SPECIAL MEETING OF THE MILPITAS CITY COUNCIL

AGENDA

TUESDAY, MAY 9, 2023
BARBARA LEE SENIOR CENTER, 40 N MILPITAS BOULEVARD, ROOM 140/141, MILPITAS, CA
5:30 PM

For assistance in the following languages, you may call:
Đối với Việt Nam, gọi 408-586-2400
Para sa Tagalog, tumawag sa 408-586-3051
Para español, llame 408-586-3072

The City Council meeting is held in the City Council Chamber at City Hall, 455 E. Calaveras Blvd., Milpitas and via teleconference/Zoom webinar.

Councilmember Garry Barbadillo will participate remotely from:

24326 35th Pl S
Kent, WA 98032

Pursuant to California Government Code Section 54953

You may watch the Council meeting without providing public comment by accessing it via links here.

Meeting shall be livestreamed - Go to:
Facebook: https://www.facebook.com/CityofMilpitas/
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Web Streaming: https://www.milpitas.gov/webstreaming

PUBLIC COMMENT INSTRUCTIONS

Oral public comments may be provided live during the City Council meeting in person or by registering for the zoom meeting in advance. To register you will need to provide an email address (not disclosed) and a name. To minimize technical difficulties, please make sure that you have the latest version of the Zoom Application. Below is the link to register for this meeting only:

https://ci-milpitas-ca-gov.zoom.us/webinar/register/WN_Qp2OD-R7RziI-YIAWBso9Q

After you register a link will be sent to you to join the City Council meeting in order to give your comments. All Zoom meeting attendees who wish to speak must click on the “raise hand” icon when the Mayor calls for public comments. If participating via phone, dial *9 to use the “raise hand” feature, and when called to speak, dial *6 to unmute your phone. Your phone number will be displayed in the live meeting. The Mayor will call speakers by name to address the City Council.

All comments provided shall be limited to three minutes or less as determined by the Mayor. All members of the public will be limited to one comment per agenda item, and one comment for non-agenda items.

NOTE: If a member of the public wishes to share any presentation materials for Council consideration, they must be submitted to the Clerk’s Office by email to CityClerk@milpitas.gov by 12:00 p.m. on the day of the meeting. No presentations will be accepted in person in the Council Chambers.

MILPITAS CITY COUNCIL CODE OF CONDUCT

- Be respectful and courteous (words, tone, and body language).
- Model civility.
- Avoid surprises.
- Praise publicly and criticize privately.
- Focus on the issue, not the person.
- Refrain from using electronic devices while on the Council dais.
- Disclose conflicts of interest and affiliations related to agenda items.
- Separate governing from campaigning.
- The Council speaks with one voice after making policy on issues.
- Respect the line between policy and administration.
- Council will hold one another accountable to comply with this Code of Conduct.

CALL MEETING TO ORDER by Mayor and ROLL CALL by City Clerk

PLEDGE OF ALLEGIANCE

PRESENTATIONS

PUBLIC FORUM

Those interested are invited to address the City Council on the agenda item listed below only, by using the "raise hand" in the zoom webinar online (see instructions on page 1). Speakers may state their name and city of residence for the record, and limit spoken remarks to three minutes, or less, at the discretion of the Mayor.

ANNOUNCEMENT OF CONFLICT OF INTEREST AND CAMPAIGN CONTRIBUTIONS

READING OF THE CITY COUNCIL CODE OF CONDUCT

APPROVAL OF AGENDA

AGENDA ITEMS

1. **Receive Presentation on the FY 2023-24 Proposed City of Milpitas Operating Budget and Provide Feedback (Staff Contact: Lauren Lai, Finance Director, 408-586-3111)**

Recommendation: Receive a presentation on the FY 2023-24 Proposed City of Milpitas Operating Budget and provide feedback to staff.

ANNOUNCEMENTS

ADJOURNMENT

KNOW YOUR RIGHTS UNDER THE OPEN GOVERNMENT ORDINANCE

Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions and other City agencies exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and City operations are open to the people's review. For more information on your rights under the Open Government Ordinance or to report a violation, contact the City Attorney's office at Milpitas City Hall, 455 E. Calaveras Blvd., Milpitas, CA 95035
e-mail:mmutalipassi@milpitas.gov / Phone: 408-586-3040

The Open Government Ordinance is codified in the Milpitas Municipal Code as Title I Chapter 310 and is available online at the City's website www.milpitas.gov by selecting the Milpitas Municipal Code link.

