GENERAL OPERATING FUND
5-YEAR FINANCIAL FORECAST

INTRODUCTION

Forecasting is an important part of a city's financial planning process. While it is difficult to predict local government revenues due to the variable nature of the revenue sources and their connection to regional, State, national, and even international economic conditions, it is possible to identify reasonable financial trends and provide a conceptual financial picture for a multi-year period which is useful to policy-makers' decision-making.

A 5-Year Financial Forecast is prepared annually and a longer range 10-year Financial Forecast is prepared periodically and presented to the City Council during the budget process. This report is a 5-Year Financial Forecast (Forecast) for the time period of Fiscal Years 2019-20 through 2023-24. The last 10-year Financial Forecast was completed for Fiscal Years 2019-2028.

A financial forecast, even with fluctuating economic variables, can assist with identification of long-term financial trends, causes of fiscal imbalances, future fiscal challenges, opportunities, and potential requirements, all of which may assist in keeping the City on a continuing path of fiscal sustainability. Growth and development will occur at a different pace than anticipated in this Forecast, and actual revenues and expenditures in future years will vary, but trend lines will be apparent. This Forecast is intended to provide a foundation for the City Council's decision-making for Fiscal Year 2019-20 budget deliberations. The Forecast is for the General Operating Fund (GOF), which provides funding for the majority of City services, including Police, Fire, Parks, Recreation, Library, and administrative functions necessary for ongoing City operations. The GOF is also the fund that is most significantly influenced by economic conditions.

BACKGROUND

The Forecast is based on reasonable assumptions utilizing available information from a wide variety of sources. These sources include reviewing the City's historical trends, gathering information from economists that specialize in the regional economics of Silicon Valley, reviewing various indicators (e.g., unemployment data, etc.), networking with staff of neighboring agencies, reviewing State of California (State) and national economic trends, and factoring in known Mountain View conditions, such as lease terms, and economic and property development. The level of City services, staffing, and cost of operations projected for Fiscal Year 2019-20 is the base year for subsequent fiscal years' expenditures in the Forecast. Confidence levels in the Forecast assumptions become less certain with each subsequent fiscal year, and actual future revenues and expenditures will vary from the Forecast.

The City is fortunate to be experiencing strong revenue growth, with economists currently believing the State and regional fundamentals (employment, job growth) are strong and that the likelihood of a recession in the next 24 months is possible, but low. There are other factors such as housing/rent prices, recent market volatility, global trade, and political discourse that impact the economy. Historically, recessions have generally occurred between 3 and 9 years, post-World War II, with the longest period of expansion lasting 10 years, from 1991 to 2001. It has been approximately 10 years since the end of the last recession (June 2009); now the same recovery and expansion period of the 1990s. A table of previous recessions is as follows:

Name	Period Range	Duration (months)	Time Since Previous Recession (years)
Recession of 1949	Nov. 1948-Oct. 1949	11	3.1
Recession of 1953	July 1953-May 1954	10	3.8
Recession of 1958	Aug. 1957-Apr. 1958	8	3.3
Recession of 1960-1961	Apr. 1960-Feb. 1961	10	2.0
Recession of 1969-1970	Dec. 1969-Nov. 1970	11	8.8
1973-1975 Recession	Nov. 1973-Mar. 1975	16	3.0
1980 Recession	Jan. 1980-July 1980	6	4.8
1981-1982 Recession	July 1981-Nov. 1982	16	1.0
Early 1990s Recession	July 1990-Mar. 1991	8	7.7
Early 2000s Recession	Mar. 2001-Nov. 2001	8	10.0
Great Recession	Dec. 2007-June 2009	18	6.1

Although it is uncertain when the next economic slowdown will occur, based on history, it is certain there will eventually be another, and within the next few years is highly likely; therefore, an economic downturn is assumed during the Forecast period. The City's Forecast continues the presumption that the next downturn will occur in Fiscal Year 2020-21 and continue into Fiscal Year 2021-22. The Forecast is not intended to predict precisely when the next slowdown in the economy will occur but, rather, an indication of what the financial picture might look like when it does occur. The next slowdown could occur sooner or later than projected. The trend, based on the assumptions utilized, and assuming $2.3 million annual budget savings, indicates revenues will exceed expenditures through Fiscal Year 2020-21 even with another downturn, but as a result of the anticipated economic downturn, revenues may not be sufficient to fund all expenditures in Fiscal Years 2021-22 and 2022-23.

The various GOF revenue sources respond differently to such an economic event—some, such as Transient Occupancy Tax (TOT), react almost immediately while others, such as property taxes, sales tax, and investment earnings, lag behind. While the budget is projected to be balanced through the first year of the downturn, it is important to note the Forecast includes revenues from projected development. If development is hampered and does not occur, annual negative operating balances would be greater and could occur earlier.

Influencing Factors

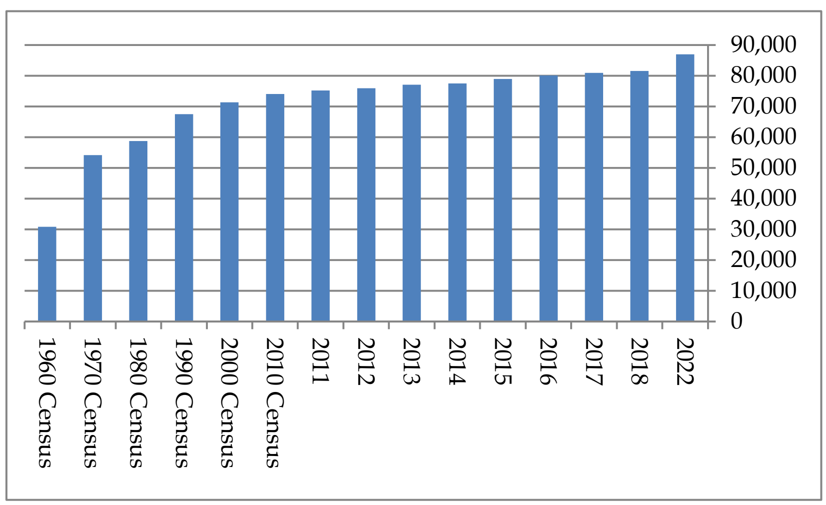
There are factors which influence each individual revenue source, some of which have broad ranges affecting multiple revenues and some are specific to an individual revenue source. The Forecast includes a discussion of these factors below.

Population

The following chart shows historical population annually for the past eight years, and each U.S. Census year back to 1960. From the 2000 Census to the 2010 Census, the City of Mountain View population grew by 2,697 (3.8 percent). According to the California State Department of Finance, the City's population estimate as of January 1, 2018 is 81,527, 10.1 percent growth since the census. With the current pace of housing development, and potential for housing in the North Bayshore Area, staff has estimated a population of 86,915 for 2022 based on projects approved through January 2018. After 2020, it is expected population will grow more rapidly.

Population

1960 Census	30,889
1970 Census	54,132
1980 Census	58,722
1990 Census	67,460
2000 Census	71,369
2010 Census	74,066
2011	75,199
2012	75,972
2013	77,069
2014	77,447
2015	78,970
2016	80,122
2017	80,897
2018	81,527
2022 Forecast	86,915

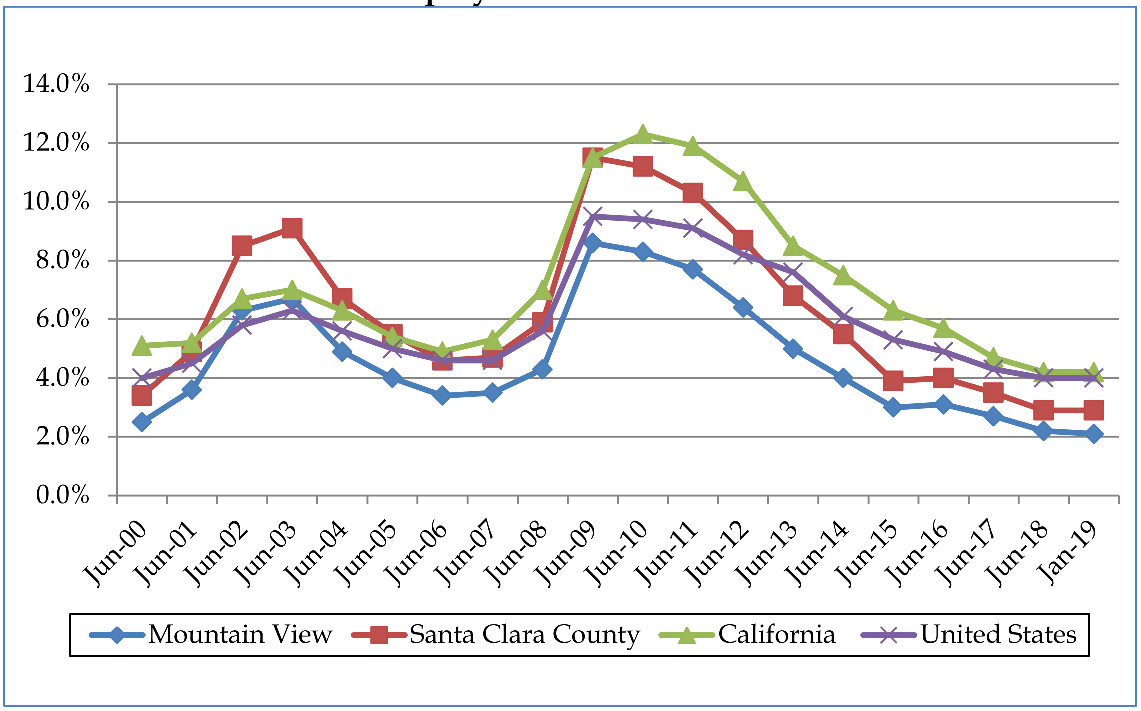


Sources: U.S. Census Bureau (1960-2010)
City of Mountain *View (2022, based on unbuilt approved projects through 1/1/2018)*
California State Department of Finance estimates as of January 1 (all other years, provisional estimates)

Unemployment

As detailed in the chart below, Mountain View's unemployment level has been below the County of Santa Clara (County), State, and nation, except during the recession of the early 2000s, which hit Silicon Valley the hardest. As of January 2019, the preliminary unemployment rate in the City is at 2.1 percent, well below the County (2.9 percent), the State (4.2 percent), and the nation (4.0 percent).

Unemployment Rate—2000-2019



State of California

The Governor's Fiscal Year 2019-20 Proposed Budget Summary maintains a balanced budget for the foreseeable future under current projections and will pay down the unfunded retirement liabilities, eliminate long-standing budgetary debts, and continues to build reserves to prepare for the next economic slowdown. The Proposed Budget includes funding increases for emergency readiness, early childhood education and child care, K-12 schools and higher education, affordable housing, health care, immigration-related services, mental health, and homelessness. Despite this strong fiscal health in the short term, the risks to long-term fiscal health continue to mount due to the uncertain effects of Federal policies, global risks, rising costs, and volatility of the stock market.

ANALYSIS

Revenue and Expenditure Overview

In order to maintain a base level of services in the City, revenue growth is necessary. If the existing revenue base cannot generate sufficient revenues to fund the cost of operations, the economic base must be enhanced or operating costs reduced. Fiscal Year 2019-20 revenues are projected, including recommendations, to increase $10.7

million (7.8 percent) compared to Fiscal Year 2018-19 adopted revenues and $5.0 million (3.5 percent) compared to the Fiscal Year 2018-19 estimated revenues. Approximately $2.0 million of the increase is related to the new Business License structure approved by voters November 2018. The new structure is phased in over three years with the first phase in Fiscal Year 2019-20. The City Council preliminarily earmarked 80.0 percent of these funds for transportation and 10.0 percent for housing.

The City is in a strong financial position with an annual surplus projected for the next two fiscal years, the result of increased revenues generated by continued economic growth. Locally, this includes major new private and public developments, such as The Village at San Antonio Center Phase II, Ameswell project, Hope Street project, and various rental and ownership housing, hotel, and commercial office developments. These developments will provide housing, hotel rooms, shopping, and entertainment as well as generate additional ongoing revenues for the City.

During Fiscal Year 2016-17, the City negotiated three-year agreements with most employee groups (the EAGLES group contract negotiations were completed early in Fiscal Year 2017-18). All contracts previously expired June 30, 2017 and the new agreements continue until June 30, 2020, with a reopener on salary in the third year, currently under way. The Forecast includes cost-of-living adjustments (COLAs) and other pay and benefit changes as adopted in the new labor agreements. A modest COLA has been included in each of the remaining Forecast years, and all Forecast years include step and merit increases. In conjunction with the approval of labor agreements for employees, the City Council adopted an increase from $1.8 million to $2.3 million in projected budget savings, which is carried throughout the Forecast.

Fiscal Year 2019-20 recommended expenditures are $11.2 million (8.9 percent) higher compared to the Fiscal Year 2018-19 adopted expenditures. The increases in expenditures are primarily related to personnel costs as approximately 80.0 percent of the budget is for the cost of employees to provide services. New ongoing expenditures of $2.4 million are recommended to address some of the strains on staff resources. After allowing for transfers of $2.0 million to the General Fund Reserve, $3.0 million to the Capital Improvement Reserve, $1.0 million to the Strategic Property Acquisition Reserve (SPAR), and a contribution of $4.0 million to the unfunded California Public Employees' Retirement System (CalPERS) liability, the operating balance is projected to be $2.3 million (after budget savings of $2.3 million) for Fiscal Year 2019-20, which represents approximately 1.5 percent of GOF projected revenues.

Staff and Council have recognized the opportunity to take advantage of the City's improved financial position to reduce unfunded liabilities for CalPERS and OPEB. For Fiscal Years 2014-15 through 2016-17, the City Council approved allocations of $9.0 million toward the CalPERS liability and $6.5 million toward the OPEB liability. For Fiscal Year 2017-18, the City Council approved allocations of $12.4 million towards the

CalPERS liability, as part of the CalPERS Discount Rate Change Funding Strategy, and $4.0 million towards the OPEB liability. For the current fiscal year, the City Council approved additional allocations of $7.6 million toward the CalPERS liability and $1.0 million toward the OPEB liability.

The following chart shows the Fiscal Years 2014-15 through 2016-17 combined contributions, contributions for each Fiscal Year 2017-18 and 2018-19, contributions recommended for Fiscal Year 2019-20, and forecasted contributions for Fiscal Year 2020-21 (dollars in millions):

	Fiscal Years 2014-15 through 2016-17		**Fiscal Year 2017-18**		**Fiscal Year 2018-19**		**Fiscal Year 2019-20**		**Fiscal Year 2020-21**		**Total**	
	PERS	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**
GOF	$4.0 M	$4.0 M	$4.0 M	$2.0 M	$4.0 M	$1.0 M	$4.0 M	–	$1.0 M	–	$17.0 M	$7.0 M
GNOF	$3.5 M	$2.5 M	$6.0 M	$2.0 M	$2.0 M	–	$2.0 M	–	–	–	$13.5 M	$4.5 M
Other Funds	$1.54 M	–	$2.35 M	–	$1.59 M	–	$1.59 M	–	$0.28 M	–	$7.35 M	–
Total	$9.04 M	$6.5 M	$12.35 M	$4.0 M	$7.59 M	$1.0 M	$7.59 M	–	$1.28 M	–	$37.85 M	$11.5 M

For CalPERS, the City's funded status as of June 30, 2017, the date of the most recent valuation, is 69.9 percent combined for both safety and miscellaneous. This is higher than the 67.4 percent as of June 30, 2016. The unfunded liability is $224.3 million as of June 30, 2017. For the CalPERS liability, the City Council adopted the strategy recommended by staff to contribute a significant lump-sum contribution of $10.0 million (General Fund) in Fiscal Year 2017-18, as well as proportionate contributions from other funds. This contribution will be included in the valuation of June 30, 2018. As part of this strategy, an additional $10.0 million General Fund payment is proposed from the future Google Parking Lease revenues, as well as proportionate contributions from other funds. The total recommended contribution for Fiscal Year 2019-20 is $7.59 million: $4.0 million from the General Operating Fund, $2.0 million from the Fiscal Year 2018-19 carryover, and $1.59 million from other funds, proportionate to the General Fund contribution.

