



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

---

File #: 20-0714, Version: 1

---

### **REPORT TO COUNCIL**

#### **SUBJECT**

Receive and File the FY 2020/21 First Quarter Budget Update and Approval of Budget Modification No. 8 in the Amount of \$1,932,000 to Appropriate CARES Act Funding

#### **REPORT IN BRIEF**

This report summarizes the year to date financial position of the City's major funds, including an update on the receipt of revenue and current status of expenditures. Overall, the City's financial position is tracking as planned in the FY 2020/21 Budget and ended the year slightly better than planned for FY 2019/20. Information early in the year is not yet fully available, especially revenues, which lag by approximately a month.

The City has been approved to receive \$1,932,000 in CARES act funding from the State to help offset the fiscal impact of the City's COVID response. Staff is recommending that Council Receive and File the First Quarter Budget Update and approve Budget Modification No. 8 to appropriate the CARES Act funding to the Budget Stabilization Fund.

#### **BACKGROUND**

As part of the FY 2020/21 Budget Adoption, staff committed to providing a report to Council detailing the current financial condition of the City on a quarterly basis. This is the first of these reports. This update compares the FY 2020/21 Adopted Budget with actual revenues and expenditures year to date. In addition, this report provides a preliminary review of the FY 2019/20 year-end financial results.

Information early in the fiscal year, especially on revenues, is not yet fully developed. Many sources of revenue aren't received until several months into the year. For example, Transient Occupancy Tax (TOT) for September, is not due to the City until the end of October. Another example is Business License Tax, which will appear low until the second half of the fiscal year after renewals occur. While operating expenditures tend to trend more evenly due to regular payroll costs, some expenditures also develop further into the year. For example, large bills like water purchases, are also delayed with July not paid until mid or late August. Consequently, each Quarterly Report will provide a little more context for the year to date status of revenues and expenditures.

This report also seeks Council approval to appropriate the \$1,932,000 in Coronavirus Aid, Relief, and Economic Security (CARES) Act funding received through the California Department of Finance.

#### **EXISTING POLICY**

Pursuant to Sunnyvale Charter Section 1305, at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by affirmative votes of at least four members so as to authorize the transfer of unused balances appropriated for one purpose to

another, or to appropriate available revenue not included in the budget.

### **ENVIRONMENTAL REVIEW**

The action being considered does not constitute a “project” with the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378 (b) (4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

### **DISCUSSION**

This report presents preliminary budget and actual year-end results for FY 2019/20 and year-to-date information for FY 2020/21 (as of August 2020) for the General Fund and Enterprise funds. FY 2019/20 data reflects the estimates presented in the FY 2020/21 Adopted Budget, which includes updated revenue projections and budget modifications. Transfers, Interfund revenues, bond proceeds, debt service as well as project and equipment costs are not included in this report. Note that FY 2019/20 actuals are unaudited and that significant changes can occur during closing the fiscal year. For example, bills paid in FY 2020/21 may actually be attributable to work done in FY 2019/20 and adjusted accordingly. FY 2020/21 data represents the recently Adopted Budget.

While overall progress looks to be as planned, staff will continue to watch the incoming receipts and outgoing expenditures closely. One of the most closely watched unbudgeted expenditure is the effect of underperforming CalPERS returns on the City’s pension costs. Preliminary estimates indicate an impact of \$1.5 million to \$2 million annually. CalPERS reports are released at the end of October, and then staff will engage its actuary to provide a new analysis and long-term projections, which will be factored into the FY 2021/22 budget and long-term financial plans for each fund.

During the budget development process, one of the major cost savings strategies was to hold vacant positions. The practical effect of this is some impact to various services. The City Manager held 29.65 FTE vacancies in the budget process and continues to exercise judgement on which vacancies to hold, with the service level reductions approved by Council through the cost savings measures maintained as planned. To date, the City manager has frozen an additional two part time positions and one full time position. This surgical approach to freezing positions allows the City to continue to be responsive to shifting and changing conditions while maintaining the needed cost savings in each affected fund. However, several impending retirements are expected well before the end of the Fiscal Year.