Materials related to an item on this agenda submitted to the City Council after initial distribution of the agenda packet are available for public inspection at the City Clerk's office at Milpitas City Hall, 3rd floor 455 E. Calaveras Blvd., Milpitas and on City website. City Council agendas and related materials can be viewed online: www.milpitas.gov/government/council/agenda_minutes.asp (select meeting date)

APPLY TO SERVE ON A CITY COMMISSION

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CITY OF MILPITAS
AGENDA REPORT
(AR)

Item Title:	**Receive Presentation on the FY 2023-24 Proposed City of Milpitas Operating Budget and Provide Feedback (Staff Contact: Lauren Lai, Finance Director, 408-586-3111)**
Category:	Leadership and Support Services
Meeting Date:	5/9/2023
	Recommendation: Receive a presentation on the FY 2023-24 Proposed City of Milpitas Operating Budget and provide feedback to staff.

Background:
This agenda report is supplemental to the FY2023-24 Proposed Operating Budget (Proposed Budget) and Acting City Manager transmittal letter. It also provides updates on available funds for Council consideration and summarizes the changes to the fiscal policies and budget guidelines. Modifications to the Milpitas American Rescue Plan Act (ARPA) Investment Plan were most recently discussed on February 21, 2023, which are reflected accordingly in an ARPA section of the Proposed Budget and will be reported periodically thereafter to Council.

At the FY 2023-24 Preliminary Budget Study Session held on January 31, 2023, the City Council received the preliminary ten-year General Fund Financial Forecast, the budget community engagement plan, and reports on accomplishments and workplans by City Service Areas.

On April 28, the Acting City Manager released a balanced FY2023-24 Proposed Operating Budget, available on the City's website and attached here, consistent with her duties as Acting City Manager as outlined in the City's Municipal Code. The Proposed FY 2023-24 Budget in the amount of $231.7 million continues to transition the City towards fiscal stability with tempered optimism. We are optimistic about the future but remain tempered by possible near term economic impacts that may stem from the continued war in Europe, high interest rates, high inflation rates, continued supply chain challenges, tech company layoffs, and banking sector uncertainty.

This balanced budget includes enhanced service levels especially in public works, infrastructure, and public safety and modest investments in internal support departments, housing and community services. This is a budget that maintains Council approved contingency and budget stabilization reserves and leverages funding from the ARPA to support impacted residents and businesses in our community. We continue transitioning with incremental and measured strategies to maximize City resources and optimize services to the community.

Over the past year, the City has been working closely with internal stakeholders and consultants to review the City's service delivery model and organizational structure. After a careful review, it was determined that consolidating certain departments will allow the City to improve service delivery to our residents and businesses, and also achieve cost savings of $433,000 to the General Fund and $222,000, net to all funds. This budget consolidates the Public Works and Engineering Departments, the Planning and Building Departments, and shifts housing services over to the Office of Economic Development.

Additionally, we are cognizant that the expiration of a key revenue source - the Milpitas Public Services Measure (Measure F) – in 2028-29 will require the City to continue to maintain fiscal discipline and look for ways to simultaneously increase revenue while controlling expenses. During the finalization of the Proposed

Budget, the Measure F Oversight Committee held its meeting on March 16, which is summarized in this report. In addition to the Proposed Budget, Staff also recommends updates to the fiscal policy and budget guidelines.

Analysis:

This staff report provides supplemental information related to the FY 2022-23 Proposed Budget such as a summary of recommended changes to the City's fiscal policies and budget guidelines including attached redline versions of the documents, summary of available funds for Council consideration and next steps in the FY 2022-23 budget process.

Fiscal Policies and Budget Guidelines Recommendations

As part of the annual budget process, staff reviews the Fiscal Policies and Budget Guidelines. These policies and guidelines set the fiscal framework for the annual budget process and long-term financial decisions. Below please find a summary of recommended changes to the Fiscal Policies and Budget Guidelines. Included in the Council's agenda packet are clean and red line versions of the recommended changes.

Recommended Changes to Fiscal Policies

The City's Fiscal Policies are broken down into General Financial Goals; Operating Budget, Revenue, and Expenditure Policies; Utility Rates and Fees; Capital Budget Policies; Debt, Reserve, and Investment Policies; and Accounting, Auditing, and Financial Reporting Policies. It is important to note that the City Council also adopted separate debt and investment policies consistent with State law.

This balanced proposed budget remains focused on sound City fiscal policies and preserving existing reserves. The proposed changes emphasize contingency and budgetary reserves, pension, facility, infrastructure, and SPAR (Strategic Property Acquisition Revenue) Fund. The revision to the PERS Stabilization Reserve clarifies that the pension budgetary savings, if any, are contributed subsequent to the Contingency and Budget Stabilization Reserve targets are met, and it also removes the second contribution to PERS Stabilization Reserve. Other changes pertain to the waterfall of operating surplus wherein subsequent allocations emphasize facility and infrastructure, stormwater and SPAR Fund.