For Retirees' Health, the liability was last calculated as of July 1, 2017. For Fiscal Year 2018-19, the actuarial accrued liability (AAL) is $151.3 million using a 6.5 percent discount rate in order to provide a small margin of adverse deviation. For Fiscal Year 2019-20, the actuarial accrued liability (AAL) is $189.9 million using a 6.25 percent discount rate as recommended by staff and approved by the City Council in response to the California Employers' Retiree Benefit Trust (CERBT), the trust the City's funds are held, recommending a reduced discount rate. The City has made great strides toward funding the actuarial accrued liability with $11.5 million additional contributions from the General Fund between Fiscal Years 2014-15 and 2018-19. Other funds also make additional contributions toward full funding. The Reserve Section of the Narrative Budget Report has additional information on Retirees' Health funding.

The following table includes the projected revenues and recommended expenditures by category for Fiscal Year 2019-20 and projections for the subsequent Forecast years. The table indicates the budget is healthy through Fiscal Year 2020-21, but deficits are projected in Fiscal Years 2021-22 and 2022-23, and a modest balance is projected for Fiscal Year 2023-24.

GENERAL OPERATING FUND FORECAST
(dollars in thousands)

	2018-19 ADOPTED	2018-19 ESTIMATED	2019-20 RECOM-MENDED	2020-21 FORECAST	2021-22 FORECAST	2022-23 FORECAST	2023-24 FORECAST
REVENUES:							
Property Taxes	$ 52,909	$ 51,822	$ 57,091	$ 58,418	$ 58,643	$ 60,695	$ 63,889
Sales Tax	20,026	23,179	21,433	20,559	19,328	19,852	20,470
Other Local Taxes[1]	15,989	14,874	18,771	19,067	20,124	22,935	24,655
Use of Money and Property	21,613	21,889	22,657	23,717	24,661	25,799	26,808
Other Revenues[2]	27,145	31,610	28,449	28,039	27,819	27,979	28,385
TOTAL REVENUES	137,682	143,374	148,401	149,800	150,575	157,260	164,207
EXPENDITURES:							
Salaries and All Pays	63,507	61,929	69,017	69,619	71,537	73,347	75,130
Retirement	19,662	18,359	21,798	24,151	26,051	27,635	28,744
Health Benefits	10,705	8,662	10,714	11,581	12,345	13,169	14,058
All Other Benefits	6,943	6,490	7,270	7,488	7,698	7,906	8,118
Salaries and Benefits	100,817	95,440	108,799	112,839	117,631	122,059	126,650
Supplies and Services	17,501	18,146	18,582	19,595	20,155	20,731	21,325
Capital Outlay/ Equipment Repl.	3,276	3,373	2,772	3,436	3,524	3,615	3,709
Interfund Expenditures and Transfers	5,645	5,645	8,263	10,044	11,590	10,386	10,619
Debt Service	-0-	-0-	-0-	1,000	1,000	4,300	4,300
Total Operating Exp	127,239	122,604	138,416	146,914	153,900	161,089	166,003
Budget Savings	(2,300)	Included	(2,300)	(2,300)	(2,300)	(2,300)	(2,300)
NET EXPENDITURES	124,939	122,604	136,116	144,614	151,600	158,789	163,703
Transfer to GF Reserve	(1,000)	(1,000)	(2,000)	-0-	-0-	-0-	-0-
Transfer to Trans Res	(2,000)	(2,000)	-0-	(1,000)	-0-	-0-	-0-
Transfer to Cap Imp Res	(2,000)	(2,000)	(3,000)	-0-	-0-	-0-	-0-
CalPERS Contribution	(4,000)	(4,000)	(4,000)	(1,000)	-0-	-0-	-0-
OPEB Contribution	-0-	(1,000)	-0-	-0-	-0-	-0-	-0-
Transfer to SPAR	-0-	(2,000)	(1,000)	-0-	-0-	-0-	-0-
OPERATING BALANCE/(DEFICIT)	$ 3,743	$ 8,770	$ 2,285	$ 3,186	$ (1,025)	$ (1,529)	$ 504

1 Other Local Taxes consists of Transient Occupancy Tax, Business Licenses, and Utility Users Tax.

2 Other Revenue consists of License, Permits & Franchise Fees, Fines & Forfeitures, Intergovernmental, Charges for Services, Miscellaneous Revenues, and Interfund Revenues & Transfers.

3 Balance is prior to the change in assets and liabilities, encumbrances, and rebudgets for grants and donations.

<u>**Revenue and Expenditure Background**</u>

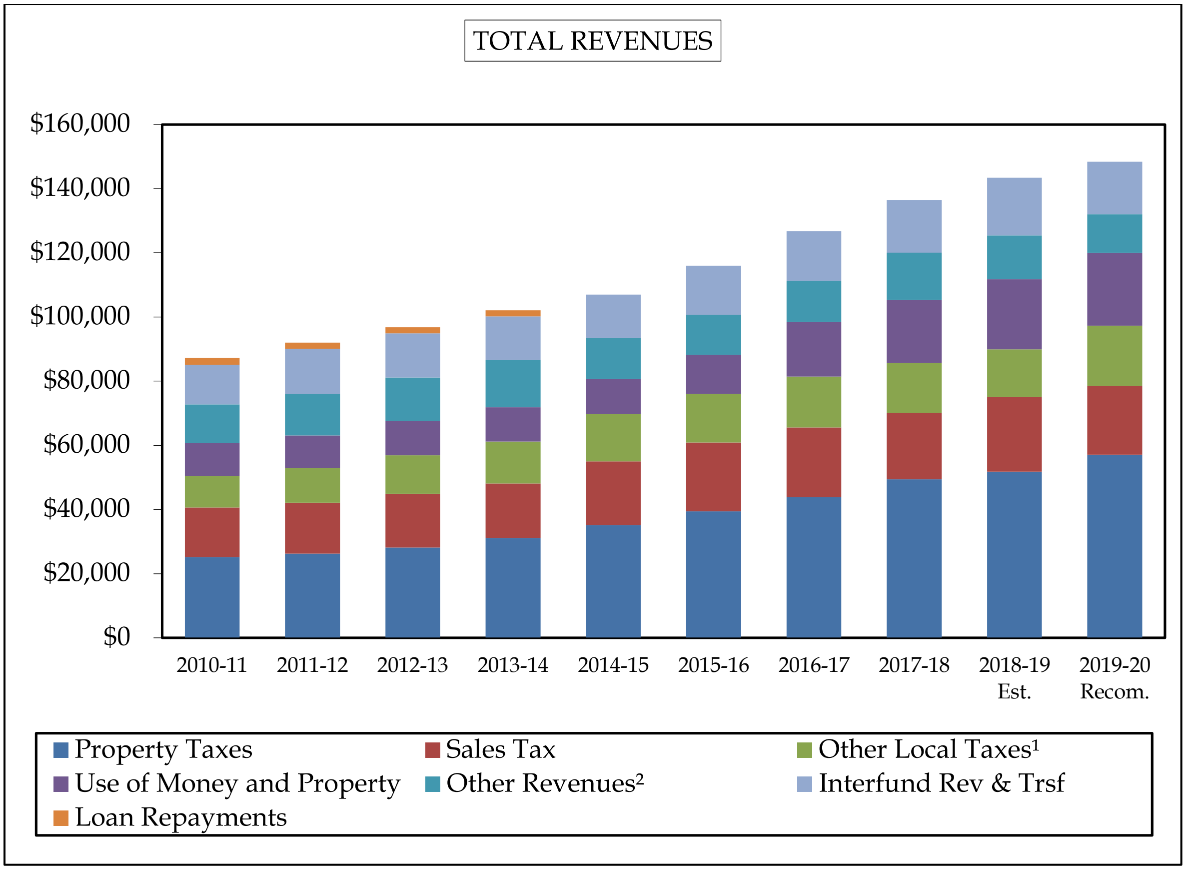
<u>Revenues</u>

Historical experience demonstrates Mountain View had a relatively volatile revenue base, primarily related to sales tax, with substantial variation in the amount of revenues collected over time (see Exhibit A for revenue and expenditure history). In addition to the overarching factors described in the Impacting Factors Section, the City's revenue volatility is continually affected by local factors. In the past decade, however, other revenue sources, such as property taxes and lease revenues, have led to a more stable and predictable overall revenue base.

For Fiscal Year 2019-20, all the main categories of GOF Revenues listed in the previous table are projected to meet or exceed the Fiscal Year 2018-19 Adopted Budget. Significant factors, such as increasing property and lease values, improved interest yields, and the restructured Business License Tax are contributing to an improved financial condition and an overall indication the City is in a strong revenue growth period.

Growth in total revenues continues throughout the Forecast period. The decline in revenues from the anticipated downturn is masked by the restructured Business License Tax phased in over three years and strong development activity.

A history of total GOF Revenues is as follows (dollars in thousands):



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1 Other Local Taxes includes Transient Occupancy Tax, Business Licenses, and Utility Users Tax.
2 Other Revenues includes Licenses, Permits & Franchise Fees, Fines & Forfeitures, Intergovernmental, Charges for Services, and Miscellaneous Revenues.

Total Fiscal Year 2019-20 revenues are projected to increase $10.7 million (7.8 percent) compared to the Fiscal Year 2018-19 Adopted. Additional discussion of individual revenue sources can be found later in this Forecast.

Expenditures

During Fiscal Years 2009-10 through 2012-13, there were projected structural deficits ranging from $1.1 million to $6.0 million: through a combination of operating efficiencies and expenditure reductions (totaling $7.4 million), modest revenue enhancements, and employee cost containment (totaling $2.2 million), the City was able to balance those budgets and weather the Great Recession. Revenues recovered sufficiently and no budget restructuring was necessary beginning in Fiscal Year 2013-14. Since then, the economic health of the City has continued to improve, resulting in a higher level of demand for services to support significant commercial and residential development, as well as to support other community priorities such as affordable housing, transportation, and sustainability. Revenue projections for Fiscal Year 2019-20 indicate the strong economic activity will continue and allow for the opportunity to address infrastructure needs and a strategy for reducing employee benefit unfunded liabilities which the City was unable to address during the last recession.

From the peak in Fiscal Year 2001-02 through Fiscal Year 2012-13, the GOF employee count was reduced by more than 70.0 positions (over 14.0 percent). Although there have been positions added in recent years, overall, the City continues to operate at a staff level less than the prerecessionary level. This is further exacerbated by the high level of demand for services in City departments. The Fiscal Year 2019-20 recommendations include additional regular and limited-period positions to address the most critical workload demands.

The Forecast expenditures are calculated in the same manner as the annual budget and include the full cost of each existing position (salary and benefits). For Fiscal Year 2019-20, COLAs are included as agreed to in MOUs and for unrepresented employees. A modest COLA is included in each of the remaining Forecast years. Also included are multi-year assumptions related to the remaining cost components (e.g., steps, merits, retirement, health care, etc.) throughout the Forecast period. The factors for future health benefit costs are based on health-care trends and historical experience. The CalPERS rates for Fiscal Years 2019-20 through 2023-24 were provided by CalPERS. CalPERS rates are expected to increase 16.2 percent and 16.6 percent over the next 5 years for Miscellaneous and Safety, respectively.

For Supplies and Services and the remaining categories, a base level of expenditures is calculated and then adjusted based on the multi-year assumptions related to each component of cost (e.g., City utilities, equipment maintenance, self-insurance funding, etc.).

Based on past experience, it is typical to underspend the budget due to vacant positions and savings in Supplies and Services accounts. Beginning in Fiscal Year 2009-10, a budget savings amount was assumed. It has ranged between $1.8 million and $2.8 million. In Fiscal Year 2017-18, it was increased to $2.3 million to reflect a current five-year average, and it remains at that level throughout the Forecast period.

SUMMARY

The Silicon Valley region continues to be a leader in the local and national economies—job creation, vacant space utilization, development of both residential and commercial projects, and the recovery of property values are contributing to the overall strong health of the local economy. Although anticipated CalPERS and medical rate increases are significant factors, the Forecast projects revenue growth and positive operating balances (including funds set aside for reserves and CalPERS) through Fiscal Year 2020-21. Fiscal Years 2021-22 and 2022-23 project negative balances before any corrective actions and Fiscal Year 2022-23 projects a modest balance. Future financial stability will be dependent upon the continued strength of the economy, the timing of the next economic downturn, and continued fiscal restraint.

Following is a detailed and graphic presentation of the Forecast, summarizing the assumptions and resulting revenues and expenditures.

