

## STAFF REPORT

**DATE:** April 20, 2021

**TO:** City Council

**FROM:** Elena Adair, Finance Director  
Matthew Nerland, Accountant I

**SUBJECT:** FY 2020/21 Second Quarter Budget Update, Mid-Year Budget Amendment and Consideration of Subcommittee Appointments

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### **Recommendation**

- 1) Accept the second quarter report as informational. This report reflects revenue and expenditure results through the second quarter of Fiscal Year (FY) 2020/21; and
- 2) Approve a Resolution (Attachment 4) amending the FY 2020/21 Budget; and
- 3) Consider appointing a City Council subcommittee to work with Finance and Budget Commission to serve in an oversight capacity of the City's Proposed Biennial Budget.
- 4) Consider appointing a City Council subcommittee to work with staff to develop guidelines and parameters for allocating the federal American Rescue Plan Act funds that will come directly to the City of Davis.

### **Executive Summary**

This informational item presents revenue and expenditure results for the first six months of FY 2020/21. The General Fund (001) revenue ended the quarter at \$31.4 million or 49% of the \$64.2 million Adjusted Budget and expenditures ended at \$26.9 million or 40% of the \$67.3 million Adjusted Budget. The projected General Fund ending available fund balance is 13.2%, which is lower than the 15% as set by the City Council policy. However, it is within a small margin of maintaining available fund balance as approved by the City Council at the time the Budget was adopted in June 2020.

Expenditures by department are tracking at 50% or below with no notable items to report. The City Attorney's department is the only department over 50%, but that is due to a timing delay in allocation of charges to the appropriate programs in the City.

Overall, most of other funds are tracking as anticipated based on the nature of each fund. Construction Tax Fund revenue is low in the collection of multi-family and commercial permits.

Overtime expenses are within range for most departments. The Fire Department and Police Department overtime costs are exceeding the budget for the second quarter. Police Department overtime costs are offset with vacancy savings. Some of the Fire overtime costs are offset with expected mutual aid reimbursements from statewide strike team assistance.

In summary, the City's revenues continue to track within expectations with the exception of Transient Occupancy Tax (TOT). Staff is monitoring TOT and overtime expenditures to ensure the fiscal stability of the City remains intact.

### **Fiscal Impact**

This informational item presents revenue and expenditure results for the first six months of FY 2020/21. All notable events are listed in this report to provide context to the second quarter of FY 2020/21 financial results. The General Fund (001) revenue ended the quarter at \$31.4 million or 49% of the \$64.2 million Adjusted Budget and expenditures ended at \$26.9 million or 40% of the \$67.3 million Adjusted Budget. Adjusted Budget here is inclusive of proposed budget amendments.

The General Fund Reserve Policy currently in effect was adopted by City Council resolution number 16-060 in 2016. The policy indicates that the City shall strive to maintain a reserve equal to 15% of the General Fund expenditures. Any amount in excess of the reserve target can be used to offset deficits in other funds and to fund non-recurring capital needs. The projected General Fund ending available fund balance is 13.2%, which includes the budget amendments proposed in this staff report. The projected available fund balance is slightly below the June 2020 estimate of 13.4%.

In addition to providing a budget update based on the second quarter financial activity, staff is proposing various budget amendments to the FY 2020/21 Budget, as detailed in Attachment 4. With the proposed changes the General Fund revenue will increase by \$2.1 million and appropriations will increase by \$0.4 million. The net impact of the proposed amendments on all other funds will increase revenues by \$2.5 million and increase appropriations by \$3.2 million.

### **Council Goals**

Ensure Fiscal Resilience.

### **Background and Analysis**

#### **Economy**

The country has been dealing with the pandemic for over a year. With the latest State guidance revisions, most of the counties have moved into an orange tier, which allows to open up more businesses and allows for more activities. With the vaccines being made available to people sixteen years old and older as of April 15<sup>th</sup> with continued preventive measures for reducing the spread of COVID-19, the State is poised to open in mid-June.

This budget report summarizes the revenue and expenditure results through the first six months of FY 2020/21 for all funds. The report also provides summary of the personnel and overtime expenditures, General Fund balance summary, and a summary of proposed amendments.

## General Fund

General Fund is the primary revenue source and operating fund for most services the city typically offers. These include public safety (police and fire), street maintenance, parks and recreation, neighborhood and community services, etc. In addition, the City Council, City Manager's Office, and City Attorney budgets are predominantly funded by the General Fund. These activities are funded through general tax dollars from sales and property taxes, motor vehicle-in-lieu fees, municipal service tax, and by revenues generated from permits, fees and investment earnings.

General Fund revenues received through the second quarter totaled \$32.1 million, approximately 47% of the Adjusted Budget. Break downs by fund grouped into the General Fund are presented in Attachment 1. Revenues by type for the stand-alone General Fund (001) are presented in Attachment 3.