The policy #57 states that the City may direct 10% of any General Fund audited year end operating surplus to the SPAR Fund to support strategic property acquisition, development, and long-term revenue opportunities, after General Fund Contingency and General Fund Budget Stabilization reserve requirements have been met and pension budgetary surplus are allocated to the PERS Rate Stabilization Reserve (Policy Statement #43).

Changes to Budget Guidelines

Through adoption of this budget, the City Council also approves the Budget Guidelines. The Budget Guidelines set forth the Basis of Budgeting; Budget Calendar requirements; form and content of the City Manager's Proposed Budget; adoption of the Budget by June 30; the City Manager's budget authority; requirement that budget amendments be approved by the City Council; budget transfers and modification procedures; automatic adjustments and re-appropriations; budget monitoring and reporting; and reserve requirements for all funds.

The change to the Budget Guidelines authorizes the City Manager to amend the budget for grant interest earned to update the grant budget revenue(s) and associated grant appropriation(s) accordingly. Some grant balances accrue interests that are restricted to the allowable use(s) per the grant. For administrative efficiency, this Budget Guideline update allows Staff to administer the necessary budgetary and accounting entries to apply the restricted grant interest to the appropriate grant revenue and appropriation accounts, accordingly.

Available Funding for Council Consideration

As part of the annual budget process, Staff also identified one-time funding available that Council may consider during the budget deliberation. There is a total of $848,400 comprised of $298,400 unallocated APRA, $450,000 CIP savings from the previously proposed City Attorney's Office project, and $100,000 savings from the Library contribution not required for FY2023-24. Council may consider retaining funds on-hand and/or appropriating to one-time priorities, current or future capital needs and/or current or future operational needs.

Next Steps
Adoption of the FY 2023-24 Budget is scheduled during a public hearing on June 6, 2023. In preparation for the public hearing, staff will bring forward any amendments to the Proposed Budget, budget and position related resolutions, the debt ceiling calculation, Gann Limit calculation, and request authorization for award of contracts related to the approval of the FY 2023-24 Budget.

Policy Alternative:
Not applicable

Fiscal Impact:
The FY 2023-24 Citywide Proposed Budget of $231.7 million includes 448.0 funded positions (full time equivalent FTEs), with the General Fund proposed budget estimate at $128.9 million.

California Environmental Quality Act:
This item is not a Project under CEQA in accordance with CEQA Guidelines Section 15061(b)(3) (Common Sense Exemption) as it can be seen with certainty that a general discussion of funding priorities by the City Council will not have a significant effect on the environment. Further, the item is also not a Project pursuant to CEQA Guidelines Section 15378(b)(2) as an administrative activity which is defined in the CEQA Guidelines to include the purchase of supplies and personnel related actions. It is further exempt under CEQA Guideline 15378(b)(4) as it is a government fiscal activity that does not involve a commitment to any specific project which may result in a potentially significant physical impact on the environment. Although the use of funding will be discussed for various potential projects, future environmental analysis will be conducted for the various potential projects prior to the City making any commitment or approval of any project, or it is covered by the CEQA Guideline 15061(b)(3) and/or 15378(b)(2).

Recommendation:
Receive a presentation on the FY 2023-24 Proposed City of Milpitas Operating Budget and provide feedback to staff.

Attachments:
1. FY 2023-24 Proposed Budget (binder edition previously distributed to City Council)
2. Recommended Fiscal Policies and Budget Guidelines – redline version

Visit the following link to the FY 2023-24 Proposed Budget:

https://www.milpitas.gov/wp-content/uploads/2023/04/FY23-24-Proposed-Budget-2023.04.25-FINAL-compressed.pdf

Fiscal Policies

General Financial Goals

1. To maintain a financially viable City that can maintain an adequate level of municipal services.
2. To maintain financial flexibility in order to be able to continually adapt to local, regional, and national economic change.
3. To maintain and enhance long-term the sound fiscal condition of the City.

Operating Budget Policies

4. The City will adopt a balanced budget by June 30th of each year.
5. An annual base operating budget will be developed by accurately and realistically projecting revenues and expenditures for the current and forthcoming fiscal year.
6. During the annual budget development process, the existing base budget will be thoroughly examined to assure cost effectiveness and need of the services or programs provided.
7. Once the City Council has adopted the budget, the Administration will track revenues and expenditures closely and will bring forward budget adjustment recommendations at Mid-Year, as needed.
8. Annual operating budgets will include the cost of operations of capital projects.
9. The City will avoid balancing the current budget at the expense of future budgets, unless the use of reserves is expressly authorized by the City Council.
10. The City's operating budget will be prepared on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase and capital project expenditures are budgeted on a project length basis.