### **General Fund**

Overall, preliminary FY 2019/20 financials show a positive year-end revenue and expenditure variance for the General Fund. Staff continues to monitor FY 2020/21 financials closely.

## Revenue

General Fund Revenue	FY 2020/21			FY 2019/20		
	16.67% of Fiscal Year			99% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Property Tax	\$ 90,750,445	\$ 101,460	0.1%	\$ 85,495,426	\$ 85,495,611	\$ 185
Sales Tax	\$ 27,163,221	\$ -	0.0%	\$ 27,697,831	\$ 28,833,160	\$ 1,135,329
Transient Occupancy Tax	\$ 10,617,327	\$ 788,306	7.4%	\$ 15,093,335	\$ 15,895,540	\$ 802,205
UUT & Franchise Fees	\$ 15,760,876	\$ 869,382	5.5%	\$ 15,671,292	\$ 15,421,694	\$ (249,598)
Construction Tax	\$ 3,686,757	\$ 466,256	12.6%	\$ 4,775,825	\$ 5,171,077	\$ 395,252
Business License Tax	\$ 1,914,476	\$ 41,145	2.1%	\$ 1,749,343	\$ 1,935,129	\$ 185,786
Real Property Transfer Tax	\$ 1,790,431	\$ 141,792	7.9%	\$ 1,949,035	\$ 1,815,234	\$ (133,801)
Permits & Licenses	\$ 1,634,631	\$ 207,222	12.7%	\$ 1,864,135	\$ 2,134,687	\$ 270,552
Service Fees	\$ 3,626,133	\$ 230,257	6.3%	\$ 5,473,049	\$ 5,540,571	\$ 67,522
Rents & Concession	\$ 3,113,907	\$ 106,431	3.4%	\$ 3,320,321	\$ 3,254,484	\$ (65,837)
Other Revenue	\$ 3,822,573	\$ 805,954	21.1%	\$ 5,349,940	\$ 6,637,790	\$ 1,287,850
Revenue Subtotal	\$ 163,880,779	\$ 3,758,204	2.3%	\$ 168,439,532	\$ 172,134,978	\$ 3,695,446
One-Time Revenue*	\$ -	\$ -		\$ 15,343,570	\$ 6,343,570	\$ (9,000,000)
<b>Grand Total</b>	<b>\$ 163,880,779</b>	<b>\$ 3,758,204</b>	<b>2.3%</b>	<b>\$ 183,783,102</b>	<b>\$ 178,478,547</b>	<b>\$ (5,304,555)</b>

\* Sale of Property, ERAF

### FY 2019/20

General Fund revenue ended the year \$3.7M (or 2.2%) above projections when one-time revenues are excluded. Almost all major sources exceeded revised revenue projections. Sales Tax was \$1.1M above its revised estimate. While sales tax revenue was expected to decline steeply as a result of the COVID-19 pandemic business shutdowns and continuing business restrictions, the declines were not as steep as projected. During the shutdown, people were drawn to online shopping and continued to shop for essential goods though the better than expected results for the City are mainly related to the medical/biotech sector. Discretionary purchases, such as auto leases and purchases, also contributed to stronger than expected sales tax as customers sought to take advantage of the low interest rates and compelling sales offers. In addition, more deferred sales tax payments from the previous quarter were received than estimated.

With initial restrictions of only essential travel allowed and then the ongoing COVID-19 public health concerns, TOT dropped immediately and sharply, though not as sharply as anticipated. Further, TOT trended up each month of the last quarter with a monthly average of \$228,000 as COVID-19 restrictions tapered down. Strong construction tax revenue continues to reflect the City's robust development activity that quickly resumed after construction operations were halted briefly for two months as part of the COVID-19 response. The \$1.3M positive variance in the Other Revenue category is driven primarily by interest income, reflecting the City's strong cash position.

Real Property Transfer Tax did not meet projected revenue expectations as a result of slowing property sales due to the initial shutdown of non-essential businesses and economic uncertainty as a result of COVID-19. Utility Users Tax (UUT) and Franchise Fees were down as many large businesses closed as part of the COVID-19 response and then quickly shifted to work from home business models.