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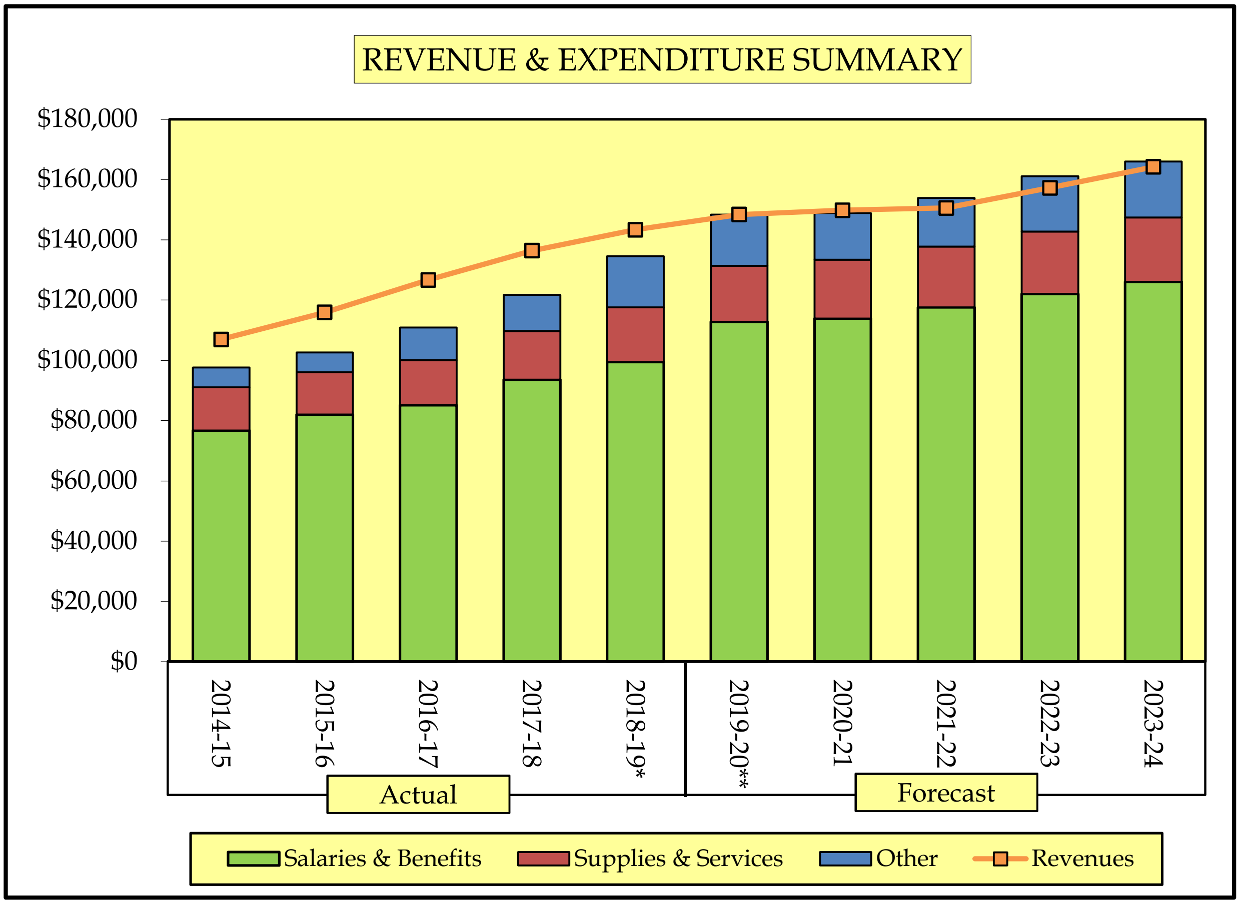
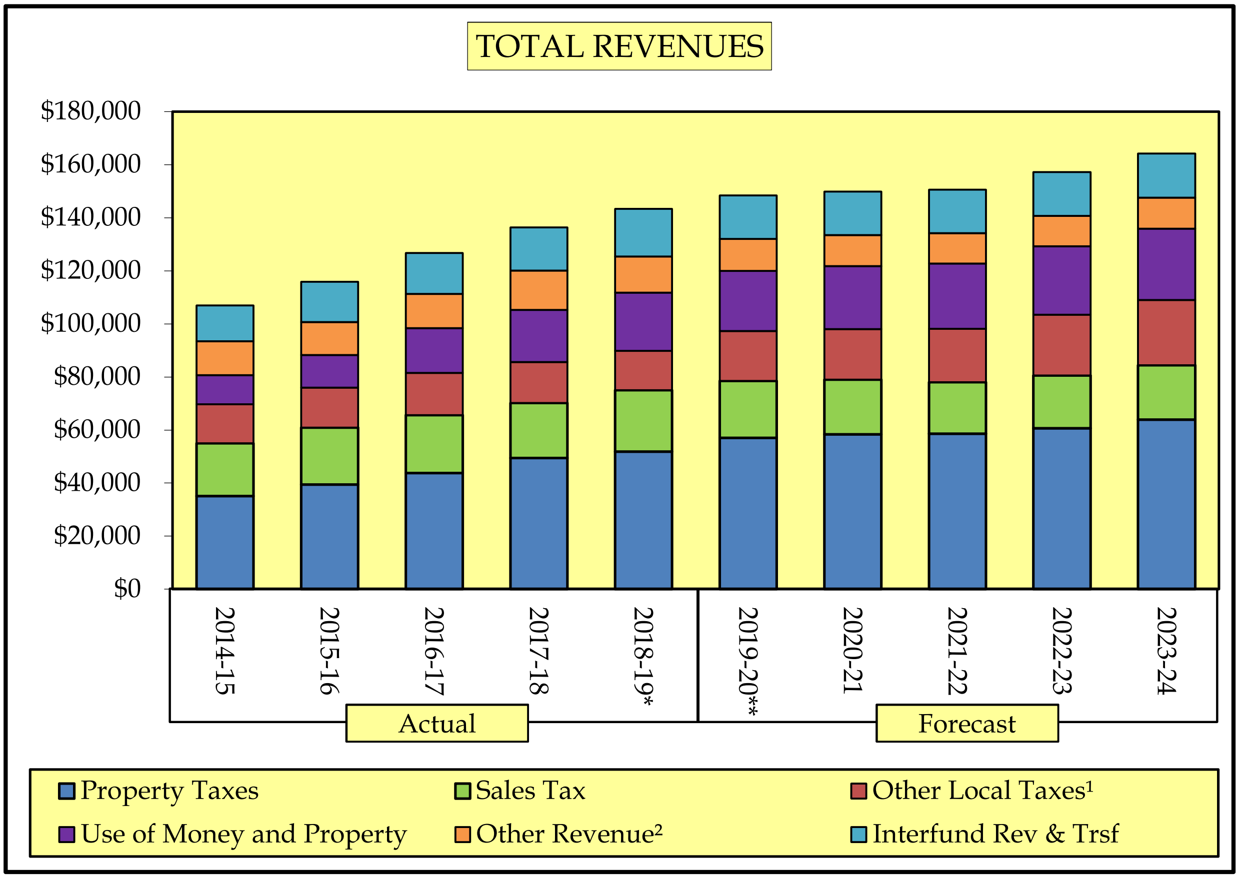


Fiscal Year		Revenues	Expenditures
2014-15		106,940	97,677
2015-16		115,911	102,590
2016-17		126,689	110,936
2017-18		136,377	121,682
2018-19	*	143,374	134,604
2019-20	**	148,401	148,416
2020-21		149,800	148,914
2021-22		150,575	153,900
2022-23		157,260	161,089
2023-24		164,207	166,003

* Estimated
** Recommended
(dollars in thousands)

The Fiscal Year 2019-20 recommended expenditures and all forecast years do not include the projected operating budget savings.



Fiscal Year		Total Revenues	% Change
2014-15		106,940	4.8%
2015-16		115,911	8.4%
2016-17		126,689	9.3%
2017-18		136,377	7.6%
2018-19	*	143,374	5.1%
2019-20	**	148,401	3.5%
2020-21		149,800	0.9%
2021-22		150,575	0.5%
2022-23		157,260	4.4%
2023-24		164,207	4.4%

* Estimated
** Recommended
(dollars in thousands)

[1] Includes Transient Occupancy Tax, Business Licenses, and Utility Users Tax.

[2] Includes Licenses, Permits & Franchise Fees, Fines & Forfeitures, Intergovernmental, Charges for Services, and Miscellaneous Revenues.

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PROPERTY TAXES

Property Taxes include the revenue generated from the City's share of the 1.0 percent levy assessed on the taxable value of real and personal property located within the City limits. The assessed value (AV) of secured real property that does not experience a change in ownership or is not subject to new construction is increased annually at a rate not to exceed the California Consumer Price Index (CCPI) or 2.0 percent, whichever is lower. However, if a property changes ownership, it is reassessed (up or down) at the current market value and new construction is initially valued at the cost of the construction. In addition, the County Assessor has the authority to proactively adjust the AV of properties downward to market value during periods of declining property values. Unsecured tax on personal property, such as computers and other equipment, is assessed on the value of the property as self-reported annually to the County.

SOURCES

- Property tax assessed on secured real property.
- Property tax assessed on unsecured personal property.
- Property tax assessed on leased property.

ECONOMIC FACTORS

- General economic conditions.
- Proposition 13—determines methodology of tax application, limits the annual AV increase, and sets the tax rate.
- California Consumer Price Index (CCPI—October through October).
- New development.
- Property demand, sales, and values.
- County processing time for new development and ownership transfers and inclusion on the tax roll.
- Assessment appeals and proactive assessment reductions by the County Assessor.
- Availability of credit.
- State legislation regarding tax allocation.

HISTORY

In 1992, as a way of solving its own budget shortfall, the State enacted legislation that shifted partial financial responsibility for funding education to local government. Property tax revenues belonging to cities, counties, and special districts were shifted to the Education Revenue Augmentation Fund (ERAF). The net cumulative loss to the GOF resulting from all ERAF shifts through Fiscal Year 2018-19 exceeds $114.0 million ($117.0 million for the entire City).

For the past two decades, housing activity has remained strong with short periods of uncertainty or declines related to the availability of housing stock, interest rates, and the overall economy. During Fiscal Year 2008-09, the housing market collapsed and assessed values across the County suffered and caused some properties to be appraised at less than the outstanding debt on the property. During that time, foreclosures nationwide increased dramatically as homeowners defaulted on their mortgages, and California was the epicenter of the foreclosure crisis. Mountain View experienced foreclosures, but not as severely as other parts of the State. For calendar 2018, the most recent information available, there were a total of 168 foreclosures in the County. Mountain View had one foreclosure, the least in the County.

Beginning Fiscal Year 2008-09, the County began processing Proposition 8 (Prop 8) reductions for residential and commercial properties. The majority of the lost value for residential Prop 8 reductions in the City was recaptured by Fiscal Year 2015-16.

In the time period since the beginning of the recession and continuing into the recovery and expansion, commercial property owners have submitted applications for value reductions. The number of appeals submitted Countywide as of January 2019 is slightly higher than the same time frame in 2018, but, much lower compared to the level of activity during, and for several years after, the recession. As of January 2019, the County had approximately 5,300 active appeals, the same as January 2018. Because of the variable nature of commercial properties, the process of reviewing and valuing them is lengthy and more complicated. The County processes Countywide AV roll reductions (primarily the result of resolved appeals) and corrections throughout the year and currently estimates a net $4.0 billion in reductions for Fiscal Year 2018-19. The General Fund’s share of this estimated property tax revenue loss is approximately $384,000.

Tracking of property sales activity, including new developments, was initiated in 2007 and the most recent 10 years of history is detailed below. The highest number of sales transactions for all types of properties and the largest increase in AV resulting from changes in ownership (CIO) occurred in 2018. For the first time since tracking began the increase in AV related to sales exceeded $1.0 billion. There has been growth in the median price of single-family homes (SFH) experiencing a CIO every year since 2010.

Median Price Statistics (Mountain View Residential Properties with a CIO)

Year	Single-Family Home (SFH)	Number of SFH CIO	Condo/ Townhome	Number of Condo/ Townhome CIO
2009	$845,000	182	$535,000	179
2010	$892,000	267	$572,500	268
2011	$900,750	306	$445,000	241
2012	$1,000,000	341	$570,000	299
2013	$1,245,000	297	$639,000	356
2014	$1,450,000	255	$781,000	322
2015	$1,600,000	274	$910,000	312
2016	$1,700,000	253	$1,013,000	345
2017	$1,900,000	278	$1,175,000	387
2018	$2,100,000	343	$1,360,000	417

Also impacting the growth in Property Taxes is the CCPI. Over the past 10 fiscal years (2009-10 to 2018-19), five years have had annual CCPI increases less than the maximum 2.0 percent allowed, and one of those five years was a negative CCPI.

In total, Fiscal Year 2018-19 Property Tax revenues of $51.8 million is estimated to exceed the Fiscal Year 2017-18 Audited of $49.4 million by 4.9 percent and estimated to be 2.1 percent below the Fiscal Year 2018-19 Adopted Budget of $52.9 million. This decline is primarily the result of an incorrect revaluation included on the July 1, 2017 tax roll and subsequently corrected for Fiscal Year 2018-19. The City was not aware of this error until after the Fiscal Year budget was adopted. In addition, the Fiscal Year 2018-19 Adopted included $500,000 of excess ERAF property tax to be reimbursed to the City. However, this revenue is not ongoing, and staff recommends recording as one-time revenue to the General Non-Operating Fund.

FORECAST

The Fiscal Year 2019-20 projected secured property tax revenue is based on the July 1, 2018 tax roll adjusted for the following:

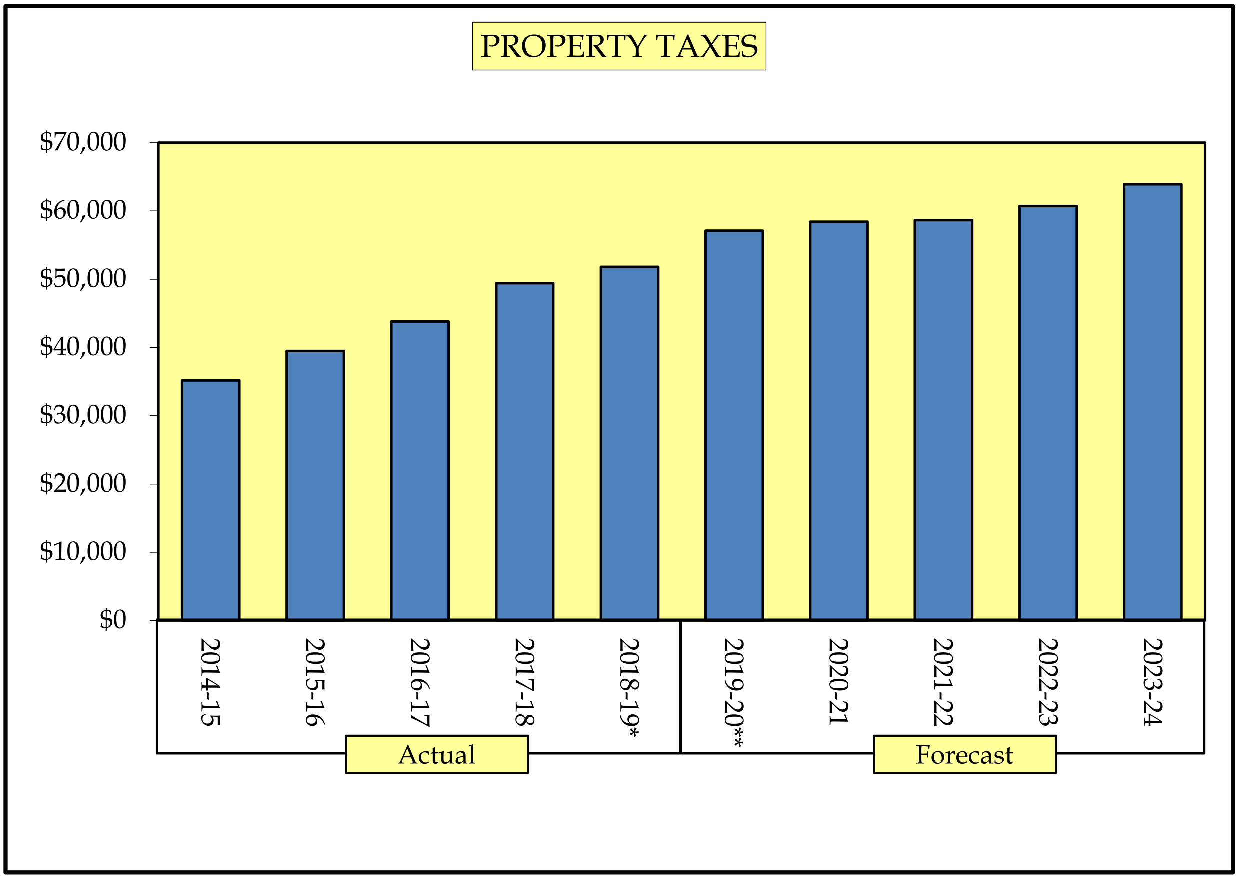
- A 2.0 percent CCPI increase to the AV of all eligible residential and commercial property;
- Projected AV loss from resolution of pending appeals;

- AV changes related to property transfers and sales prior to the January 1 lien date; and

- Projected AV increase related to new development, tenant improvements and remodels.