Revenue Policies

11. The City will try to maintain a diversified and stable revenue system to avoid over-reliance on any one revenue source.
12. Revenue estimates are to be accurate and realistic, sensitive to local, regional, and national economic conditions.
13. The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis, as appropriate.
14. User fees will be reviewed annually for potential adjustments to recover the full cost of services provided, except when the City Council determines that a subsidy is in the public interest. To maintain cost recovery, annually, staff shall bring forward the Master Fee Schedule as part of the budget process with an escalation to reflect increases in staff cost.
15. The City will actively pursue federal, state, and other grant opportunities when deemed appropriate. Before accepting any grant, the City will thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant.

16. One-time revenues will be used for one-time expenditures only including capital outlay and reserves.

Expenditures Policies

17. The City will maintain levels of service, as approved by the City Council, to provide for the public well-being and safety of the residents of the community.
18. Employee benefits and salaries will be maintained at competitive levels.
19. Fixed assets will be maintained and replaced as necessary, minimizing deferred maintenance.
20. The City will develop and use technology and productivity enhancements that are cost effective in reducing or avoiding increased personnel costs.

Utility Rates and Fees

21. Water and sewer utility customer rates and fees will be reviewed annually as part of the budget process and adjusted as needed to ensure full cost recovery.
22. All utility enterprise funds will be operated in a manner similar to private enterprise. As such, the City will set fees and user charges for each utility fund at a level that fully supports the total direct and indirect cost of the activity, including depreciation of assets, overhead charges, and reserves for unanticipated expenses and capital projects.

Capital Budget Policies

23. The City will develop an annual Five-Year Capital Improvement Program (CIP) with the goal to develop and maintain infrastructure in support of existing residences and businesses and future anticipated development.
24. The CIP will identify the estimated full cost of each project which includes administration, design, development and implementation, and operating costs once the projects are completed.
25. The CIP will identify potential funding sources for each proposed capital project, prior to submitting proposed projects to the City Council for approval. When appropriate, the CIP will seek other funding sources such as State and Federal funds, private funds and leverage these funding sources with public money to help meet the highest priority community needs.
26. The City Council will provide funding for the first year of the Five-Year CIP as a component of the annual operating budget and appropriate funding at the project level. Funding for future projects identified in the Five-Year CIP may not have been secured and/or legally authorized and is therefore subject to change.
27. Each CIP project will be assigned to a project manager whose responsibilities are to monitor all phases of the project to ensure timely completion of the project and compliance with the project budget and all regulations and laws.

Debt Policies

28. The City will limit long-term debt to only those capital improvements or long-term liabilities that cannot be financed from current revenue sources.
29. The City will utilize debt financing for projects which have a useful life that can reasonably be expected to exceed the period of debt service for the project.
30. The City will utilize conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

31. The City may utilize inter-fund loans rather than outside debt to meet short-term cash flow needs.
32. The City will not issue long-term debt to finance operating expenses and routine maintenance expenses.

Investment Policies

33. The Finance Director/City Treasurer will annually render an investment policy for the City's cash pool for City Council's review no later than the beginning of the Fiscal Year and recommend modifications as appropriate. The review will take place at a public meeting and the policy shall be adopted by resolution of the City Council.

34. City funds and investment portfolio will be managed in a prudent and diligent manner with emphasis on safety, liquidity, and yield, in that order.

35. Reports on the City's investment portfolio and cash position shall be developed by the Finance Director/City Treasurer and reviewed by the City Council quarterly.

36. Generally Accepted Accounting Principles require that differences between the costs of the investment portfolio and the fair value of the securities be recognized as income or losses in a government's annual financial report. These variances shall not be considered as budgetary resources or uses of resources unless the securities are sold before maturity or the values of the investments are permanently impaired.

37. The City has set up an Other Post Employment Benefits (OPEB) Trust Fund to prefund its retiree medical benefit to eligible former employees with the California Employers' Retiree Benefit Trust (CERBT). Bi-annually, the City shall engage an actuary to provide the City with an actuarial valuation. Working with the actuary, staff shall review the assumed interest earnings, investment strategy, and other factors to ensure the long-term health of the fund.

38. Per the pension valuation provided by the City's actuary, the City's pension costs will continue to rise during the next ten plus years. The City set aside and invested the CalPERS Rate Stabilization Reserve funds in the City of Milpitas Section 115 Pension Trust Fund in order to invest funds with moderate risk achieving a 3% to 6% investment earnings goal during the next 5 to 10 years to mitigate the rising pension costs. The City may use the trust funds to fund either the annual actuarially determined pension contribution amounts, pay down unfunded pension liabilities with CalPERS, or reduce the length of pension cost amortization schedules with CalPERS.