One-time revenue reflects \$6.3M in Property Tax Educational Revenue Augmentation Funds (ERAF) that was received as anticipated. The \$9M variance is associated with Sale of Property (Block 15 - Charles Street at Mathilda) from the General Fund to the Housing Fund and is now anticipated to be complete in FY 2020/21.

FY 2020/21 Year to Date Update

Few revenues are received evenly throughout the year and therefore progress is difficult to gauge early in the fiscal year. For example, no Sales Tax has been received to date as receipt of sales tax revenue lags the actual economic activity because taxpayers have 30 days to file for monthly reporting periods followed by processing by the California Department of Tax and Fee Administration (CDTFA), which takes several weeks. Receipt of sales tax revenue for the fiscal year typically begins in October. The City uses a Sales Tax consultant to analyze activity. At this time, the City's consultant has indicated that it is anticipated that the City will meet its Sales Tax estimates for FY 2020/21, which are anticipated to drop an additional 2% from 2019/20 after falling off 19% from FY 2018/19.

While TOT revenue is still a fraction of the pre-pandemic revenue, the positive monthly trend has continued into FY 2020/21 with an average of \$394,000 in monthly TOT paid in the first two months of the fiscal year. Reporting indicates that average room rates are down 48% from the same time last year to \$95 per night, and average occupancy rates are tracking at 40% vs. 77% in the first quarter of last Fiscal Year. Construction Tax continues to reflect the City's steady development activity. The Other Revenue positive position is related to a large non-compliance Transportation Demand Management (TDM) penalty of \$516,350 that the City received.

Property tax revenue received to date is due to Supplemental Tax payments. Supplemental taxes are taxes that are due when property undergoes a change of ownership or new construction. These mid-year adjustments will be reflected on the tax roll the following year, but in the year of the event, the tax is prorated, and the City receives this amount separate from the Secured tax revenue. Secured is received in ten payments that the City receives between late November and June. Property valuation growth for the FY 2020/21 tax roll shows an increase of 10.4%, which is greater than the FY 2020/21 Budget estimate of 8.2%. With slower property sales and a sluggish economy, tax roll growth for FY 2021/22 is expected to moderate heavily. For example, the California CPI growth factor is trending less than the 2% allowed with 1.6% applied to the FY 2020/21 roll and 1.2% the current estimate for the FY 2021/22 roll. We will know the final growth factor for the FY 2021/22 tax roll when the County releases the data at the beginning of the 2021 calendar year.

**Expenditures**

General Fund Expenditures	FY 2020/21 16.67% of Fiscal Year			FY 2019/20 99% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Community Development	\$ 1,780,747	\$ 281,706	15.8%	\$ 1,562,731	\$ 1,334,407	\$ 228,324
Environmental Services	\$ 2,417,676	\$ 250,324	10.4%	\$ 2,203,384	\$ 1,939,803	\$ 263,581
Finance	\$ 11,298,211	\$ 1,527,973	13.5%	\$ 10,872,696	\$ 10,010,596	\$ 862,101
Human Resources	\$ 5,136,261	\$ 671,843	13.1%	\$ 5,071,584	\$ 4,480,775	\$ 590,810
Library and Recreation Services*	\$ 18,308,181	\$ 2,795,523	15.3%	\$ 20,134,877	\$ 17,838,759	\$ 2,296,119
Office of the City Attorney	\$ 1,875,126	\$ 279,014	14.9%	\$ 1,807,509	\$ 1,751,319	\$ 56,190
Office of the City Manager	\$ 5,505,884	\$ 821,409	14.9%	\$ 5,182,010	\$ 4,794,061	\$ 387,950
Public Safety	\$ 102,064,174	\$ 14,944,926	14.6%	\$ 98,884,896	\$ 97,403,935	\$ 1,480,961
Public Works	\$ 25,057,955	\$ 3,983,424	15.9%	\$ 26,169,448	\$ 26,097,872	\$ 71,576
Operating Subtotal	\$ 173,444,216	\$ 25,556,141	14.7%	\$ 171,889,136	\$ 165,651,526	\$ 6,237,611
<b>Grand Total</b>	<b>\$ 173,444,216</b>	<b>\$ 25,556,141</b>	<b>14.7%</b>	<b>\$ 171,889,136</b>	<b>\$ 165,651,526</b>	<b>\$ 6,237,611</b>