The major General Fund revenues are property taxes and sales taxes. Property taxes are received in three installments, with first one received in January (50%), the second in May (45%), and the last one in August (5%). As of December 2020, property tax revenues a slightly lower than budget mainly due to expected reductions in the residual distributions from the Successor Agency.

## FY 2020/21 General Fund Revenue

	Adopted Budget	Revised Budget (as of 12/31/20)	Adjustments	Revised Budget (w/2nd Qrt Adj.)	YTD Actual (as of 12/31/20)	%
<b>Revenues</b>						
Property Tax	\$ 16,949,804	\$ 16,949,804	\$ (186,000)	\$ 16,763,804	\$ 8,993,907	54%
Sales Tax	13,958,511	13,958,511	1,700,000	15,658,511	7,022,563	45%
Real Property Transfer Tax	250,000	250,000	-	250,000	128,248	51%
Municipal Services Tax	3,307,800	3,307,800	-	3,307,800	2,218,949	67%
Business License	1,650,000	1,650,000	212,000	1,862,000	1,147,569	62%
Cannabis Tax	1,120,000	1,120,000	1,100,000	2,220,000	1,353,055	61%
Franchise Fee	1,222,403	1,222,403	65,000	1,287,403	274,871	21%
Transient Occupancy Tax	2,469,417	2,469,417	(1,069,000)	1,400,417	590,839	42%
Motor Vehicle In-Lieu	7,455,100	7,455,100	-	7,455,100	3,733,345	50%
Sub-total Taxes	48,383,035	48,383,035	1,822,000	50,205,035	25,463,346	51%
Fines and Forfeitures	350,000	350,000	-	350,000	64,392	18%
Use of Money and Property	1,335,087	1,335,087	-	1,335,087	314,204	24%
Intergovernmental	60,150	1,393,310	365,000	1,758,310	1,421,948	81%
Charges for Current Services	6,347,429	6,424,579	112,000	6,536,579	1,579,033	24%
Other	4,193,504	4,249,104	(198,000)	4,051,104	2,598,822	64%
<b>Total General Fund Revenue</b>	<b>\$ 60,669,205</b>	<b>\$ 62,135,115</b>	<b>\$ 2,101,000</b>	<b>\$ 64,236,115</b>	<b>\$ 31,441,745</b>	<b>49%</b>

For Sales Tax receipts, there is always a lag of when the taxable sales occur and when the City receives the tax. As of December 2020, sales tax receipts totaled \$7.0 million, approximately 45% of the Adjusted Budget. Although the City did not receive November and December sales

tax receipts until after the end of the second quarter, the sales tax revenue for the quarter amounted to \$8.5 million, or 55% of the estimated sales tax revenue budget. Overall, the tax is tracking better than expected given the statewide shelter-in-place lockdown during the winter months. It should be noted that the 1% Bradley-Burns sales tax receipts are tracking 9% lower compared to first six months of last year and the City's locally approved sales tax is 4.0% lower than same six months period last year. As the pandemic continues, businesses and restaurants are working hard to implement strategies to remain open and comply with state and county restrictions.

Business License revenue was \$1.1 million or 62% of the Adjusted Budget as of December 2020. The renewal of business licenses occurs during December and January. At this time, most of the revenue anticipated for the year has been collected. Based on the current collections, budget for this revenue source is being adjusted upward.

Cannabis revenues are tracking above expectations. At the current collection level, staff anticipates \$1.1 million increase in projection for a total of \$2.2 million. It will be interesting to see how this revenue source will perform as economy opens up and activities return back to normal.

Transient Occupancy Tax (TOT) collections coming in significantly below an already reduced projection. Staff is proposing to reduce the TOT budget by nearly \$1.1 million. Travel restrictions related to the COVID-19 pandemic, UC Davis adopting primarily remote learning and various City and university event cancelations made a deep impact on the revenue source. Likely, it will take time to see this revenue rebound. Staff continues to monitor this TOT closely.

As of the second quarter, the City received full amount of \$854,212 of State allocation of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This revenue was used toward public health, public safety and other services to combat the COVID-19 pandemic. This revenue was not accounted for in the Adopted budget, but was included in the first quarter budget adjustment presented to Council on December 1, 2020.

Included in the Intergovernmental revenue is the Cannabis 1% community benefit charge. This revenue is collected from local retail, manufacturing, and delivery establishments. The City is projecting to collect \$115,000 more than anticipated. This estimate is in line with the increase in the Cannabis tax collection.

Overall, General Fund revenues are tracking within expectations. General CIP Fund (012) shows no revenue because the contribution transfer from General Fund (001) is usually done at the end of the fiscal year.