Reserve Policies

39. The City will fund the following reserves as follows with any General Fund audited year end operating surplus after the General Fund Contingency Reserve and General Fund Budget Stabilization Reserve requirements are met and pension budgetary surplus are allocated to the PERS Rate Stabilization Reserve.

- **Part I**
  - Contingency Reserve (Policy Statement #41)
  - General Fund Budget Stabilization Reserve (Policy Statement #42)
- **Part II (any remaining balance)**
  - Pension budgetary surplus are allocated to the PERS Rate Stabilization Reserve (Policy Statement #43)
  - ~~If confirmed by actuary, 20% to PERS Rate Stabilization Reserve (Policy Statement #43)~~
  - ~~If not confirmed by actuary, 0% to PERS Rate Stabilization Reserve (Policy Statement #43);~~
- **Part III (any remaining balance)**
  - Artificial Turf Replacement ($230,000) (Policy Statement #54)
- **Part IV (any remaining balance)**
  - 30~~20~~% to the General Government Capital Improvement Fund (Policy Statement #56);

- 20~~30~~% to Storm Drain Fund
- 10% to the Affordable Housing Community Benefit Fund (Fund 216);
- 10% to Transportation/Transit (Fund 310)
- 15~~20~~% to Technology Replacement Fund; and
- 10% to SPAR (Strategic Property Acquisition Revenue) Fund (Policy #57)
- 5~~10~~% Unassigned

40. The City will periodically review and update reserve guidelines, to ensure that the City has sufficient reserve balances to adequately provide for emergencies, economic uncertainties, unforeseen operating or capital needs, economic development opportunities, and cash flow requirements.

41. The City will maintain a Contingency Reserve of at least 16.67% or two months of the annual operating expenditures in the General Fund to be used only in the case of dire need as a result of physical or financial emergencies and disasters as determined by the City Council. Any use of the General Fund Contingency Reserve shall require a majority vote by the City Council through the adoption of the Operating Budget or by appropriation action during the fiscal year. The City Council will set the reserve amount annually after the results of the prior fiscal year's Comprehensive Annual Financial Report are known. The replenishment of this reserve may also be incorporated into the annual Adopted Operating Budget if resources are available to replenish the reserve.

42. The City will maintain a General Fund Budget Stabilization Reserve with a target of 16.67%, or two months, of annual operating expenditures. The purpose of this reserve is to provide budget stability when there are fluctuations that result in lower than projected revenues and/or higher than projected expenditures that cannot be rebalanced within existing budget resources in any given fiscal year. This reserve is intended to provide a buffer, or bridge funding, to protect against reducing service levels when these fluctuations occur. This reserve will be funded only after General Fund Contingency Reserve requirements have been met. Any use of the General Fund Budget Stabilization Reserve shall require a majority vote by the City Council through the adoption of the Operating Budget or by appropriation action during the fiscal year. The City Council will set the reserve amount annually after the results of the prior fiscal year's Comprehensive Annual Financial Report are known. The replenishment of this reserve may also be incorporated into the annual Adopted Operating Budget if resources are available to replenish the reserve.

43. The City will maintain in the General Fund and the Water and Sewer Utility Enterprise Funds or in a Section 115 Trust a Public Employees Retirement (PERS) Rate Stabilization Reserve. The City's actuary has determined that the General Fund portion of the Unfunded Actuarial Liability for the Miscellaneous Retirement Plan is 84.9% and for the Water and Sewer Utility Enterprise Funds portion of the Unfunded Actuarial Liability for the Miscellaneous Retirement Plan is 8.5% and 6.6%, respectively. The contributions to the PERS Rate Stabilization Reserve from the Utility Funds shall be consistent with the General Fund contributions. ~~If confirmed by City's actuary that contributions are advised for that respective year, then any savings resulting from the pension budgeting methodologies shall be contributed to the PERS Rate Stabilization Reserve.~~ However, the General Fund portion of any pension savings shall only be allocated to the PERS Rate Stabilization Reserve after the General Fund Contingency Reserve and the General Fund Budget Stabilization Reserve requirements have been met. The Utility Funds' portion of any pension savings shall only be allocated to the PERS Rate Stabilization Reserve after the Capital Reserve and Rate Stabilization Reserve (RSR) requirements in the Water and Sewer utility funds have been met. ~~If confirmed by City's actuary that contributions are advised for that respective year, then additionally, 20% of any~~

~~General Fund or Enterprise Funds annual operating surpluses shall be allocated to the PERS Rate Stabilization Reserve.~~

44. Annually, the City will endeavor to transfer $500,000 from the General Fund to the Storm Drain Fund to replace and repair storm drain infrastructure.

45. The City will maintain a retiree medical benefits account established by an irrevocable trust and fund the annual actuarially determined contribution. Any savings resulting from the budgeting methodologies shall be used to pay off the actuarial unfunded liability.