As mentioned earlier, the County has approximately 5,300 active appeals, of which 179 have been filed over a 6-year span for properties located in the City; 104 filed for properties located in the Shoreline Community. The Fiscal Year 2019-20 revenue includes a projected tax loss based on the historic resolution of appeals. For the remaining Forecast years, total secured property tax is projected with net annual increases ranging from 1.9 percent to 4.6 percent. These increases include an annual change in AV based on a 2.0 percent CCPI for Fiscal Years 2020-21 and 2023-24, the final Forecast year. However, the anticipated economic downturn is projected to impact the intervening two fiscal years resulting in CCPI increases of 1.0 percent and 1.5 percent. In addition, increased AV is projected for Fiscal Years 2019-20 through 2023-24 as a result of new development projects under construction and in the pipeline (including The Village at San Antonio Phase II, Ameswell, and numerous housing, hotel, corporate campus and office developments), and anticipated growth from CIO and remodeling. The increased revenue from Ameswell has previously been identified as a revenue source for the Police/Fire Administration Building Remodel and Expansion project. The Forecast assumes appeals will continue to be filed annually and a portion will be resolved resulting in an AV loss.

Unsecured property tax revenue is projected to increase by 1.0 percent for Fiscal Year 2019-20, decline for the two subsequent fiscal years as a result of the anticipated economic downturn, and grow for the remainder of the Forecast period.



Fiscal Year		Property Taxes	% Change
2014-15		35,173	13.0%
2015-16		39,461	12.2%
2016-17		43,774	10.9%
2017-18		49,419	12.9%
2018-19	*	51,822	4.9%
2019-20	**	57,091	10.2%
2020-21		58,418	2.3%
2021-22		58,643	0.4%
2022-23		60,695	3.5%
2023-24		63,889	5.3%

* Estimated
** Recommended
(dollars in thousands)

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SALES TAX

Sales Tax revenue is the second largest single revenue source of the GOF and also the most volatile. The City of Mountain View is allocated 1.0 percent of every sales dollar subject to sales tax. In the late 1990s, sales tax from commercial/industrial businesses generated a greater amount of sales tax than retail businesses, an approximate 1.5:1.0 ratio. During the current decade, as a result of relocations, recession, growth of the service economy (nontaxable products), and California Department of Tax and Fee Administration (CDTFA) (previously known as State Board of Equalization or BOE) reporting changes, retail contributes a greater share, and the ratio for the most recent completed fiscal year is 1.0:5.7.

SOURCES

- Retail sales of tangible personal property to individuals and other businesses.
- Use tax on business consumption of personal property.
- State and County pooled sales tax allocated by the City's share of the Countywide tax on point of sale transactions.

ECONOMIC FACTORS

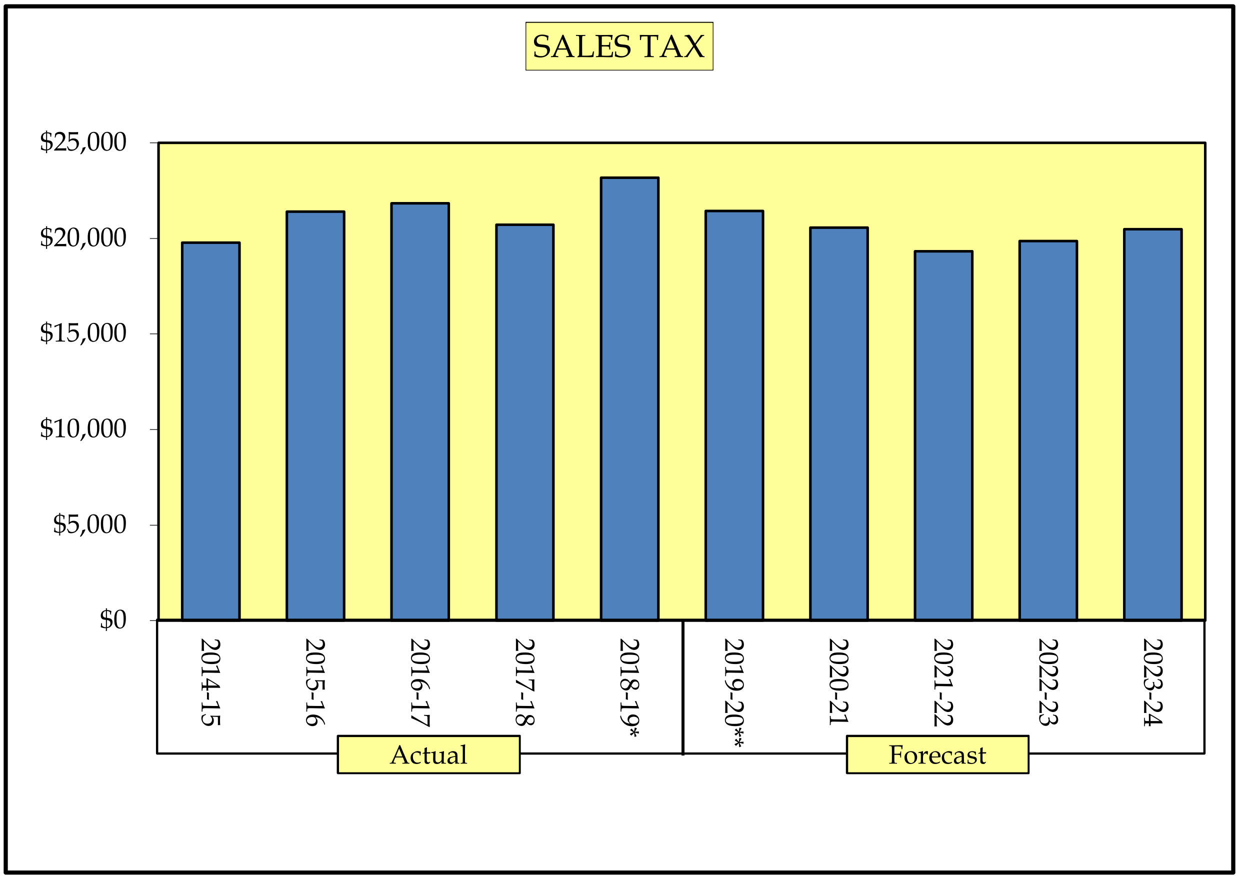
- Business expansion, reduction, or relocation.
- State of the economy.
- Purchasing patterns.
- CDTFA allocation decisions.
- Level of business-to-business sales.
- Technology changes.

HISTORY

Since the early 1990s, sales tax has been an extremely volatile revenue source, reaching a record high of $24.1 million in Fiscal Year 2000-01, primarily resulting from high-tech businesses. A precipitous decline to $14.2 million occurred in Fiscal Year 2003-04 followed by steady growth through Fiscal Year 2007-08 to $17.3 million. These variations typically occur as businesses move in and out of the City, companies modify reporting and/or sales methods, and the economy changes. Fundamentally, as the service economy grows, less manufacturing is done locally, resulting in a smaller commercial tax base as sales tax is not applicable to most technology company sales. As a result of the Great Recession, Sales Tax revenue fell in excess of $2.0 million (11.8 percent) to $15.2 million in Fiscal Year 2009-10. Subsequently, sales tax revenue grew steadily through Fiscal Year 2015-16, but, since then, has either seen little growth or has declined. In Fiscal Year 2017-18 the CDTFA experienced issues with its new software system which delayed payments to local agencies. Approximately $1.6 million received in Fiscal Year 2018-19 has been identified as late payments for Fiscal Year 2017-18. After adjusting for these late payments, total sales tax revenue for Fiscal Year 2017-18 would be $452,700 (2.1 percent) higher than the prior fiscal year audited. Fiscal Year 2018-19 sales tax is estimated at $23.2 million including the late payments. After adjusting for the late payments, Fiscal Year 2018-19 sales tax is estimated at $21.6 million, $669,700 (3.0 percent) lower than the adjusted previous fiscal year and $1.6 million (7.9 percent) higher than the Fiscal Year 2018-19 Adopted. The $669,700 net decrease is primarily the result of prior year audit/one-time adjustments and an increase in the allocation from the county pool.

FORECAST

Fiscal Year 2019-20 sales tax revenue is projected at $21.4 million, including The Village at San Antonio Center Phase II, which is anticipated to open June 2020 with retail tenants in place and beginning to generate sales tax. This projection is essentially the same as the Fiscal Year 2018-19 adjusted estimate. Fiscal Years 2020-21 and 2021-22 reflect 4.1 percent and 6.0 percent declines respectively, related to the anticipated downturn in the economy. Recovery begins in Fiscal Year 2022-23 with incremental growth continuing into the final Forecast year.



Fiscal Year		Sales Tax	% Change
2014-15		19,773	16.8%
2015-16		21,401	8.2%
2016-17		21,828	2.0%
2017-18		20,713	(5.1%)
2018-19	*	23,179	11.9%
2019-20	**	21,433	(7.5%)
2020-21		20,559	(4.1%)
2021-22		19,328	(6.0%)
2022-23		19,852	2.7%
2023-24		20,470	3.1%

* Estimated
** Recommended
(dollars in thousands)

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OTHER LOCAL TAXES

Other Local Taxes is comprised of Transient Occupancy Tax (TOT), Business License Tax, and Utility Users Tax (UUT).

SOURCES

- TOT is a 10.0 percent tax assessed on hotel and motel occupancies. Any occupancy by a government employee while on government business, or a stay exceeding 30 consecutive days, is exempt from the tax. This tax is self-reported on a quarterly basis by hotels and motels within the City limits, and a compliance audit is performed on a periodic basis. On November 13, 2018, the City Council adopted an ordinance related to the short term rental (STR) of residential property. These rentals will be subject to the City's 10.0 percent TOT.

- Business License Tax is assessed on all businesses known to be operating in Mountain View and billed annually. Currently, there are approximately 6,100 active businesses licensed. The tax rate varies by type of business, generally $30 per year for most (73.0 percent), but can reach $250 for certain types of businesses. Measure P, approved by Mountain View voters in November 2018, changes the Business License Tax. Effective January 1, 2020, the tax will be assessed on a structure of tiered number of employees and phased in over a three-year period for businesses with more than 50 employees. The City Council preliminarily earmarked 80.0 percent of additional revenue generated from the restructured tax to transportation and 10.0 percent to housing.

- UUT is a 3.0 percent tax assessed on the consumption of all telecommunication (2.5 percent tax on purchases of Mobile Telephony Services (MTS)), electricity, and gas services. Companies providing taxable utility services remit UUT payments monthly, and a compliance audit is performed on a periodic basis.

ECONOMIC FACTORS

- <u>TOT</u>: Number of hotel rooms and STR properties, room rate, occupancy rate, and number of exemptions.

- <u>Business License Tax</u>: Number and types of businesses licensed by the City, number of employees, and the applicable tax rate.

- <u>UUT</u>: Customer base, level of consumption, and price of the commodity.

HISTORY

TOT: The current tax rate of 10.0 percent was last modified in June 1991 from 8.0 percent. Occupancy and room rates in the City typically grow in nonrecessionary times. The impacts of economic downturns or disruptions are immediately reflected in TOT revenue as demonstrated by the 52.1 percent decline resulting from the dot-com bust and the 26.6 percent decline during the Great Recession. TOT revenues began to recover from this last recession in spring 2010 and growth continued through Fiscal Year 2017-18. The current fiscal year estimate is lower than both the current fiscal year adopted and prior fiscal year audited. The first two quarters of Fiscal Year 2018-19 (ending September 30 and December 31) reflect the closure of Hotel Aria, which was anticipated in the current fiscal year Adopted Budget. The Adopted Budget also included the opening of the Hyatt Centric hotel, but the opening has been delayed and it is now anticipated in Fiscal Year 2019-20.

Business License Tax: Prior to the approval of Measure P, this revenue did not change significantly from year to year as the tax rate has remained essentially unchanged since June 1954 (excluding two business types updated in 1985). Any fluctuation in the number of businesses did not significantly change annual revenue because of the low annual tax rate. Fiscal Year 2018-19 revenue is estimated to be less than both the prior fiscal year audited and the current fiscal year adopted.

As mentioned previously, in November 2018, Mountain View voters approved Measure P, which restructures the Business License Tax. The new structure is an incremental, progressive, tax based on a tiered number of employees. Persons operating businesses with 50 employees or more shall pay a phased-in tax over a three-year period, with the first phase of the new tax rates effective January 1, 2020.

UUT: The tax is calculated on the consumer cost of the energy (gas and electricity) and telecommunication services utilized. The tax revenue fluctuates with the cost, customer usage, and/or customer base and is negatively impacted by economic downturns as a result of business closures and reduction in usage by both residential and commercial customers. In November 2010, the voters approved a ballot measure which broadened the base to include all telecommunications services in order to treat all customers equally and the amended ordinance became effective March 2011. As a result, UUT generated from telecommunications increased.

An audit of telecommunications providers was completed in January 2014 and resulted in a $1.1 million settlement and one-time assessment. In addition, during Fiscal Year 2014-15, staff worked to bring another telecommunications provider into compliance, resulting in a payment of the amount due for that fiscal year and a $1.6 million payment for a prior time period. Both of these companies are remitting monthly UUT payments, contributing to ongoing revenue.

The Agreement between the CDTFA and the City for prepaid phone cards was executed in December 2015, and the City received the first quarterly payment in September 2016. In addition, direct providers of prepaid phone cards began remitting UUT payments in July 2016. UUT revenue from telecommunications has been declining since Fiscal Year 2015-16. Payments from a major telecommunications provider have been steadily declining since Fiscal Year 2015-16, and the pervasive use of cell phones has eliminated the necessity and cost of a landline for many people, and it is not uncommon for a cell phone to be utilized for both personal and professional uses. The City began receiving UUT payments from Silicon Valley Clean Energy (SVCE) in the beginning of Fiscal Year 2017-18, offset by lower payments from PG&E resulting from customer migration. Fiscal Year 2018-19 UUT revenue is estimated to be lower than both the prior fiscal year audited and the current fiscal year adopted, 5.0 percent and 7.8 percent, respectively.