\* Library and Community Services changed name to Library and Recreation Services in Sept. 2020

FY 2019/20

The General Fund is preliminarily projected to end the year with a \$6.2M positive operating variance. All departments met their General Fund operating budget primarily as a result of salary savings related to the initial business interruption (e.g., restrictions on Library and Recreation Services

recreation offerings, pivot to remote hiring process, etc.) associated with the COVID-19 pandemic and then the informal hiring freeze put in place by the City Manager. Similarly, Goods & Services spending is expected to end the year with a positive variance as some non-essential business activity slowed down in response to the pandemic as well as the City's conscientious efforts to spend only as necessary during the uncertain economic times presented.

While General Fund expenditures are expected to end the year favorably, the City did incur unexpected costs in response to the COVID-19 pandemic. The City used the Budget Stabilization Fund Reserve for \$750,000 in small business and non-profit financial assistance, purchased personal protection supplies, and re-routed personnel from regular duties to responding to the COVID-19 pandemic. While the City does not anticipate that all these costs will be reimbursed, the City has received \$1.9M in CARES Act Funding to offset these unanticipated expenditures. The City will also seek reimbursement from the Federal Emergency Management Agency (FEMA) for eligible costs.

#### FY 2020/21 Year to Date Update

General Fund expenditures are at 14.7% while 16.67% of the fiscal year has passed. Expenditures trend more evenly throughout the year driven mainly by bi-weekly payroll costs. Accordingly, salary and benefit expenditures are trending on target with the payroll benchmark for this point in the fiscal year at 14.6%. The timing of Operations & Maintenance expenditures can vary throughout the year and are expected to end the year at budget.

### **Enterprise Funds**

#### **Golf & Tennis Operations**

<i>Golf &amp; Tennis Fund Revenue</i>	FY 2020/21 16.67% of Fiscal Year			FY 2019/20 99% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Golf Course Revenue	\$ 2,907,403	\$ 665,478	22.9%	\$ 2,834,780	\$ 3,317,904	\$ 483,124
Tennis Revenue (Rental Fee)	\$ 105,000	\$ -	0.0%	\$ 72,500	\$ 83,750	\$ 11,250
<b>Grand Total</b>	<b>\$ 3,012,403</b>	<b>\$ 665,478</b>	<b>22.1%</b>	<b>\$ 2,907,280</b>	<b>\$ 3,401,654</b>	<b>\$ 494,374</b>

<i>Golf &amp; Tennis Fund Expenditures</i>	FY 2020/21 16.67% of Fiscal Year			FY 2019/20 99% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Golf Course Expenditures	\$ 3,961,279	\$ 861,572	21.7%	\$ 4,482,999	\$ 4,823,977	\$ (340,977)
Tennis Expenditures	\$ 108,428	\$ 6,690	6.2%	\$ 110,536	\$ 94,289	\$ 16,247
<b>Grand Total</b>	<b>\$ 4,069,707</b>	<b>\$ 868,262</b>	<b>21.3%</b>	<b>\$ 4,593,535</b>	<b>\$ 4,918,266</b>	<b>\$ (324,731)</b>

#### FY 2019/20

Revenue associated with the golf courses ended the year with a \$483,124 positive variance despite COVID-19 restrictions that closed operations for almost two months. Reopening partially in May after the COVID-19 pandemic operating restrictions, golf play picked up as soon as these restrictions eased up and allowed the course to re-open for a strong revenue finish. Further, the majority of this positive variance can be attributed directly to golf fees, such as Green fees and Driving Range fees.

The overspending in FY 2019/20 is related to the cost to end the contract with the restaurant concession operator at the Sunnyvale Golf Course. The costs associated with terminating the contract were more than anticipated.