Expenditures by department are tracking at 50% or below with no notable items to report. The City Attorney's department is the only department over 50%, but that is due to a timing delay in allocation of charges to the appropriate programs in the City. Refer to Attachment 2 "Expenditures by Fund" for a detailed breakdown of all the funds that are categorized as General Fund in the Comprehensive Annual Financial Report.

## **Special Revenue Funds**

Special revenue funds account for activities funded by special purpose revenues, that is, revenues that are legally restricted for a specific purpose. Special Revenue Funds include Park Maintenance Tax, Public Safety Fund, Community Development Block Grant (CDBG), Federal and State Hwy Grants, and Operations Grants administered by the City are included in this category.

Through the second quarter of FY 2020/21, Special Revenue Fund expenditures are reported at \$5.6 million, 17.9% of the \$31.5 million adjusted budget. The General Operating Grants Fund Budget is being increased to reflect a receipt and spending of the Healthy Davis Together funding, which is a partnership program between the City and UC Davis set up to mitigate impacts of the pandemic in the City.

Additionally, the City was awarded a planning grant in October 2020 through the California Governor's Office of Emergency Services (CalOES) for the Federal Emergency Management Agency (FEMA) Flood Mitigation Assistance Program. With this grant, the City will perform a study to assess the current and anticipated future demands of the H Street stormwater drainage station, and to develop the design for the replacement or remodel of the station. The grant award of \$198,898 requires matching City funds of \$66,300, for a total of \$265,198 for the effort. Stormwater Fund (541) will be used to provide the match requirement. The match will support Public Works Utilities and Operations staff time allocated to work with the selected consultant for this study. City Council approved Resolution No. 20-172 to accept this grant on November 17, 2020. The expected schedule for this planning grant is approximately one year.

### **Capital Projects Funds**

Capital Projects Funds are primarily comprised of Development Deferred Improvement Funds. Development Deferred Improvement Funds are financed through fees collected from development projects to pay for all or a portion of the costs related to providing public infrastructure to the new developments. These fees are usually imposed to help reduce the economic burden on local jurisdictions that are experiencing population growth.

Capital Projects Fund revenues came in at 1.6% of the adjusted budget of \$8.8 million. Construction is underway on several large development projects where development agreement provisions allow for payment of development impact fees after the final certificate of occupancy is issued. Several projects have chosen to defer fees consistent with this provision. Other projects that were anticipated to commence with construction have been delayed.

Capital Projects Funds expenditures were 15.3% of the \$25.0 million adjusted budget at the end of the second quarter. The Public Safety Impact Fee Fund (fund 484) includes a budget amendment for the acquisition of the fire ladder truck. Incurred expenditures in the fund were for the purchase and installation of surveillance equipment at the Police Department. Overall, expenditures in these funds typically come in lower in the first half of the fiscal year with projects getting started in the spring.

### **Enterprise Funds**

Enterprise Funds, also known as Proprietary Funds, consist of revenue and expenses related to providing water, sewer, solid waste, and storm water services to customers that are primarily external.

The revenues for these funds are tracking within expectations at 69.4% of the Adjusted Budget through the first six months of FY 2020/21. The notable item is related to the Water Fund Capital Replacement, which received a \$7.9 million reimbursement from the State Water Board for expenses previously incurred on drinking water pipeline project.

The expenses for these funds through the second quarter are at \$28.4 million (36.6%) of the \$77.9 million adjusted budget. Of these, Water Fund – Capital Replacement Reserve (Fund 512) is coming in high as debt service payments for Woodland Davis Clean Water Agency 2015 Water Revenue Bond were made in the first quarter of the fiscal year.

### **Internal Service Funds**

Internal Service Funds account for goods or services provided by one department to other departments on a cost-reimbursement basis. Internal services include information technology, facilities, fleet, and self-insurance programs.

IS Maintenance Fund (fund 623) has upcoming expenses for the replacement of equipment necessary to maintain the network and server infrastructure at City Hall. Staff will be replacing the systems in spring 2021 and estimate costs to be \$300,000.

### **Agency Funds**

Agency funds collect cash via special assessments, clearance funds and tax collection to be held temporarily for an authorized recipient to whom it will later be disbursed. The recipient may be another fund, or an individual, or firm, or even government outside of the government.

Revenues in Agency Funds are collected at the same time the property taxes are collected.

The 1990 Public Financing Authority Bond, Community Facility Districts Mace Ranch and Cannery Agency Funds shows \$2.4 million in expenditures, which is 77% of the Adjusted Budget. Most expenditures in these funds represent principal and interest payments, which are typically made in the first half of the fiscal year.

### **Personnel**

The regular salaries and wages, including overtime for FY 2020/21 are presented in the table below.