FORECAST

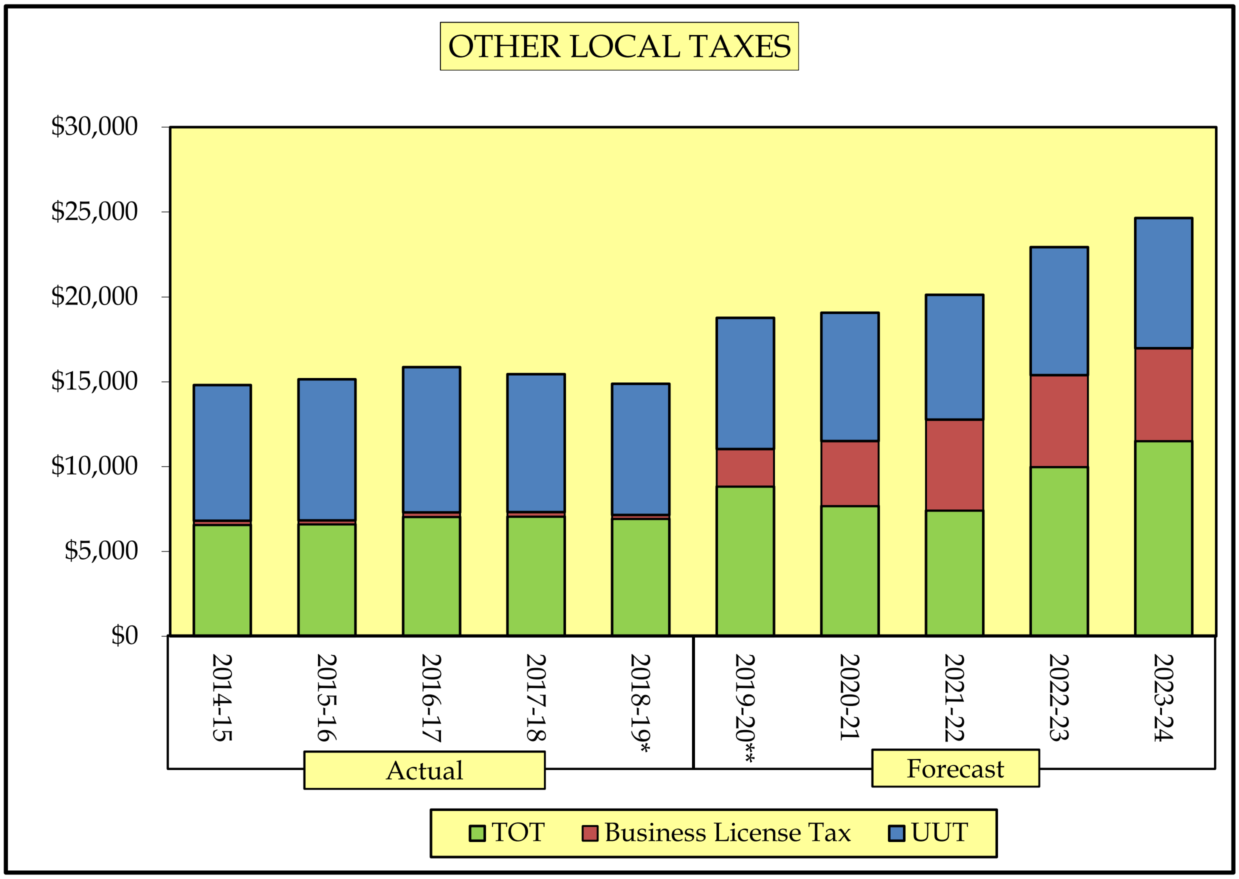
<u>TOT</u>: Fiscal Year 2019-20 revenue is projected 27.8 percent higher than the Fiscal Year 2018-19 estimated, and includes the opening of both the Hyatt Centric hotel (San Antonio Phase II) and Shashi hotel. No revenue from STR is included for Fiscal Year 2019-20 as there is insufficient data for an accurate projection. Revenue received will be reported to City Council in the Fiscal Year 2019-20 Mid-Year Report. Fiscal Years 2020-21 and 2021-22 include the opening of the Holiday Inn Express and Hampton Inn, respectively, and a reduction in revenue resulting from the anticipated economic downturn. Fiscal Year 2022-23 reflects the beginning of recovery and the opening of the hotels planned as part of the Ameswell and Hope Street projects.

<u>Business License Tax</u>: Fiscal Years 2019-20 through 2021-22 business license tax revenue reflects the phase-in of the new business license tax structure and is projected at $2.2 million, $3.8 million, and $5.4 million respectively, resulting in increased revenue of $2.0 million, $3.6 million, and $5.1 million compared to the current fiscal year budget. City Council initially earmarked 80.0 percent of the increased tax revenue for transportation and 10.0 percent for housing; resulting in a net revenue gain to the GOF of approximately $450,000, $600,000, and $760,000, respectively. Transfers to the Transportation Reserve and Affordable Housing Fund are included in the forecast and discussed later in the expenditures section.

The anticipated two-year downturn in Fiscal Years 2020-21 and 2021-22 include a projected 3.0 percent annual decline followed by incremental recovery in the remaining two Forecast years.

<u>UUT</u>: Fiscal Year 2019-20 total projected UUT revenue is essentially the same as the Fiscal Year 2018-19 estimated. UUT revenue for the following two Forecast years

decline as a result of the anticipated economic downturn. Fiscal Years 2022-23 and 2023-24 reflect recovery plus UUT generated from development anticipated in the Shoreline Regional Park Community as identified in the North Bayshore Precise Plan Fiscal Impact Analysis.



Fiscal Year		Transient Occupancy Tax	Business License Tax	Utility Users Tax	Total Other Local Taxes	% Change
2014-15		6,559	258	7,988	14,805	13.1%
2015-16		6,591	245	8,301	15,137	2.2%
2016-17		7,043	251	8,572	15,866	4.8%
2017-18		7,057	251	8,136	15,444	(2.7%)
2018-19	*	6,913	234	7,727	14,874	(3.7%)
2019-20	**	8,833	2,204	7,734	18,771	26.2%
2020-21		7,671	3,832	7,564	19,067	1.6%
2021-22		7,407	5,361	7,356	20,124	5.5%
2022-23		9,971	5,415	7,549	22,935	14.0%
2023-24		11,502	5,469	7,684	24,655	7.5%

* Estimated
** Recommended
(dollars in thousands)

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USE OF MONEY AND PROPERTY

Use of Money and Property is comprised of investment earnings and revenue from rents and leases of City-owned property. Investment Earnings are generated from the General Fund's share of the City's pooled investment portfolio. Rents and Leases revenue is generated from rental properties and lease agreements.

SOURCES

- Monthly interest allocation generated by the City's pooled investment portfolio.
- Leased and rented properties, including:
  - North Charleston, Crittenden, and Charleston East ground leases
  - Shoreline Amphitheatre
  - Ameswell
  - Recology
  - Center for the Performing Arts
  - Michaels at Shoreline Restaurant
  - Community School of Music and Arts (CSMA)
  - CVS (parking structure, retail space)
  - Historic Adobe Building, Community Center, and Senior Center
  - Bean Scene Café, Olympus Caffe, and Savvy Cellar Wines, Inc.
  - Bank of America (ATM)
  - Hope Street Office and Hotel Development
  - Wireless Telecommunication Providers (GTE Mobilnet, Metro PCS, Sprint)
  - Various construction staging sites

ECONOMIC FACTORS

- Economy.
- Federal Reserve policy and interest rates.
- Portfolio balance.
- City Investment Policy.
- Rental revenues received and lease agreements.

HISTORY

Investment Earnings: Over the past decade, part of the City's financial strategy was to build reserves in anticipation of budget constraints in order to generate additional revenue in the form of investment earnings and to maintain sufficient funds to weather any further significant declines in revenues. The Federal Reserve aggressively managed short-term interest rates between late 2007 and 2008 in an effort to combat the ripple effect of the subprime lending crisis and support the economic recovery by reducing the Federal funds rate from 5.25 percent to a target of 0.25 percent. This significantly impacted the City's interest earnings for numerous years. Between December 2015 and December 2018, the Federal Open Market Committee (FOMC) increased the benchmark interest rate nine times for a total 225-basis-point increase. This has significantly improved the City's interest earnings and Fiscal Year 2018-19 investment earnings are estimated to exceed the prior fiscal year audited by $543,000, and exceed budget by $196,000. It is uncertain if FOMC will continue to implement small incremental increases in the near future, but it is anticipated if the economy continues to improve.

Rents and Leases: Over time, the City has strategically developed City-owned properties and negotiated lease agreements that generate long-term revenue for the GOF. These leases and the revenue generated become even more important during economic downturns as they do not immediately fluctuate with the economy, and most include annual inflationary increases.

In 1995, 1996, and 2008, the City first negotiated and signed ground lease agreements for the North Charleston, Crittenden, and Charleston East sites, respectively. As allowed in the ground leases, the rent includes fixed annual increases and is revalued every 10 years to market. The decennial revaluation of the North Charleston lease was effective April 1, 2016, resulted in a 141.0 percent rent increase ($3.3 million for a full year) and will continue to escalate 4.0 percent annually. The decennial revaluation of the Crittenden lease was effective January 1, 2017, resulted in a 104.8 percent rent increase ($3.1 million for a full year) and will continue to escalate 4.0 percent annually.

The first decennial revaluation for the Charleston East (Lot 1) lease between the City and Google LLC (Google) was effective February 1, 2018. This lease includes a cap on the revalued rent that is not included in the other two land leases. The cap is 165.0 percent of the monthly rent payable during the initial year of the prior 10-year period. In this case, the rent for the period beginning February 1, 2018 is capped at 165.0 percent of the rent paid in February 2008. The total annualized revalued rent is $1.9 million, an increase of $387,000 (26.5 percent) compared to the prior year annualized rent and will continue to escalate 3.0 percent annually.

In late Fiscal Year 2005-06, Council approved the amended and restated lease between the City and SFX Entertainment, Inc. (SFX-operating company of Live Nation, Inc.), for the lease of the Shoreline Amphitheatre. The terms of the lease eliminated the percentage rent structure and replaced it with a fixed amount of $200,000 per month for the concert season (nine months), a total of $1.8 million annually. The first annual contractual increase of 2.0 percent went into effect March 2018, and the current annualized payment is $1.9 million.

In September 2007, CVS opened in the Bryant Street parking structure and began paying the City the negotiated monthly lease rent. The parking structure was partially funded with former Revitalization Authority funds and, based on the Compensation Agreement, any revenues generated from the parking structures are shared with the taxing entities in the same proportion of the Authority's contribution to the structures. The Compensation Agreement was effective July 1, 2014, resulting in annual lease revenue of $165,000 to the GOF, a loss of $78,000 annually. The CVS lease agreement provides for an 11.9 percent increase that is effective September 2017 through September 2022.

In May 2010, Savvy Cellars opened to the public at the Centennial Plaza Train Depot and, in accordance with the lease, the annual revenue to the City for the first five years was $29,700. The first annual increase was effective December 2014, and there have been annual increases effective each subsequent December. Lease of City-owned property during Fiscal Year 2018-19 for construction staging is anticipated to generate $71,000. In addition, there are various other rentals of City-owned property as listed previously in the Sources section which contribute revenue to the GOF.

On December 11, 2018 staff updated City Council on the Police/Fire Administration Building Expansion Study and confirmed most of the revenue generated from the Ameswell development is earmarked for debt service related to this facility. City Council authorized staff to issue a request for proposal (RFP) to prepare a preliminary design for a renovation/addition as well as evaluation of a new building. Staff will return to City Council in the fall of 2019 with additional information.

The remodeled and expanded Community Center opened February 2019 and will be available for rent.

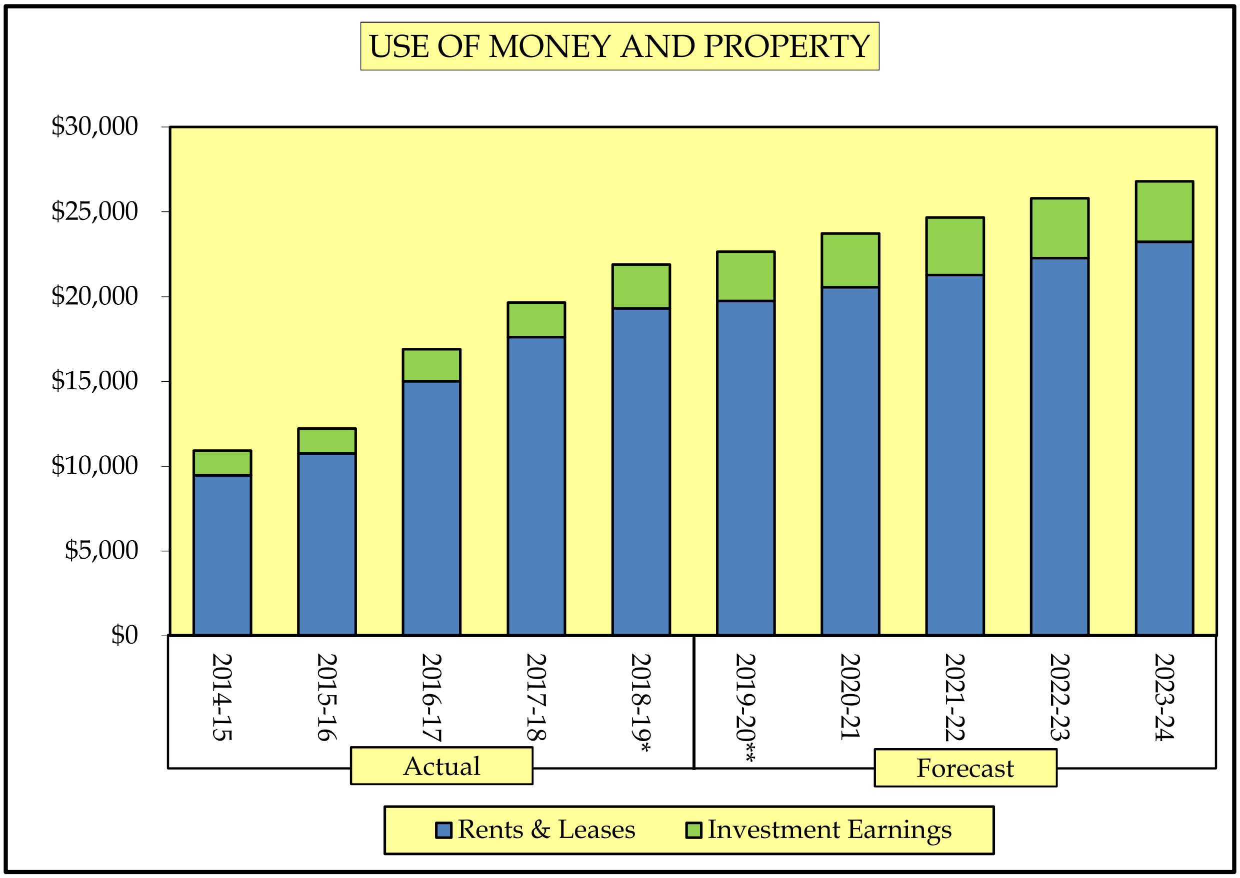
FORECAST

Investment Earnings: The Fiscal Year 2019-20 projection is based on the assumption that as instruments mature, the funds will be reinvested at rates slightly higher than those available in Fiscal Year 2018-19, resulting in a projected average portfolio yield of 2.32 percent for Fiscal Year 2019-20. The City's average portfolio yield is anticipated to continue rising through the end of the Forecast period. During the projected economic downturn, reinvestment rates are expected to be higher than the rates on the maturing instruments.

Rents and Leases: Fiscal Year 2019-20 includes a full year of the 10.0 percent rent increase generated from the CSMA ground lease and a partial year of rent from the Hope Street office development project. The Ameswell rent of $1.4 million will continue to be transferred to the Budget Contingency Reserve to be utilized for funding of limited-period items until the proposed debt service related to the Police/Fire Administration Building remodel and expansion begins in Fiscal Year 2022-23.