46. The City will maintain a General Liability and Workers' Compensation Claims Reserve of at least $2 million in the General Fund, which will be reviewed for adjustments annually. As part of closing out a fiscal year, any Workers' Compensation savings in the General Fund may be allocated to this General Fund reserve and any Workers' Compensation savings in the Utility Funds may be allocated to a Workers' Compensation Claims Reserve established for each utility fund.

47. The City will maintain a Rate Stabilization Reserve (RSR) in the Water and Sewer utility enterprise funds with a goal of at least 16.67% or two months of the respective annual operating expenditures after the Capital Reserve requirements have been met. The RSR shall be used to mitigate the effects of occasional shortfalls in revenue or unanticipated expenditures that cannot be rebalanced within existing budgeted resources in any given fiscal year. Revenue shortfalls may result from a number of events such as weather factors (wet weather or drought events and natural disasters), increased water conservation, and poor regional economic conditions. The Rate Stabilization Reserves should be used to assist in smoothing out revenue variability resulting from these factors and ensure that adequate resources are available during such times that might otherwise require large rate increases to utility customers. The City Council will set the reserve amounts annually after the results of the prior fiscal year's Comprehensive Annual Financial Report are known. The RSR funding will be phased within five years, or sooner, as part of the fiscal year-end closing process. Thereafter, the replenishment of these reserves may also be incorporated into the annual Adopted Operating Budget if resources are available to replenish the reserves.

48. The City will maintain capital reserves in the Water and Sewer utility enterprise funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs, pump station repairs. The City will attempt to maintain a capital reserve of approximately 30% of the annual operating and maintenance expenses for the Water utility fund and 25% of the annual operating and maintenance expenses for the Sewer utility fund. The City Council will set the reserve amounts annually after the results of the prior fiscal year's Comprehensive Annual Financial Report are known.

49. In addition, the City will maintain Infrastructure Replacement Funds for both water and sewer utilities. The goal is to accumulate at least $2 million a year from each utility fund to set-aside for replacement of infrastructure as the infrastructure reaches the end of its useful life after Capital Reserve, the Rate Stabilization Reserve, and CalPERS Rate Stabilization Reserve requirements have been met.

50. Reserve levels for Debt Service Funds will be established and maintained as prescribed by the bond covenants authorized at the time of debt issuance.

51. The City will maintain a capital reserve in an Equipment Replacement Fund, set up as an internal service fund, to enable the timely replacement of vehicles and depreciable equipment as cost. The City will maintain a minimum fund balance of at least 30% of the replacement costs for equipment accounted for in this fund.

52. Annually, the City will endeavor to transfer $300,000 from the General Fund to the Technology Replacement Fund set aside in a reserve with a target of $5 million. This reserve shall be used to accrue funding for technology projects such as the major rehabilitation or replacement of the City's technology infrastructure or new technology initiatives.

53. The City will maintain a capital reserve for Facilities Replacement with a target of $10 million. This reserve shall be used to accrue funding for major rehabilitation or replacement of City facilities (buildings/structures). Eligible uses of this reserve may include both the direct funding of public facility improvements and the servicing of related debt. The City Council will set the reserve amount annually after the results of the prior fiscal year's Comprehensive Annual Financial Report are known. The replenishment of this reserve may also be incorporated into the annual Adopted Operating Budget as resources are available to replenish the reserve.

54. The City will maintain a capital reserve for Artificial Turf Replacement with a target of $2 million and an annual set-aside amount of at least $230,000 until the target is reached. This reserve shall be used to accrue funding for the normal depreciation expense of the City's artificial turf fields over their useful life. Eligible uses of this reserve may include the replacement of the City's artificial turf fields so as to eliminate large spikes in capital expenses and normalize annual costs. The City Council will set the reserve amount annually after the results of the prior fiscal year's Comprehensive Annual Financial Report are known. The replenishment of this reserve may also be incorporated into the annual Adopted Operating Budget as resources are available to replenish the reserve.

55. The City may direct any loan repayments from the former Redevelopment Agency and residual property tax distributions from the Redevelopment Property Tax Trust Fund to a General Government Capital Improvement Fund to address the funding needs of capital improvement projects.

56. The City may direct 30~~20~~% of any General Fund audited year end operating surplus to a General Government Capital Improvement Fund to address the funding needs of capital improvement projects after General Fund Contingency and General Fund Budget Stabilization reserve requirements have been met and pension budgetary surplus are allocated to the PERS Rate Stabilization Reserve (Policy Statement #43). ~~to a General Government Capital Improvement Fund to address the funding needs of capital improvement projects.~~

~~**56.**~~**57.** The City may direct 10% of any General Fund audited year end operating surplus to the SPAR Fund to support strategic property acquisition, development and long-term revenue opportunities after General Fund Contingency and General Fund Budget Stabilization reserve requirements have been met and pension budgetary surplus are allocated to the PERS Rate Stabilization Reserve (Policy Statement #43).