FY 2020/21 Year to Date Update

Golf play continues to be steady and is benefiting as a sport that allows for the social distancing required to prevent the spread of COVID-19. At 23.9% of the annual revenue estimate, golf fees are trending up, but are very seasonal and will slow as winter approaches and the days shorten. Air quality due to wildfires has not impacted play as deeply as in the past as with COVID-19 face covering/mask requirements in place, customers were already prepared. Some COVID-19 restrictions continue to hinder revenue, such as the restriction on shared golf cart use, limited tee times and range due to space restrictions, etc. COVID-19 restrictions also continue to impact tennis operations with the operator reporting revenue loss of over 65% since the pandemic hit. The restaurant operator at Sunken Gardens also continues to experience revenue loss due to the ongoing restrictions on indoor dining. To this end, the City is working with both operators on rent abatement agreements to help mitigate their financial losses.

Golf & Tennis fund expenditures are trending high at this point in the fiscal year mainly due to water costs. Water costs are higher than usual at this point due to a billing reconciliation associated with a broken water meter that will be repaired shortly.

**Development Enterprise Fund**

Development Enterprise Fund Revenue	FY 2020/21			FY 2019/20		
	16.67% of Fiscal Year			99% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Permits & Licenses	\$ 10,399,818	\$ 1,588,460	15.3%	\$ 12,993,816	\$ 14,024,869	\$ 1,031,052
Community Development Fees	\$ 4,641,052	\$ 778,180	16.8%	\$ 6,052,619	\$ 6,519,949	\$ 467,330
Public Works Fees	\$ 1,282,029	\$ 157,670	12.3%	\$ 1,602,536	\$ 1,881,448	\$ 682,370
Other*	\$ 1,178,648	\$ 1,840	0.2%	\$ 1,199,077	\$ 1,222,593	\$ 1,222,593
<b>Grand Total</b>	<b>\$ 17,501,547</b>	<b>\$ 2,526,151</b>	<b>14.4%</b>	<b>\$ 21,848,048</b>	<b>\$ 23,648,858</b>	<b>\$ 1,800,810</b>

\*Interest Income & Miscellaneous

Development Enterprise Fund Expenditures	FY 2020/21			FY 2019/20		
	16.67% of Fiscal Year			99% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Community Development	\$ 7,895,889	\$ 1,227,661	15.5%	\$ 8,542,161	\$ 8,850,303	\$ (308,142)
Environmental Services	\$ 271,741	\$ 25,245	9.3%	\$ 258,876	\$ 248,121	\$ 10,754
Library and Recreation	\$ 25,018	\$ 4,386	17.5%	\$ 29,917	\$ 35,333	\$ (5,416)
Office of the City Attorney	\$ 511,221	\$ 79,784	15.6%	\$ 482,443	\$ 358,914	\$ 123,530
Public Safety	\$ 1,425,639	\$ 163,536	11.5%	\$ 1,230,949	\$ 893,257	\$ 337,692
Public Works	\$ 2,756,989	\$ 353,773	12.8%	\$ 2,781,212	\$ 2,538,567	\$ 242,645
<b>Grand Total</b>	<b>\$ 12,886,496</b>	<b>\$ 1,854,386</b>	<b>14.4%</b>	<b>\$ 13,325,558</b>	<b>\$ 12,924,494</b>	<b>\$ 401,064</b>

\* Library and Community Services changed name to Library and Recreation Services in Sept.

FY 2019/20

Revenues in the Development Enterprise Fund are projected to beat current revenue estimates by \$1.8M (or 8.3%). Development Enterprise Fund revenues continued to reflect the City's robust development activity and all major revenue sources are expected to beat revenue estimates with permits and license fees being the largest component.

Overall, the Development Enterprise Fund expenditures came in under budget by roughly \$400,000 (or 3%). The Community Development Department exceeded its operating budget by \$300,000 (or 4%). This overage can be attributed to the use of contract services by the Building Safety Division to augment staffing needed to provide additional workload capacity related to elevated development

activity, though overspending is offset by additional revenues. Consequently, contract staffing costs were moved from project to operating in the FY 2020/21 budget.