The Forecast for the three long-term ground leases includes annual increases. During Fiscal Year 2022-23 the monthly CVS rent increases 12.0 percent in accordance with the lease. For the remaining leases and rental agreements, the Forecast period includes annual contractual increases and assumes renewal options will be exercised or extended.

As previously discussed with the City Council, Google has paid the City $600,000 for extending the sublease of Parking Lots C and D from SFX through 2020. In addition, Google has agreed to lease the parking lots from the City for an additional five years (January 2021 to December 2025) and will be paying over $2.0 million annually, unless the lease is terminated early. As these payments are limited-period in nature, they will not flow through the GOF. As discussed with the City Council during the Fiscal Year 2017-18 budget process, the $2.0 million annual payments ($10.0 million over the 5-year period) would be recorded as one-time GF revenues and then contributed to CalPERS toward the City's unfunded pension liability, and both the annual earned portion of the $600,000 and the annual rent in excess of the $2.0 million will be transferred to the Capital Improvement Reserve.



Fiscal Year		Rents & Leases	Investment Earnings	Total Use of Money and Property	% Change
2014-15		9,463	1,465	10,928	2.2%
2015-16		10,751	1,468	12,219	11.8%
2016-17		15,020	1,876	16,896	38.3%
2017-18		17,618	2,041	19,659	16.4%
2018-19	*	19,305	2,584	21,889	11.3%
2019-20	**	19,741	2,916	22,657	3.5%
2020-21		20,565	3,152	23,717	4.7%
2021-22		21,281	3,380	24,661	4.0%
2022-23		22,276	3,523	25,799	4.6%
2023-24		23,235	3,573	26,808	3.9%

* Estimated
** Recommended
(dollars in thousands)

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LICENSES, PERMITS, AND FRANCHISE FEES/FINES AND FORFEITURES

This revenue category is comprised of Licenses, Permits, Franchise Fees, and Fines and Forfeitures.

SOURCES

- Licenses and Permits revenues are generated from businesses requiring specific City permits such as police business permits.

- Franchisees are required to pay Franchise Fees as compensation to the City for the use of City property while providing a commercial service to Mountain View businesses and residents. The City has franchise agreements with Recology; Pacific Gas and Electric; Comcast and AT&T Cable; and California Water Service.

- Fines and Forfeitures are generated from Library fines and citations issued by the City Police Department and the California Highway Patrol.

ECONOMIC FACTORS

- State of the economy.
- Franchise agreements and revenues generated by franchisees.
- State and Federal regulations, legislation, and funded programs.

HISTORY

Licenses, Permits, and Franchise Fees: Historically, Licenses and Permits revenue tended to fluctuate with the development cycle. In Fiscal Year 2006-07, Building Services was separated from the GOF to better facilitate tracking and accounting. In order to provide a more comprehensive picture of the development process and to more accurately align all development-related revenues and expenditures, Council approved the consolidation of all development-related functions within the City into a Development Services Fund for Fiscal Year 2014-15. Development-related revenues and expenditures were moved from the GOF to the Development Services Fund, which decreased revenues in several categories, including this one, and eliminated the effect of development. Fiscal Year 2018-19 estimated Licenses and Permits revenue is 22.0 percent and 12.6 percent higher than the Fiscal Year 2018-19 Adopted and Fiscal Year 2017-18 Audited, respectively, primarily due to Cannabis Business Background Screening fee revenue of $25,000 received.

Franchise Fee revenue generated from gas and electricity usage has historically increased as a result of significant commercial and residential development and declined during economic downturns as a result of commercial office vacancies and conservation by residential and commercial customers.

In accordance with the agreement between the City and the City's trash and recycling collector, Recology, a monthly service fee is owed to the City. This fee includes a portion for the exclusive right to perform this activity and a portion is attributable to the City providing billing and collection services. This revenue has fluctuated over the past decade as a result of conservation efforts, migration to smaller-size containers, the amount of construction debris discarded, and increases in trash and recycling service charges in addition to the economic factors listed above.

Beginning in Fiscal Year 2011-12, Cable Franchise revenues were budgeted directly as General Fund Franchise revenue in lieu of a transfer from the Cable Fund. This revenue grew through Fiscal Year 2015-16, but has been declining since.

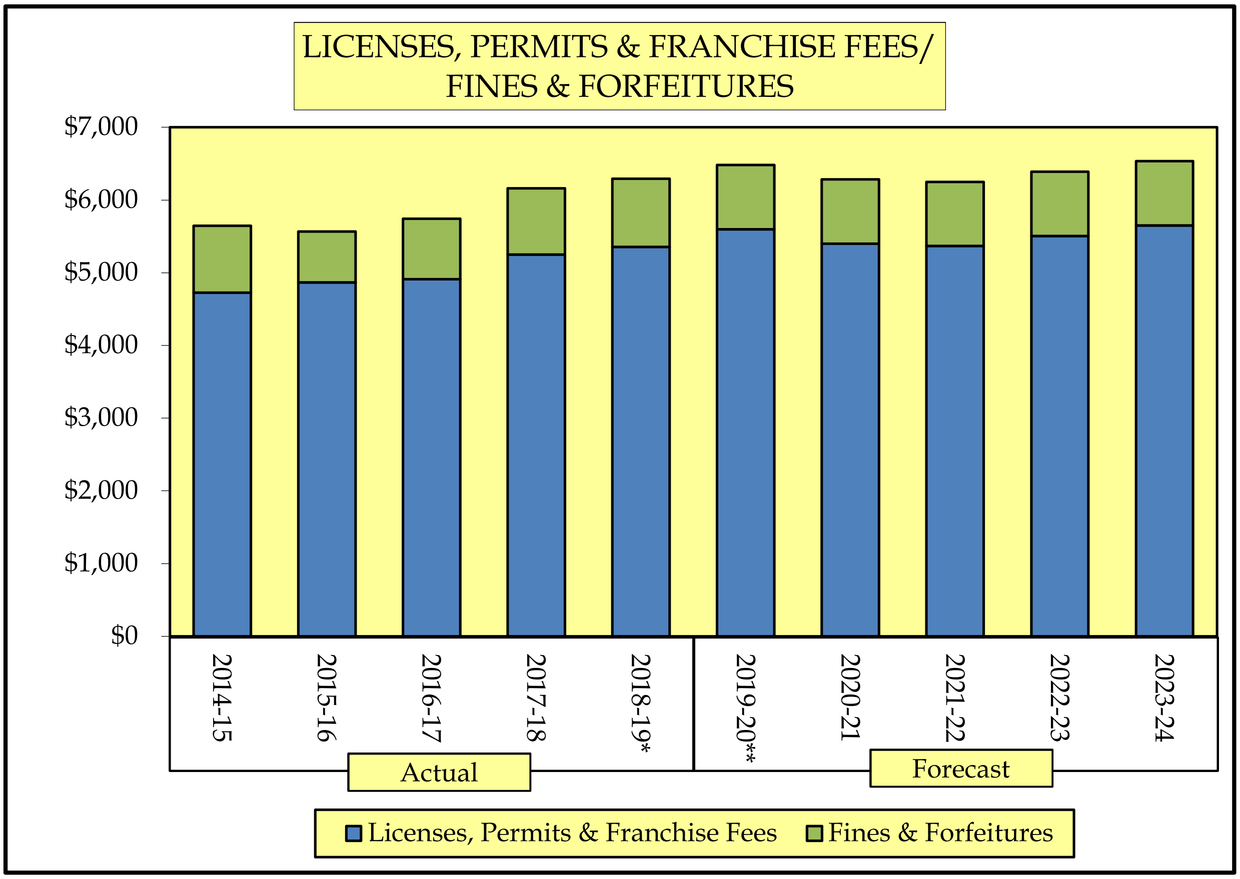
Fiscal Year 2018-19 estimated Franchise Fee revenues are 1.7 percent and 3.8 percent higher than the Fiscal Years 2017-18 Audited and 2018-19 Adopted, respectively.

Fines and Forfeitures: This revenue source includes false alarm response fees, bail/fine payments from the County, Library fines, and parking violation payments. Overall, the Fiscal Year 2018-19 estimated Fines and Forfeitures revenue sources are higher than budget and Fiscal Year 2017-18 Audited, primarily due to increased parking enforcement and City's share of bails and fines collections from the Superior Court, traffic court, and municipal cases

FORECAST

Licenses, Permits, and Franchise Fees: Revenue is projected to increase by a net $243,000 in Fiscal Year 2019-20 from the current fiscal year estimate, primarily resulting from the Cannabis annual operating permit fees adopted October 2, 2018 and the Recology franchise fee which is projected to increase with the trash and recycling rate increase. Revenues decline for Fiscal Years 2020-21 and 2021-22, then recover in the last two years of the Forecast.

Fines and Forfeitures: Fiscal Year 2019-20 is projected to be 5.9 percent below Fiscal Year 2018-19 estimated, primarily due to parking violations revenue which tends to fluctuate. This revenue is essentially the same level throughout the Forecast period.



Fiscal Year		Licenses, Permits & Franchise Fees	Fines & Forfeitures	Total Licenses, Permits & Franchise Fees/ Fines & Forf	% Change
2014-15		4,725	920	5,645	(11.6%)
2015-16		4,869	697	5,566	(1.4%)
2016-17		4,913	830	5,743	3.2%
2017-18		5,249	912	6,161	7.3%
2018-19	*	5,356	936	6,292	2.1%
2019-20	**	5,599	881	6,480	3.0%
2020-21		5,401	881	6,282	(3.1%)
2021-22		5,368	881	6,249	(0.5%)
2022-23		5,507	881	6,388	2.2%
2023-24		5,652	881	6,533	2.3%

* Estimated
** Recommended
(dollars in thousands)

<u>INTERGOVERNMENTAL</u>

Intergovernmental revenue is remitted or allocated to the City by other governmental agencies.

SOURCES

- Other governmental agencies—Santa Clara County, State of California, U.S. government, and local government.

ECONOMIC FACTORS

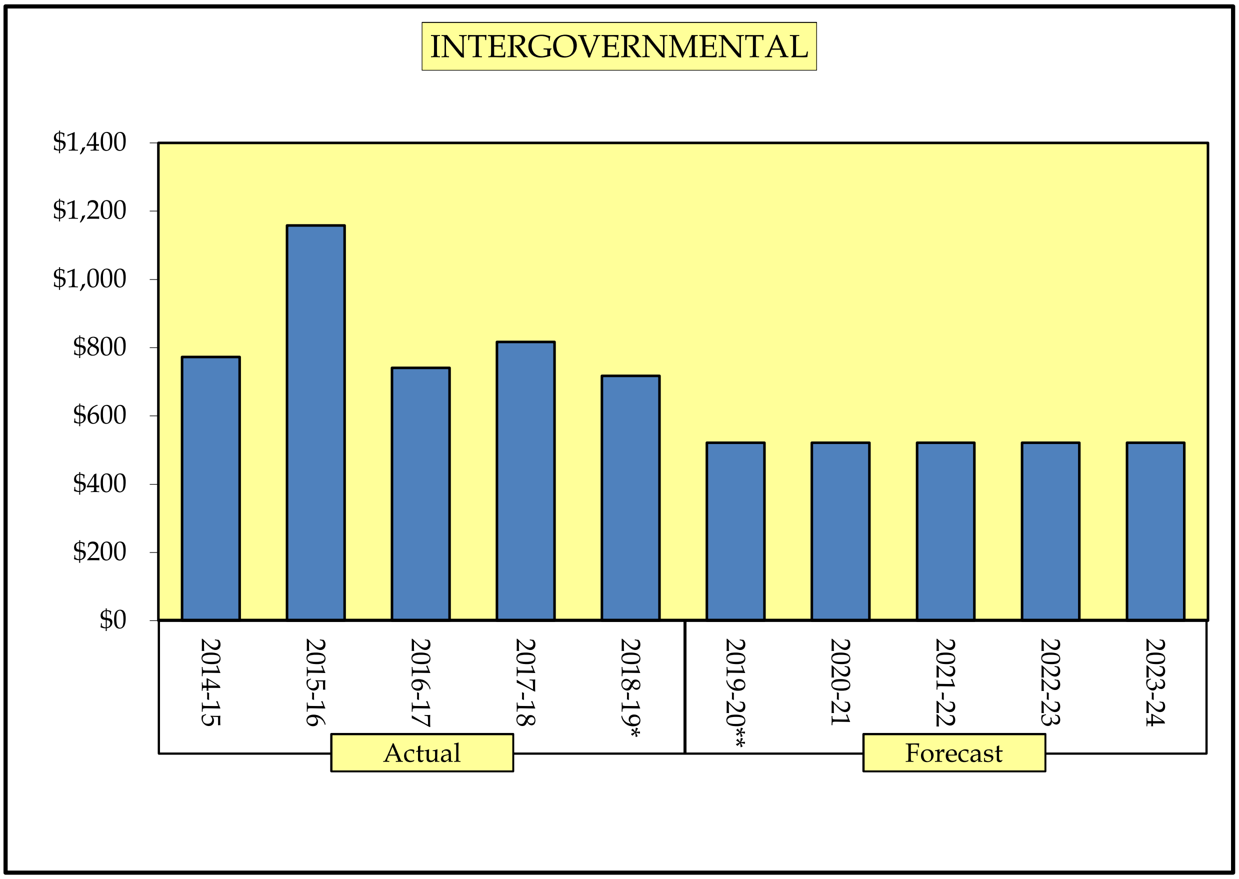
- Actions by the State Legislature.
- State and Federal regulations, legislation, and funded programs.

HISTORY

For more than a decade, many revenues from the State have been reduced or eliminated, including Vehicle License Fees (VLF), Community-Oriented Policing Services (COPS), Public Library Funds, Rapid Enforcement Allied Computer Team (REACT), SB 90 mandate reimbursement, and other programs. Fiscal Year 2018-19 is estimated with a net revenue gain compared to the Fiscal Year 2018-19 Adopted Budget due to grants, SB 90 and other State and County reimbursements; funding received that was not budgeted. This revenue is 12.2 percent lower than the Fiscal Year 2017-18 Audited as Police Officer staffing shortages have not allowed the City to assign an Officer to the Regional Auto Theft Task Force (RATTF) and, therefore, there is no reimbursement from the Santa Clara County Specialized Enforcement Team Task Force.

FORECAST

Fiscal Year 2019-20 is projected 16.4 percent lower than Fiscal Year 2018-19 Adopted as the City does not anticipate State AB 109 funding, or County reimbursements for RATTF and the Avoid the 13 DUI campaign. The remaining Forecast years are at essentially the same level.



Fiscal Year		Intergovernmental	% Change
2014-15		773	13.8%
2015-16		1,158	49.8%
2016-17		741	(36.0%)
2017-18		817	10.3%
2018-19	*	717	(12.2%)
2019-20	**	522	(27.2%)
2020-21		522	0.0%
2021-22		522	0.0%
2022-23		522	0.0%
2023-24		522	0.0%

* Estimated
** Recommended
(dollars in thousands)

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CHARGES FOR SERVICES

Charges for Services revenue is comprised of revenue from fees for services provided by various City departments, primarily related to recreation and development activities.