**Citywide Personnel Expenditures  
Second Quarter Fiscal Year 2020/21**

Expenditures by Department	<b>Salaries and Wages</b>					<b>Overtime</b>				
	Original Budget	Adjusted Budget	Revised Budget (w/2nd Q Adj.)	Actuals (unaudited)	% Exp.	Original Budget	Adjusted Budget	Revised Budget (w/2nd Q Adj.)	Actual (unaudited)	% Exp.
City Manager/Council	\$ 2,764,601	\$ 2,764,601	\$ 2,720,601	\$ 1,373,775	50.5%	\$ 1,864	\$ 1,864	\$ 1,864	\$ 281	15.1%
Human Resources Department	979,551	979,551	936,551	425,620	45.4%	412	412	412	-	0.0%
Information Systems Department	1,749,584	1,749,584	1,749,584	819,667	46.8%	6,189	6,189	6,189	-	0.0%
Finance Department	2,116,641	2,116,641	2,098,641	943,521	45.0%	-	-	-	-	0.0%
Comm/Dev/Sustainability	4,593,089	4,593,089	4,486,089	1,887,981	42.1%	4,250	4,250	4,250	99	2.3%
Parks & Community Services	7,693,197	7,693,197	6,871,197	3,121,081	45.4%	13,600	13,600	13,600	2,373	17.4%
Fire	10,553,805	10,553,805	10,525,805	5,172,022	49.1%	588,803	963,803	2,013,803	1,428,613	70.9%
Police	17,960,056	17,960,056	17,348,056	8,527,331	49.2%	288,332	288,332	288,332	302,340	104.9%
PW Utilities and Operations	12,905,159	12,875,159	12,865,159	5,406,710	42.0%	175,883	175,883	175,883	161,428	91.8%
PW Engineering & Transportation	2,325,984	2,305,659	2,131,659	902,225	42.3%	25,713	25,713	25,713	13,085	50.9%
Capital Improvements/Debt	1,714,655	1,735,046	1,735,046	801,012	46.2%	10,255	10,255	10,255	20,616	201.0%
RDA Successor Agency	-	-	-	1,866	0.0%	-	-	-	-	0.0%
Vacancy Savings	(1,847,580)	(1,847,580)	10,420	165	1.6%	-	-	-	-	0.0%
<b>Total</b>	<b>\$ 63,508,742</b>	<b>\$ 63,478,808</b>	<b>\$ 63,478,808</b>	<b>\$ 29,382,976</b>	<b>46.3%</b>	<b>\$ 1,115,301</b>	<b>\$ 1,490,301</b>	<b>\$ 2,540,301</b>	<b>\$ 1,928,835</b>	<b>75.9%</b>

Salaries and Wages through the first quarter of FY 2020/21 for all departments are tracking at 46.3%, or \$29.4 million of the \$63.5 million adjusted budget.

### Overtime

Overtime expenditures are within range for most departments. The Fire Department and Police Department overtime costs are exceeding the budget for the second quarter. Both departments require minimum staffing levels, which continue to be impacted by vacancies, injury leave, sick leave and parental leave.

Fire Department personnel were dispatched to several of the California wildfires during the first three months of the fiscal year. An estimate of additional \$250,000 for Mutual Aide (strike team reimbursement) is expected from the CalOES, which will offset the overtime expenditures. The Department's budget was adjusted as part of the first quarter updates in November 2020 to increase mutual aid overtime and associated revenue by \$375,000. The Department submitted reimbursement requests to the CalOES totaling \$625,000. As a result, the mutual aid estimate and the overtime budget are amended to account for the additional \$250,000.

### Summary

In summary, the City is continuing to track within expectations with the exception of TOT. Staff is monitoring TOT and Sales Tax revenues, as well as overtime expenditures to ensure the fiscal stability of the City remains intact.

Based on the financial information presented in this report, the City is monitoring the budget closely, with continued focus on cost containment.

### Next Year Budget

City staff is working on putting together the fiscal year 2021/22 and 2022/23 biennial Budget. The Proposed Budget is expected to be presented to the City Council for review and comment in May 2021 to be adopted in June 2021. The City's Finance and Budget Commission (FBC) have

a long-standing desire to have a greater involvement in the budget review process. As such City Council is asked to consider appointing a City Council subcommittee to work with FBC to serve in an oversight capacity of the City's Proposed Biennial Budget.

In addition, staff is recommending that Council consider a subcommittee to work with staff to develop guidelines, parameters and an initial plan for allocating the American Rescue Plan Act dollars that will flow to the City of Davis this year and next. Alternatively, the Council could expand the tasks of the budget subcommittee above and ask that they incorporate the federal funding discussion into their assignment.

**Attachments:**

1. Revenues by Fund
2. Expenditures by Fund
3. General Fund Summary
4. Resolution
  - a. FY 2020/21 Mid-Year Quarter Budget Amendments