-General Fund Programs

## DISCUSSION:

The City Council adopted the FY 2019-20 budget on June 25, 2019. Since adoption, the budget has been selectively amended for specific programs, primarily for capital project activity. At this time, staff recommends approving changes and amendments to the FY 2019-20 Budget based upon year-to-date activity and updated revenue projections.

### General Fund Revenues

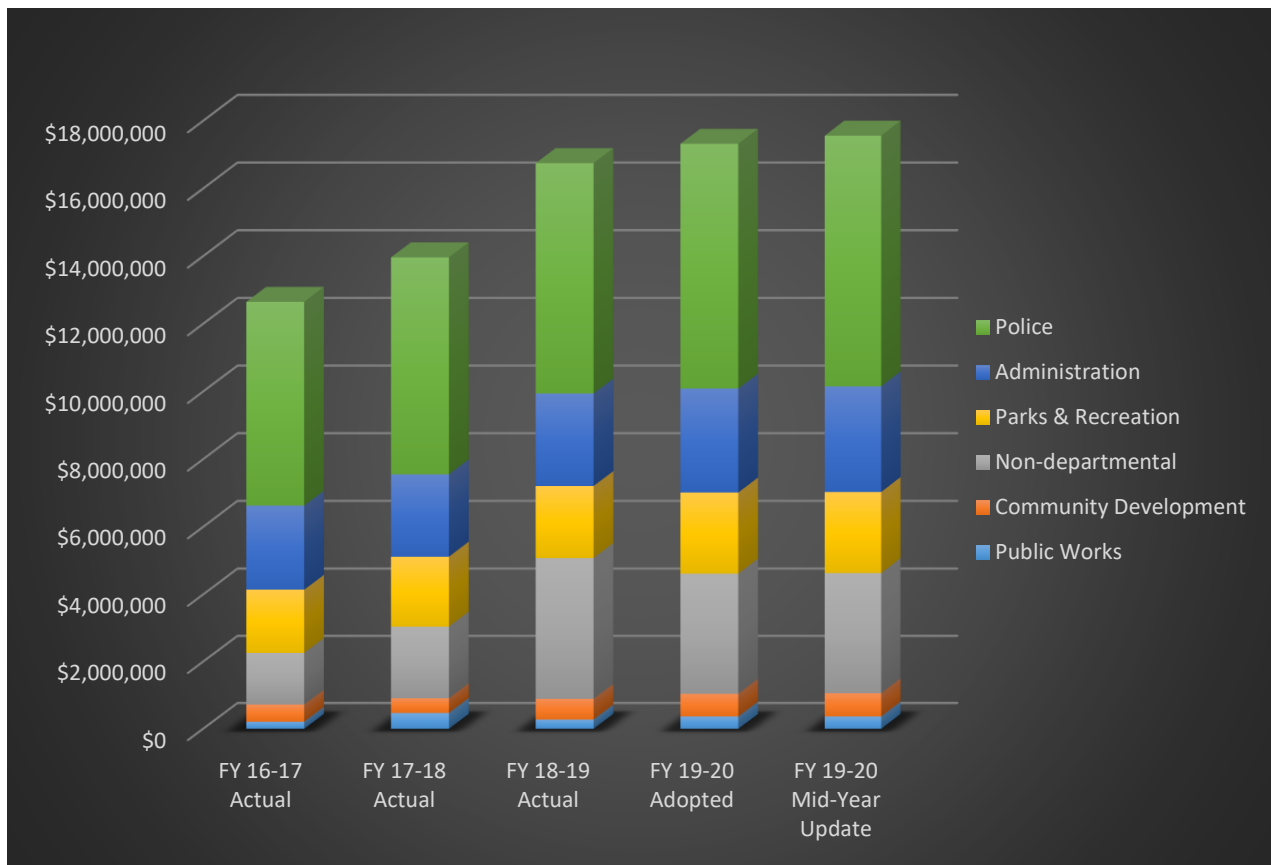
As of December 31, 2019, the General Fund revenues were \$6 million or 37% of the FY 2019-20 budget. Revenues from business licenses, franchise fees, vehicle license fees, and other taxes are received either bi-annually or towards the end of the fiscal year, which accounts for why revenues are below 50% at mid-year. As shown in the following graph and as detailed in Exhibit 3, General Fund revenues in FY 2019-20 are projected to decrease slightly by \$189,000 and updated to \$16 million in total by the end of the fiscal year. The decrease is due primarily to Utility User's Tax (UUT) revenue by \$200,000 as a result of the update on Wireless Telecom's respective allocations of the major providers of their bundled packages, which consist of voice, text, and data. These updated allocations have shifted a more significant percentage towards text and data, which is not taxable under the UUT. This is offset with additional revenue from Police Officers Standards and Training (POST) for \$5,000 and \$6,000 additional deposit from the Sycamore Crossing development project.



The chart above summarizes the General Fund major revenue categories. The City derives a significant portion of its General Fund revenues from economically sensitive sources such as property taxes, sales taxes (1% Bradley-Burns), utility users' taxes, and vehicle license fees. If one or more of these key revenue sources deviate significantly from projections, funding for future programs and services could be affected. Although a significant portion of this revenue comes from program revenues, this program revenues are applied toward a specific fee program and can only be used for this program.

### General Fund Expenditures

A summary and year-to-date status of General Fund expenditures are presented in Attachment 4 and as shown in the following graph. Operating expenses in total, both by category and by department, are on target or below approximately 50% of the annual budget through the six-month December fiscal period.