SOURCES

- City Recreation programs.
- City Sports Facility Use.
- Reimbursement of administrative costs related to private development activity.
- Center for the Performing Arts facility use and ticket services.

ECONOMIC FACTORS

- State of the economy.
- Level of participation in City Recreation programs.
- Level of attendance at Center for the Performing Arts (CPA) programs.
- Level of development activity.

HISTORY

In order to ensure appropriate pricing for services, during Fiscal Year 2009-10, staff initiated a Police services cost-of-service study, and the City Council approved a Recreation Cost Recovery Policy (Policy). As a result of these actions, increased recovery levels for services provided by other departments, and new or increased service fees were adopted. Subsequent to approval of the Policy, staff completed an analysis of participation levels, revenues, and changes in programming related to Recreation services. There was an indication that participation levels decreased in some programs, and the utilization of the fee waiver program increased (likely as a result of the struggling economy at that time). Therefore, the number of programs and classes was reduced as attendance did not achieve the minimum requirement authorized in the Policy, and new revenue sources, such as sponsorships, were approved.

As noted earlier, effective with the Fiscal Year 2014-15 Adopted Budget, Development Services was separated from the GOF in order to facilitate better tracking and accounting and allow for an effective way to match revenues and expenditures. The separation caused a significant decline in actual revenue from Fiscal Year 2013-14 to Fiscal Year 2014-15. The remaining development-related revenue is for Heritage tree applications and reimbursement to the GOF for administrative support provided to development projects.

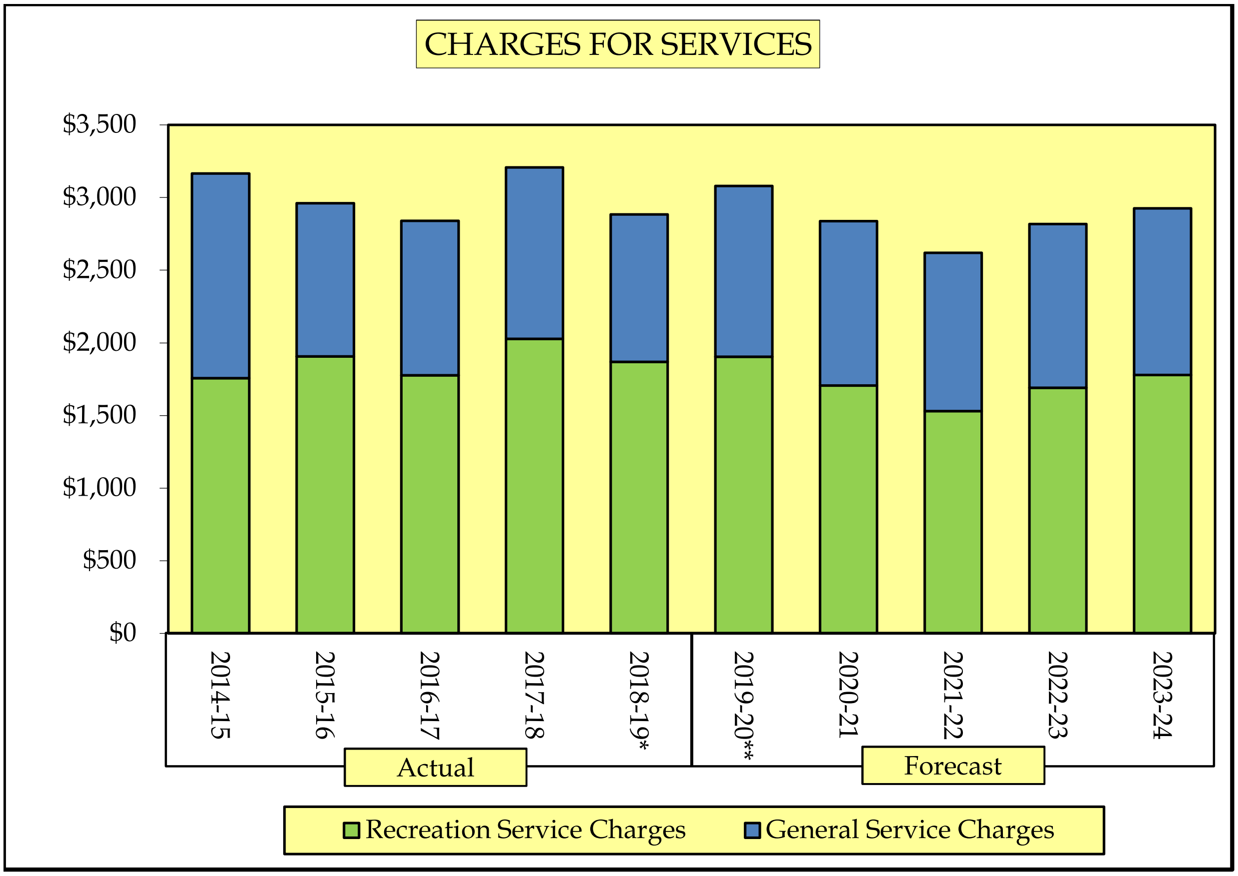
Staff continually reviews programming and pricing, adjusts as appropriate, and Recreation-related Service Charge revenue has continued to improve. Effective with the Fiscal Year 2015-16 Adopted Budget, some Charges for Services revenue was determined to be rental income and was moved to the appropriate revenue category.

On December 13, 2016, Council approved revision of the Recreation Financial Assistance Program (FAP) to a two-tier system which was implemented in September 2017. In addition, the City Council authorized staff to make future amendments to the FAP as part of the City's annual budget process and update the relevant information in the Master Fee Schedule.

Total Service Charge revenue for Fiscal Year 2018-19 is estimated higher than the Adopted Budget but indicates a net decline compared to Fiscal Year 2017-18 Audited, primarily due to lower registration fee revenue from youth classes and camps, reduced facility use fees and ticket service charge revenue at the CPA.

FORECAST

Total Service Charge revenue for Fiscal Year 2019-20 is projected to be slightly higher than Fiscal Year 2018-19 estimated. The subsequent two fiscal years reflect the impact of the projected economic downturn, followed by recovery for the remaining Forecast period.



Fiscal Year		Recreation Service Charges	General Service Charges	Total Charges for Services	% Change
2014-15		1,756	1,410	3,166	(39.1%)
2015-16		1,906	1,056	2,962	(6.4%)
2016-17		1,776	1,064	2,840	(4.1%)
2017-18		2,027	1,181	3,208	13.0%
2018-19	*	1,870	1,014	2,884	(10.1%)
2019-20	**	1,905	1,176	3,081	6.8%
2020-21		1,707	1,131	2,838	(7.9%)
2021-22		1,530	1,090	2,620	(7.7%)
2022-23		1,690	1,127	2,817	7.5%
2023-24		1,779	1,147	2,926	3.9%

* Estimated
** Recommended
(dollars in thousands)

Fiscal Year 2015-16 includes full impact of development related revenue moved from GOF to Development Services Fund.

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MISCELLANEOUS REVENUES

Miscellaneous Revenues is comprised of a variety of reimbursed services and nonspecific revenues.

SOURCES

- Donations and Grants.
- Reimbursements for services provided by the City.
- Miscellaneous.

ECONOMIC FACTORS

- State of the economy.
- Grant availability, City applications, and grants awarded to the City.
- Services provided to businesses, school districts, and other agencies.

HISTORY

The City receives numerous donations and grants for a variety of City programs and services, many of which are not budgeted. Appropriations are increased when a grant or donation is approved or the funds are received by the City.

Some reimbursement for services provided in Fiscal Year 2018-19 and prior fiscal years are budgeted as they are ongoing in nature. Other reimbursements are one-time in nature and are not budgeted. The City provides the following categories of services:

- Maintenance services to the school districts for Graham Athletic Field, Whisman Sports Complex, and Mountain View Sports Pavilion.

- Mutual-aid fire support to other cities and the State of California which are later reimbursed by the State and Federal government.

- Public safety dispatch to the Midpeninsula Regional Open Space District (MROSD).

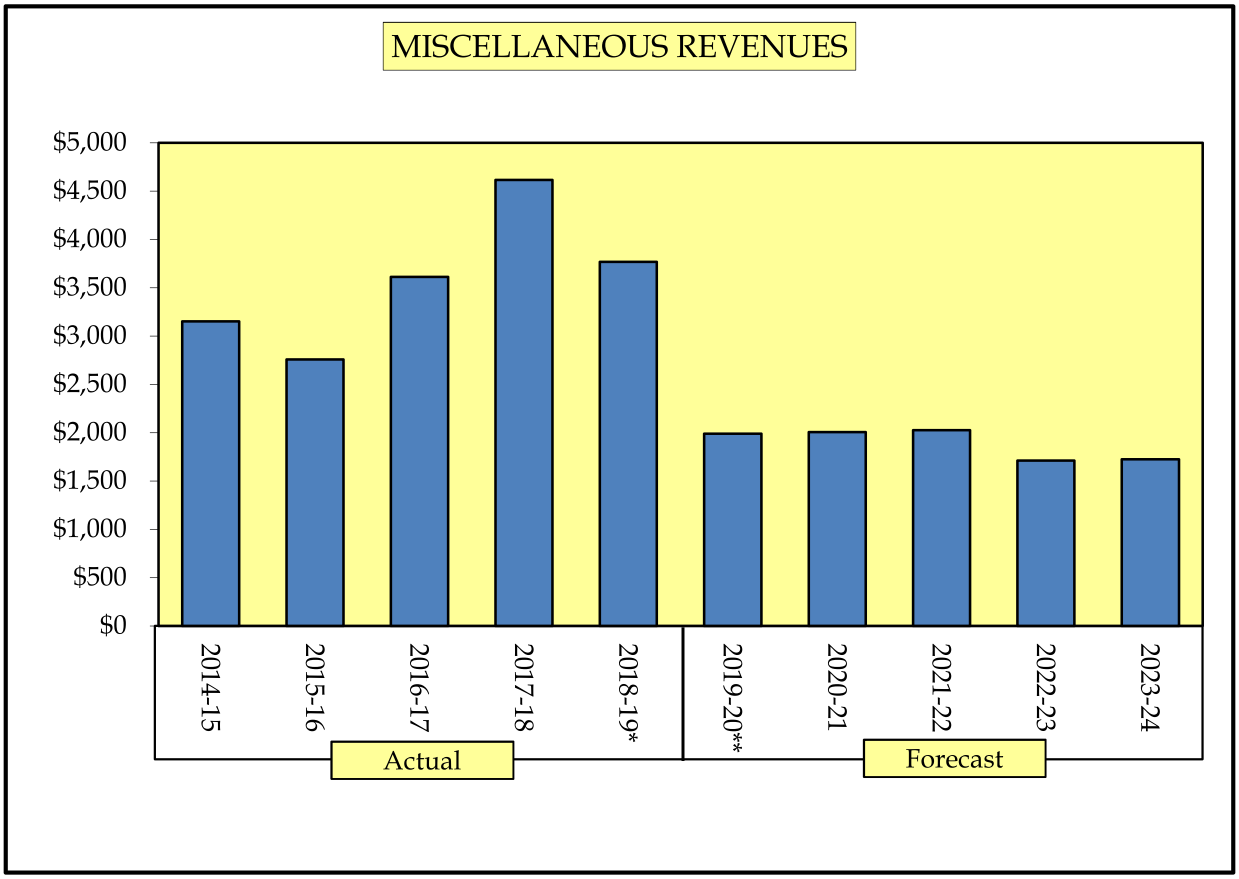
- Contractual first responder for Rural Metro.

- Staffing and other support for some Shoreline Amphitheatre events and other special events.

Total annual Miscellaneous Revenues vary, but over the past 10 years has averaged approximately $2.7 million annually.

FORECAST

Fiscal Year 2019-20 Miscellaneous Revenues is projected to be higher than the Fiscal Year 2018-19 Adopted Budget and, as discussed earlier, lower than the Fiscal Year 2018-19 estimated as a result of grants, donations, and reimbursements not budgeted. Fiscal Years 2020-21 and 2021-22 are projected to be essentially level, and Fiscal Years 2022-23 and 2023-24 decline as the City's agreement with Santa Clara County to provide first responder support to Rural Metro expires June 30, 2022.



Fiscal Year		Miscellaneous Revenues	% Change
2014-15		3,152	26.9%
2015-16		2,757	(12.5%)
2016-17		3,611	31.0%
2017-18		4,616	27.8%
2018-19	*	3,768	(18.4%)
2019-20	**	1,988	(47.2%)
2020-21		2,006	0.9%
2021-22		2,024	0.9%
2022-23		1,710	(15.5%)
2023-24		1,724	0.8%

* Estimated
** Recommended
(dollars in thousands)

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INTERFUND REVENUES AND TRANSFERS

Interfund Revenues result from internal charges for staff time, building space, and maintenance services provided to other funds and capital projects by the GOF. The cost of this internal support provided to other funds is calculated in the City's Full Cost Allocation Plan (Plan). Interfund Transfers include transfers from a variety of other funds.

SOURCES

- Interfund Revenues are reimbursements to the GOF for internal support services provided to other funds and capital improvement projects.

- Interfund Transfers are transfers from other City funds.

ECONOMIC FACTORS

- Level and cost of services provided by GOF staff to other funds and capital improvement projects.

HISTORY

Interfund Revenues: In the early 1990s, with the assistance of a cost plan consultant, the City began preparing and utilizing a full cost plan allocation for reimbursement to the GOF. The Plan has been updated approximately every two to four years, most recently during Fiscal Year 2014-15 and the results incorporated for Fiscal Year 2015-16. Fiscal Year 2018-19 estimated is higher than budget as capital improvement project expenditures have been higher, generating a higher level of reimbursement.