Accounting, Auditing, and Financial Reporting Policies

57. The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles as they apply to governmental accounting.

58. An annual audit will be performed by an independent public accounting firm with the subsequent issuance of a Comprehensive Annual Financial Report, within six months of the close of the previous fiscal year.

59. Quarterly financial reports and status reports will be submitted to the City Council within six weeks after the end of each Quarter and be made available to the public. The report will provide an analysis of budgeted versus actual revenues and expenditures, on a year-to-date basis. At the minimum, the report shall include the status of the General Fund and Water and Sewer utility fund revenues and expenditures.

Budget Guidelines

Through the adoption of the annual operating budget, the City Council approves the funding of City services and estimates of resources available to fund the City's services. Through adoption of this budget, the City Council also approves these budget guidelines providing certain responsibilities and authority to the City Manager to adjust the budget given fluctuations in revenues. These budget guidelines provide sufficient flexibility to make budget adjustments during the year, provided these adjustments do not materially alter the general intent of the City Council approved budget, and establish adequate controls through budget monitoring and periodic reporting.

Annually, the City Council establishes Council Priority Areas regarding service levels to provide guidance to management in preparing the adopted budget. This budget reflects the City Council Priority Areas. Through its legislative authority, the Council approves and adopts the budget by resolution.

The City Manager is responsible for proposing to the City Council a balanced budget which is consistent with the Council's service level priorities and sound business practices. A Balanced Budget is defined as a budget where the anticipated operating revenues and other financing resources including carryover of outstanding encumbrances from prior year are equal to or exceed operating expenditures. The City Manager is also responsible for establishing a system for the preparation, execution, and control of the budget which provides reasonable assurances that the intent of Council priorities is met.

The Finance Director is responsible for developing the operating budget on behalf of the City Manager, synchronizing the operating budget with the annual capital plan, developing a ten-year General Fund Financial Forecast, establishing budget and fiscal policy, providing periodic budget status reports to the City Manager and the City Council, and developing internal monthly budget management reports for the Department Heads to facilitate control and compliance with the budget.

The Department Heads are responsible for assisting in the development of annual budgets and monitoring their respective budgets for compliance with the intent of Council priorities to ensure that appropriations of the aggregate total of the department are not exceeded.

Summary of Budget Guidelines

1. Basis of Budgeting

City budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital project expenditures are budgeted on a project length basis rather than a fiscal year. For all governmental funds, revenues and expenditures are budgeted on a modified accrual basis. For all proprietary funds, revenues and expenditures are budgeted on an accrual basis.

2. Budget Calendar

The Finance Director publishes a budget preparation calendar to the Department Heads and to the City Council at the beginning of the budget process each year. The calendar sets forth, at a minimum, dates for the following:

- Review of service level priorities by the City Council at an annual Planning Session.
- Review and update of the Master Fee Schedule.
- Community Engagement and Outreach.
- Engagement and Outreach for City employees.
- Capital Improvement Projects Budget.

- Presentation of the City Manager's Proposed Budget to the City Council, which shall be no later than the second week in May.

3. Form and Content of the City Manager's Proposed Budget

The Ten-Year General Fund Financial Forecast and the City Manager's Proposed Budget shall be presented in a form which facilitates the City Council to determine and review, as applicable:

- Alignment of the proposed service level changes to City Council priorities as established at the annual Planning Session.
- Projected revenues by major category; based on an updated Master Fee Schedule.
- Operating expenditures by major category.
- Historical and proposed authorized staffing levels.
- Department and Office Proposed budgets as follows:
    - Service level descriptions.
    - Summary of accomplishments and initiatives.
    - Performance and workload measures.
    - Expenditure comparison with the preceding year's budget and two years of actual results.
    - Authorized staffing comparison with the preceding three years.
    - Budget reconciliation from the prior fiscal year to the Proposed Budget.
    - Recommendations for service level changes with a detailed description, performance outcome, and impact statement if the recommendation is not funded.
- Capital improvement appropriations by project.
- A schedule showing General Fund Revenue and Expenditure projection for the next nine years.

4. Adoption of the Budget

The City Council will adopt the budget by resolution no later than June 30th of the previous fiscal year, setting forth the amount of appropriations and authority of the City Manager to administer the adopted budget. Unless otherwise directed, all funds that are presented in the operating budget document are subject to Council approval of appropriations.