Typically, the mid-year budget review and adjustments recommended are to make corrections to adopted budget and to address required modifications. New initiatives or programs are not often contemplated.

Operating expenditure budget amendments are proposed to reflect the following adjustments consistent with the above:

- City Council - \$50,000  
Budget increase is proposed to fund lobbyist contract to assist the City in the effort to resolve former Redevelopment Agency dissolution issues.

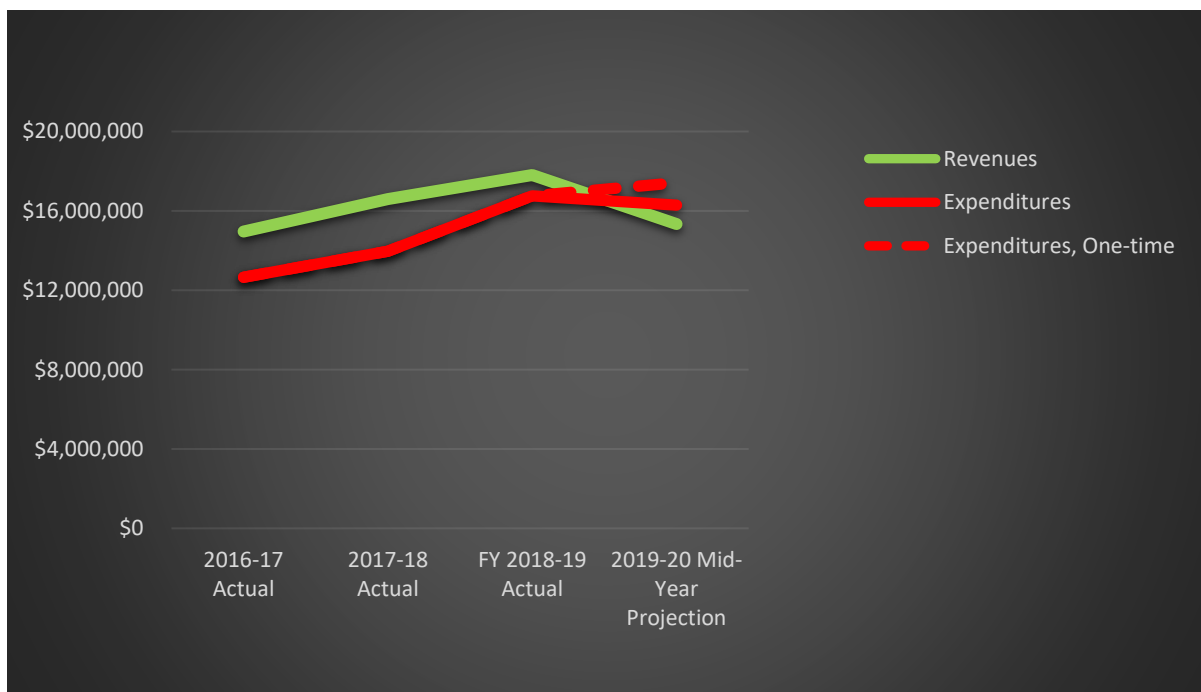
- Community Development - \$15,000  
Budget correction to reflect the salary increase for the internship program. This was inadvertently omitted during the adoption of the FY 19-20 Budget.
- Police - \$5,000  
To increase the training budget funded by POST reimbursements (\$5,000)

This year, there are two additional changes proposed in the Police Department budget to address greater number upcoming retirements than previously anticipated and difficulties in recruiting to fill vacancies, which we see as perhaps increasing as many agencies are now offering recruitment bonuses which may lure our officers away.

- Police - \$170,000  
Budget increase is proposed to fund the police over hire program (\$130,000) which is currently for 2 officers to be a total of 6 over hires and a pilot recruitment incentive program (\$40,000) which is in formulation.

#### General Fund Annual Activity

The proposed FY 2019-20 budget amendments, as shown in Attachment 4, will decrease General Fund revenue by approximately \$189,000, and will increase operating expenditures by \$240,000. The following graph depicts General Fund revenue and expenditure trends, including updated FY 2019-20 revenue and expenditure projections. FY 19-20 is projected to end the year with a deficit. However, there is sufficient money in the General Fund balance from prior year to close the gap this year.



### Non-General Fund Programs

These funds are driven by grants or other specific funding sources and are used for specific purposes, such as transportation, gas tax, Measure C “Street Fund,” etc. Such funding sources are restricted in nature, which requires revenues and expenditures to be tracked differently from the City’s primary operating fund, the General Fund. There is sufficient funding for the completion of current projects or programs, and also to fund the proposed mid-year adjustments as outlined in attachment 2.

### **BUDGET APPROPRIATIONS**

Staff is recommending that the Council adopt the following FY19-20 budget amendments in attachment 3.

### **ATTACHMENTS:**

1. Budget Resolution
2. Decision Package Status Update
3. Proposed Budget Amendment
4. General Fund Summary
5. Updated General Fund Budget Balancing Spreadsheet
6. FY 18-19 Available Fund Balance Calculation

**Description: FY 2019-20 mid-year budget review and forecast and appropriation requests**

**Funding Source:** General Fund

**Budget Recap:**

Total Estimated cost:	\$454,930	New Revenue:	\$1,259,523
Amount Budgeted:	\$	Lost Revenue:	\$200,000
New funding required:	\$	New Personnel:	\$
Council Policy Change:	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		