### FY 2020/21 Year to Date Update

While the full impact of COVID-19's impact on the City's development activity remains unknown, development fee revenue has been steady for this point in the fiscal year.

Expenditures are trending as expected for this point. We will monitor revenues and expenditures closely to make timely adjustments as may be needed, but at this point, the fund is expected to meet budget.

### **Development Impact Fees**

Development Impact Fees*	FY 2020/21 16.67% of Fiscal Year			FY 2019/20 99% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Park Dedication Fees	\$ 41,704,226	\$ 70,785	0.2%	\$ 25,736,763	\$ 25,736,763	\$ -
Housing Mitigation Fees	\$ 41,047,149	\$ -	0.0%	\$ 7,998,024	\$ 9,821,274	\$ 1,823,250
Transportation Impact Fees	\$ 7,459,583	\$ 12,867	0.2%	\$ 5,161,729	\$ 5,589,286	\$ 427,557
Sense of Place Fees	\$ 1,632,757	\$ -	0.0%	\$ 1,738,012	\$ 1,738,012	\$ -
<b>Grand Total</b>	<b>\$ 91,843,715</b>	<b>\$ 83,652</b>	<b>0.1%</b>	<b>\$ 40,634,527</b>	<b>\$ 42,885,335</b>	<b>\$ 2,250,807</b>

\*Excludes Interest Income

Development projects take years to come to fruition, therefore, the timing of Development Fee Impact revenue is difficult to predict in the short-term. FY 2019/20 exceeded revenue projections by \$2.3M with some impact fees received in the last quarter of the fiscal year based on projects already in the development pipeline.

Due to project delays associated with the COVID-19 suspension of construction activity in March and April, a majority of revenue expected to be collected in FY 2019/20 is now projected to be collected in FY 2020/21 for existing projects under construction. Impact fees are not received evenly throughout year, but rather based on milestones in the development process. For projects in the earlier stages of development pipeline, the current economic uncertainty makes it difficult to predict projects that will proceed or stall. Staff will monitor development activity and revisit revenue projections as necessary during annual budget development.

### **Utility Funds**

Utility Fund Revenue	FY 2020/21 8.33% of Fiscal Year			FY 2019/20 99% of Fiscal Year		
	Budget	Actuals	% to Date	Adjusted Budget	Actuals	Variance
Water Fund	\$ 61,799,016	\$ 5,275,616	8.5%	\$ 66,032,607	\$ 72,461,356	\$ 6,428,749
Wastewater Fund	\$ 49,738,978	\$ 4,899,218	9.8%	\$ 61,618,593	\$ 64,821,986	\$ 3,203,393
Solid Waste Management Fund	\$ 53,167,280	\$ 4,120,698	7.8%	\$ 53,526,170	\$ 55,999,069	\$ 2,472,899
<b>Grand Total</b>	<b>\$ 164,705,274</b>	<b>\$ 14,295,532</b>	<b>8.7%</b>	<b>\$ 181,177,370</b>	<b>\$ 193,282,411</b>	<b>\$ 12,105,041</b>

\*July 2020 revenue data only

Utility Fund Expenditures	FY 2020/21			FY 2019/20		
	16.67% of Fiscal Year			99% of Fiscal Year		
	Budget	Actuals	% to Date	Budget	Actuals	Variance
Water Fund	\$ 42,879,620	\$ 4,871,879	11.4%	\$ 42,050,864	\$ 41,198,677	\$ 852,187
Wastewater Fund	\$ 20,160,127	\$ 2,419,597	12.0%	\$ 18,455,282	\$ 17,996,083	\$ 459,199
Solid Waste Management Fund	\$ 41,838,851	\$ 6,100,930	14.6%	\$ 40,689,949	\$ 40,234,200	\$ 455,750
<b>Grand Total</b>	<b>\$ 104,878,598</b>	<b>\$ 13,392,406</b>	<b>12.8%</b>	<b>\$ 101,196,096</b>	<b>\$ 99,428,960</b>	<b>\$ 1,767,136</b>