5. Budget Authority of the City Manager

The City Manager shall have the authority to make revisions involving transfers from the appropriated Unanticipated Expenditure Reserve account less than or equal to the aggregate amount of amount adopted within the budget in any one fiscal year ($1,260,000 in FY 2023-24, or 1% of total General Fund appropriations, net of use of prior year surplus from technology and infrastructure reserves), provided that the Council is notified in writing of the revision, giving the reason, the amount of the revision and the year-to-date total amount of revisions as part of the quarterly financial reports.

Additionally, the City Manager shall have the authority to:

- Amend and/or transfer appropriations among departments and projects within any one fund, provided that the amount of the amended appropriation is $100,000 or less;
- Amend the budget for grant interest earned to update the grant budget revenue(s) and associated grant appropriation(s).

- Accept grants or donations up to $100,000 or less (monetary and non-monetary based upon market value), increase department revenues and appropriations accordingly and execute related agreements as long as no matching funds are required, and/or departments do not require additional funding for ongoing maintenance costs or future replacement costs.
- Reasonably deviate from the budgeted personnel allocation schedule provided that at no time the number of permanent funded positions or personnel cost appropriations authorized by the City Council is exceeded;
- Hire full-time employees in overstrength positions for no more than one year as long as appropriations are not exceeded to ensure adequate staffing levels for sworn positions, to facilitate training of new employees in critical positions by the outgoing incumbents, or to respond to urgent staffing needs; and
- Add/delete positions or to move positions between departments to respond to organizational needs, as long as the number of permanent funded positions and the approved personnel cost appropriations remain the same.

Prior approval of the City Council is required for changes that:

- Increase the overall appropriation level within any one Fund.
- Transfer or reallocate appropriations between different Funds.
- Cause an increase or decrease in funded authorized position counts in the Adopted Budget.
- Cause the aggregate amount of contract change orders to exceed 15 percent of the contract amount and/or exceed prior approved appropriation levels for the subject contract.
- Cause transfers from unanticipated expenditure reserve to exceed the aggregate amount of $1,140,000 during the fiscal year.
- Result in changes not consistent with the purpose and intent of the Budget as adopted.
- Require an appropriation action from any unassigned fund balances or reserves.

Pertaining to ARPA:

- On August 9, 2021 wherein for ARPA funding, the City Council delegated authority to the City Manager including appropriation and contract approval authority up to the approved amount for each program approved by Council, once compliance with ARPA procurement, contracting and reporting requirements. For budget monitoring and reporting, it includes a quarterly ARPA report for program updates to the City Council.

6. Budget Amendments by the City Council

At City Council meetings, the City Council may from time to time approve expenditures and identify funding sources not provided for in the adopted budget including those expenditures funded through unassigned fund balances or reserves.

7. Budget Transfers and Modification Procedures

Procedures to implement budget transfers or budget modifications are detailed in Standard Operating Procedure No. 21-1, subject to any changes by the Budget Resolution.

8. Automatic Adjustments and Reappropriations

Outstanding encumbrances at prior fiscal year-end will automatically be carried over to current year's budgets.

Unspent appropriations that are authorized and funded by grant revenues or donations from prior fiscal year will automatically be carried over to current year's budgets. Unspent City funded grant appropriations from prior fiscal year will automatically be carried over to the current year's budgets.

Incomplete multiple year project (capital improvement project) balances will automatically be appropriated.

Any unused non-salary and benefits-related appropriations, subject to the approval of the City Manager, at the end of the fiscal year may be re-appropriated for continued use in the subsequent fiscal year. Furthermore, any outstanding contract and/or purchase order obligations (or encumbrances) remaining at the end of FY 2021-22 are subject to carry over into FY 2022-23.

9. Budget Monitoring and Reporting

Monthly Financial Reports - The Director of Finance will prepare and make available a monthly budget report including actual expenditures and encumbrances for distribution to the City Manager and Department Heads, to facilitate monitoring of the budget.

Quarterly Financial Status Reports - The Director of Finance will periodically prepare financial status reports for presentation to the City Council. At the minimum, the report shall include the status of the General Fund revenues and expenditures; Water and Sewer utility fund revenues and expenditures; and document any use of the appropriated Unanticipated Expenditure Reserve; and report the acceptance of any grants and donations as authorized in these budget guidelines.

Annually, as part of the 4th Quarter Financial Status Report, the Director of Finance shall report on all active grants and grants closed out during the fiscal year including the purpose of the grant, the granting agency, the grant amount awarded, remaining grant funds, and grant activities completed or underway.

10. Reserves

Various unallocated reserves are desired in each of the City's funds to protect the City in emergencies, economic uncertainties, and to finance unforeseen opportunities and/or requirements. Key reserve policies for various funds are described in detail in the document entitled "City of Milpitas Fiscal Policies".