### FY 2019/20

Preliminary year end results show the Water Fund revenue with a positive variance of \$6.4M mostly driven by metered water sales. A large component of the positive Wastewater revenue result is a \$1.8 M infrastructure fee payment associated with the Peery Park development as well as stronger than budgeted sewer fees. The Solid Waste Fund's favorable revenue position is mostly related to City refuse service fees for residential and commercial service. It should be noted that the fees associated with the construction debris boxes declined slightly in the last quarter as construction activity was suspended due to the County's COVID-19 business restrictions. In addition, Fines and penalties are down across all three utility funds due to Council action to waive late fee penalties in consideration of COVID-19 financial impacts to the community though this is not a significant portion (average of \$96,000) of the utility funds' revenue budget. Current delinquency rates for utilities remain approximately the same as they were pre-COVID.

Anticipated year end savings for the Water Fund are as mainly as a result of salary savings. The Wastewater Fund also benefited from salary savings as well as savings from contract and professional service costs that augment staffing for engineering work. The Solid Waste Fund had some salary savings, but also realized savings related to landfill and transfer costs due to business closures in response to COVID-19.

### FY 2020/21 Year to Date Update

With COVID-19's prolonged impact to businesses (e.g., moving to work from home scenarios, reduced capacity, etc.), the City is closely monitoring utility service fees. It's also important to note that these fees lag as the City bills two months in arrears.

To date, at 8.3% of the fiscal year, Water revenues are at 9.7% with metered water sales and recycled water fees trending high for this point in the fiscal year. For the Wastewater fund, sewer fees are on par with this point in the fiscal year at 8.4%. Solid Waste Fees are trending low at 5.3% when compared to 8.3% of the fiscal year as businesses are holding and/or reducing service.

As with other funds, salary and benefit operating expenditures tend to trend more evenly during the fiscal year due to regular payroll costs while timing of Operations & Maintenance costs can vary. Water salary costs are trending at 13.7%, which is slightly lower than the payroll benchmark of 14.56% of the fiscal year. The cost to purchase water, this fund's largest expense, is trending at 10.72%, which is below the accounting benchmark of 16.67% of the fiscal year, but in line with costs for the same time last year. Wastewater salary costs are in line with the payroll benchmark of 14.56% of the fiscal year. Solid Waste salary costs are trending low for this point in time at 12%. Transfer and Landfill costs are trending high at 23.7%, which is reflective of solid waste activity resuming after the more severe COVID-19 restrictions were lifted and likely some catch up in expenditures from the prior year. Staff anticipates this will normalize throughout the year.

### **FISCAL IMPACT**

Preliminary year-end financial data as well as the quarterly financial analysis discussed in this report are informational. As CARES Act funding was received after the FY 2020/21 Adopted Budget, staff is recommending a budget modification to appropriate these funds. Therefore, Budget Modification No. 8 has been prepared to appropriate CARES Act grant funds in the amount of \$1,932,000 for reimbursement of unanticipated costs related to the City's COVID-19 response.

#### **Budget Modification No. 8 FY 2020/21**

	<b>Current</b>	<b>Increase/ (Decrease)</b>	<b>Revised</b>
<b>General Fund</b>			
<u>Revenue</u>			
CARES Act Grant Funds	\$0	\$1,932,000	\$1,932,000
<u>Reserves</u>			
Budget Stabilization Fund	\$43,872,777	\$1,932,000	\$45,804,777

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, Sunnyvale Public Library and Department of Public Safety. In addition, the agenda and report are available at the Office of the City Clerk and on the City's website.

### **ALTERNATIVES**

1. Receive and file the FY 2020/21 First Quarter Budget Update and Approve Budget Modification No. 8 in the amount of \$1,932,000 to Appropriate CARES Act Funding.
2. Other action as determined by Council.

### **STAFF RECOMMENDATION**

Receive and file the FY 2020/21 First Quarter Budget Update and Approve Budget Modification No. 8 in the amount of \$1,932,000 to Appropriate CARES Act Funding.

Prepared by: Felicia Silva, Budget Manager  
Reviewed by: Tim Kirby, Director of Finance  
Reviewed by: Teri Silva, Assistant City Manager  
Approved by: Kent Steffens, City Manager