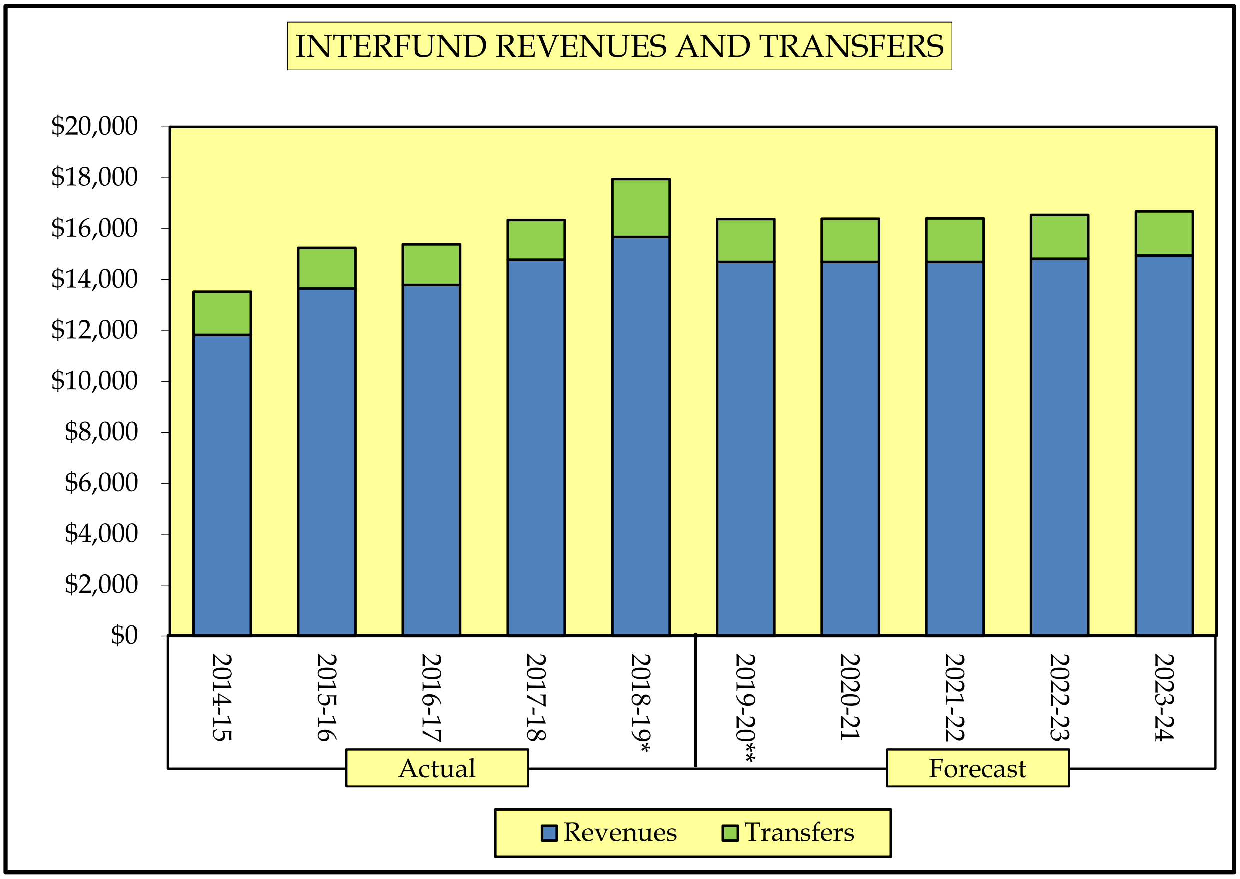
Interfund Transfers: These vary from year to year and are both, ongoing and one-time/ limited-period in nature. Fiscal Year 2018-19 estimated includes the annual transfers from the Gas Tax and Parking District funds, net operating income from Shoreline Golf Links, and transfers from the GF Reserve approved by City Council during the current fiscal year.

In April 2011, the City executed a long-term (52 years) ground lease with Google Inc. for the other portion of the Charleston East site which became effective in June 2011. Google remitted $30.0 million in prepaid rent to the City which is invested and generates annual investment earnings. The $30.0 million of prepaid rent was received from Google for the Charleston East site when the portfolio yield was above 2.5 percent and the average annual rate was projected at 3.5 percent for the 52 years. However, due to the recession, the FOMC reduced interest rates (and only began raising the benchmark rate beginning December 2015) and the actual investment yields have been significantly lower than the 3.5 percent originally projected. This low interest rate environment has lasted longer than anticipated; therefore, in order to preserve the principal amount of the prepaid rent, beginning in Fiscal Year 2014-15, Council agreed to defer transfers until interest rates regain prior levels and revenues can be reevaluated.

FORECAST

Interfund Revenues: Fiscal Year 2019-20 Interfund Revenues include reimbursement from various funds which receive support from the GOF. Revenue is held level during the period of anticipated economic decline and the remaining Forecast period includes annual increases of less than 1.0 percent.

Interfund Transfers: For Fiscal Year 2019-20, Interfund Transfers include $1.3 million of reimbursement from the Gas Tax Fund, $100,000 of operating income from Shoreline Golf Links, $150,000 of operating income from Michaels at Shoreline Restaurant, and $108,000 of reimbursement from the Parking District. As discussed previously, the transfer from the Lease Reserve continues to be deferred. The remaining Forecast period includes level or slightly increasing transfers from the same funds.



Fiscal Year		Interfund Revenues	Interfund Transfers	Total Interfund Rev & Trans	% Change
2014-15		11,836	1,689	13,525	(0.4%)
2015-16		13,654	1,596	15,250	12.8%
2016-17		13,795	1,595	15,390	0.9%
2017-18		14,790	1,550	16,340	6.2%
2018-19	*	15,681	2,268	17,949	9.8%
2019-20	**	14,699	1,679	16,378	(8.8%)
2020-21		14,699	1,692	16,391	0.1%
2021-22		14,699	1,705	16,404	0.1%
2022-23		14,823	1,719	16,542	0.8%
2023-24		14,948	1,732	16,680	0.8%

* Estimated
** Recommended
(dollars in thousands)

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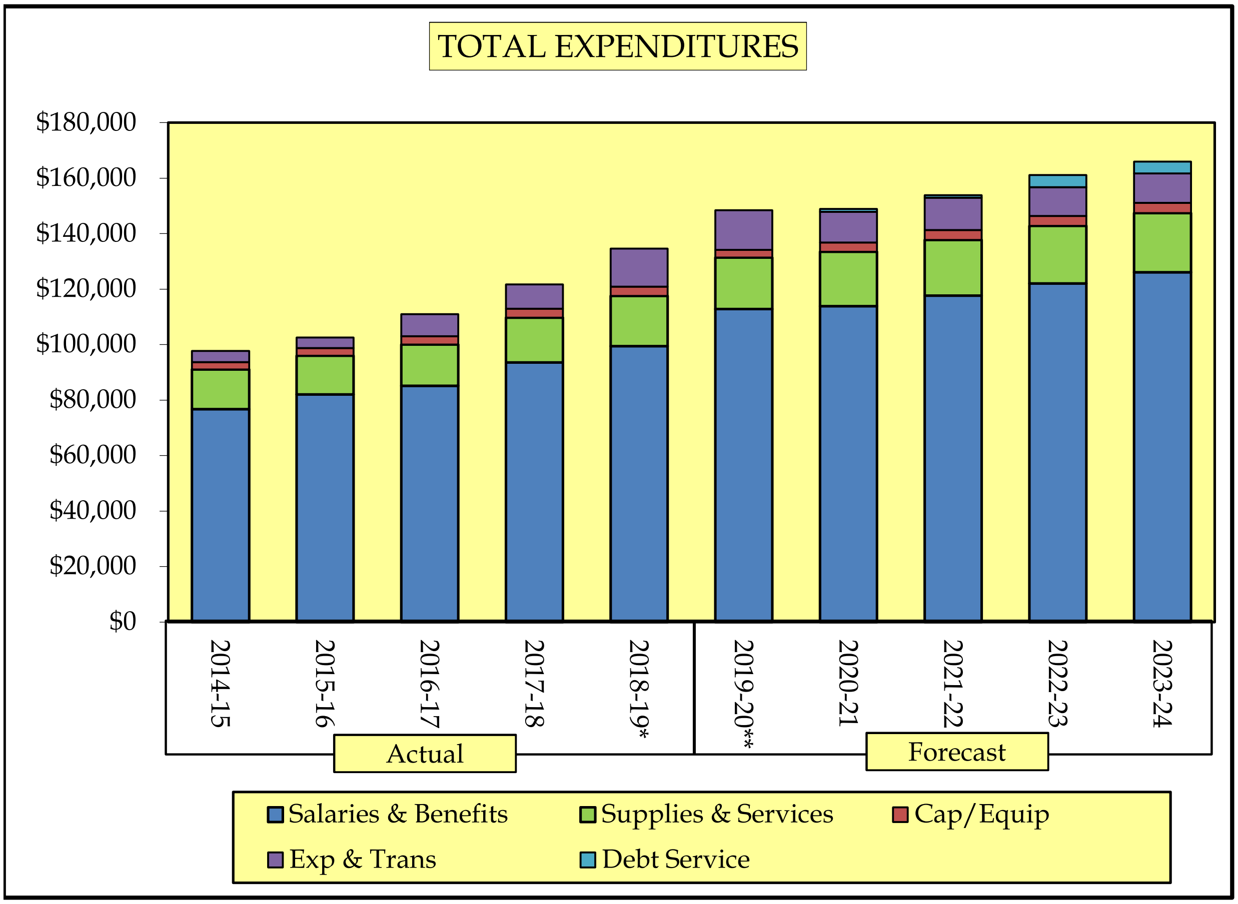


Fiscal Year		Total Expenditures	% Change
2014-15		97,677	2.9%
2015-16		102,590	5.0%
2016-17		110,936	8.1%
2017-18		121,682	9.7%
2018-19	*	134,604	10.6%
2019-20	**	148,416	10.3%
2020-21		148,914	0.3%
2021-22		153,900	3.3%
2022-23		161,089	4.7%
2023-24		166,003	3.1%

* Estimated
** Recommended
(dollars in thousands)

The Fiscal Year 2019-20 recommended expenditures and all forecast years do not include the projected operating budget savings.

SALARIES AND BENEFITS

The Salaries and Benefits category makes up the largest component of GOF expenditures and represents all personnel-related costs.

CATEGORIES

- Salaries.
- Wages.
- Overtime.
- Other Pays (e.g., holiday-in-lieu, out-of-class, etc.).
- Health Benefits.
- Retirees' Health.
- California Public Employees Retirement System (CalPERS).
- Workers' Compensation.
- Unemployment Insurance.
- Other Benefits (e.g., life insurance, long-term disability, FICA, etc.).

HISTORY

The City is essentially a service organization, based on the efforts of our employees. The City is obligated by law to meet and confer with bargaining units and also meets with other employees on matters of employee compensation. There are four recognized bargaining groups in the City: the Police Officers Association (POA sworn and nonsworn), the Mountain View Professional Firefighters Union (MVFF Local 1965), the Service Employees International Union (SEIU Local 715), and the EAGLES (Management, Professional, and certain Front-Line positions). The remaining employees include certain unrepresented Management, Professional, Confidential, and Front-Line positions. The outcome of negotiations with each group is a major factor in salary and benefit costs.

Since Fiscal Year 2000-01, there have been two downturns in the economy resulting in a net reduction of approximately 70.0 positions and other employee compensation cost containment. From Fiscal Year 2009-10 to Fiscal Year 2013-14, a salary freeze was in effect for two to four years, depending on the employee group. During Fiscal Year 2011-12, the City negotiated three-year contracts with all employee groups that expired June 30, 2015, then two-year contracts were negotiated with all employee groups that expired June 30, 2017 and most recently three-year contracts were negotiated with all employee groups that will expire June 30, 2020. Additional cost-containment measures that became effective for Fiscal Year 2012-13 for all or some of the employee groups included maximum vacation accruals, modified sick-leave incentive program, HMO medical plan copay, option of new high-deductible health plans, improved alignment of dental and vision plans between groups, and Retirees' Health Trust contributions.

Pension costs have increased dramatically since 2000, when pension costs were $2.9 million (4.7 percent of GOF expenditures), compared to $19.7 million (15.5 percent of GOF expenditures) adopted for Fiscal Year 2018-19. Pension costs continue to grow and in many cities the employer pays some or all of the employee contribution. Mountain View employees not only pay the full employee contribution, but they also pay a portion of the employer contribution. This was an unusual and progressive arrangement when instituted in Mountain View and reflects the collaborative approach of our employees. For Fiscal Year 2018-19, cost shares range from 10.5 percent to 17.366 percent, depending on the employee group.

In 2012, structural changes were adopted Statewide with the Public Employees' Pension Reform Act (PEPRA). For new employees hired on January 1, 2013 and thereafter, reduced benefit formulas and increased retirement ages became effective. However, the changes resulting from pension reform will likely not be realized for 15 years or more, until there are a majority of employees under the new formula.

As a result of the significant financial losses to CalPERS during the last recession and the resulting impacts to the financial sustainability of the pension plans, many changes in the way CalPERS rates are calculated have been adopted in the past several years, as detailed below:

- In March 2012, the CalPERS Board approved the reduction of 0.25 percent in the discount rate used to calculate the pension liability and corresponding employer contribution rates. The impact was a 0.92 percent and 1.4 percent employer rate increase for miscellaneous employees and a 2.56 percent and 1.6 percent employer rate increase for safety employees for Fiscal Years 2013-14 and 2014-15, respectively. For Mountain View, this resulted in an increase to pension costs of $1.3 million (net of additional cost share) phased in over two years.

- On April 17, 2013, the CalPERS Board adopted recommendations of the Chief Actuary that changed the methodology for the amortization and smoothing of rates. Overall, the methods are expected to result in higher volatility in employer rates in normal years, but less volatility in employer rates in years where extreme events occur (e.g., significant investment losses). The method will result in increased higher employer rates over time, but are also expected to result in improved funding levels. This change is reflected in the employer rates beginning in Fiscal Year 2015-16.

- On February 18, 2014, the CalPERS Board adopted changes as a result of the demographic study. The study resulted in increased rates as life expectancy continues to rise. Generational mortality tables are also being incorporated in the actuarial assumptions. The demographic changes are anticipated to raise rates by 4.5 percent and 7.05 percent over five years, for miscellaneous and public safety, respectively. This impact is reflected in the employer rates beginning in Fiscal Year 2016-17.

- On November 18, 2015, the CalPERS Board adopted an approach to mitigate future rate volatility. The Funding Risk Mitigation Policy includes attributes of the flexible glide path methodology, a lowering of the discount rate, and expected investment volatility following a great investment return with reviews to allow the ongoing monitoring and assessing of the progress toward reducing risk and investment volatility in the funding of the pension system.

- On December 21, 2016, the CalPERS Board approved lowering the discount rate from 7.5 percent to 7.0 percent. The reduction is to be phased in over three years beginning in Fiscal Year 2018-19 for local governments with the full impact reached in Year 7 (Fiscal Year 2024-25) due to the five-year ramp-up and ramp-down methodology previously adopted. CalPERS initially indicated the reduction would result in employer normal costs rate increases between 1.0 percent and 3.0 percent of payroll for most miscellaneous plans and increases of 2.0 percent to 5.0 percent for most safety plans. In addition, CalPERS estimated increases of 30.0 percent to 40.0 percent in unfunded accrued liability (UAL) annual payments. Rates provided in the June 30, 2016 actuarial valuation showed the impact to the rates were not as drastic as CalPERS originally indicated: 1.9 percent and 3.1 percent for Miscellaneous and Safety normal cost, respectively, and 11.5 percent and 14.2 percent for Miscellaneous and Safety UAL, respectively.

- On February 14, 2018, the CalPERS Board adopted changes to the Amortization Policy to shorten the amortization period from 30 years to 20 years for new gains and losses and remove the ramp-up and ramp-down effects attributable to assumption, noninvestment, and investment gains and losses. The policy changes are effective June 30, 2019.

These actions have been adopted to maintain the financial sustainability of the pension fund; however, these actions result in higher rates for the City. The City Council has approved additional contributions (including the CalPERS Discount Rate Change Funding Strategy proposed by staff to pay down the unfunded CalPERS liability) from the General Fund totaling $23.5 million from a combination of carryover funds and budgets since Fiscal Year 2014-15 through Fiscal Year 2018-19. The GOF represents approximately 80.0 percent of the total CalPERS contribution; therefore, additional contributions from the Other Funds, proportional to the GOF contribution, were also included in Fiscal Years 2015-16 through 2018-19.

FORECAST

The discussion below includes information regarding COLAs and medical rates and comparisons of projected costs.

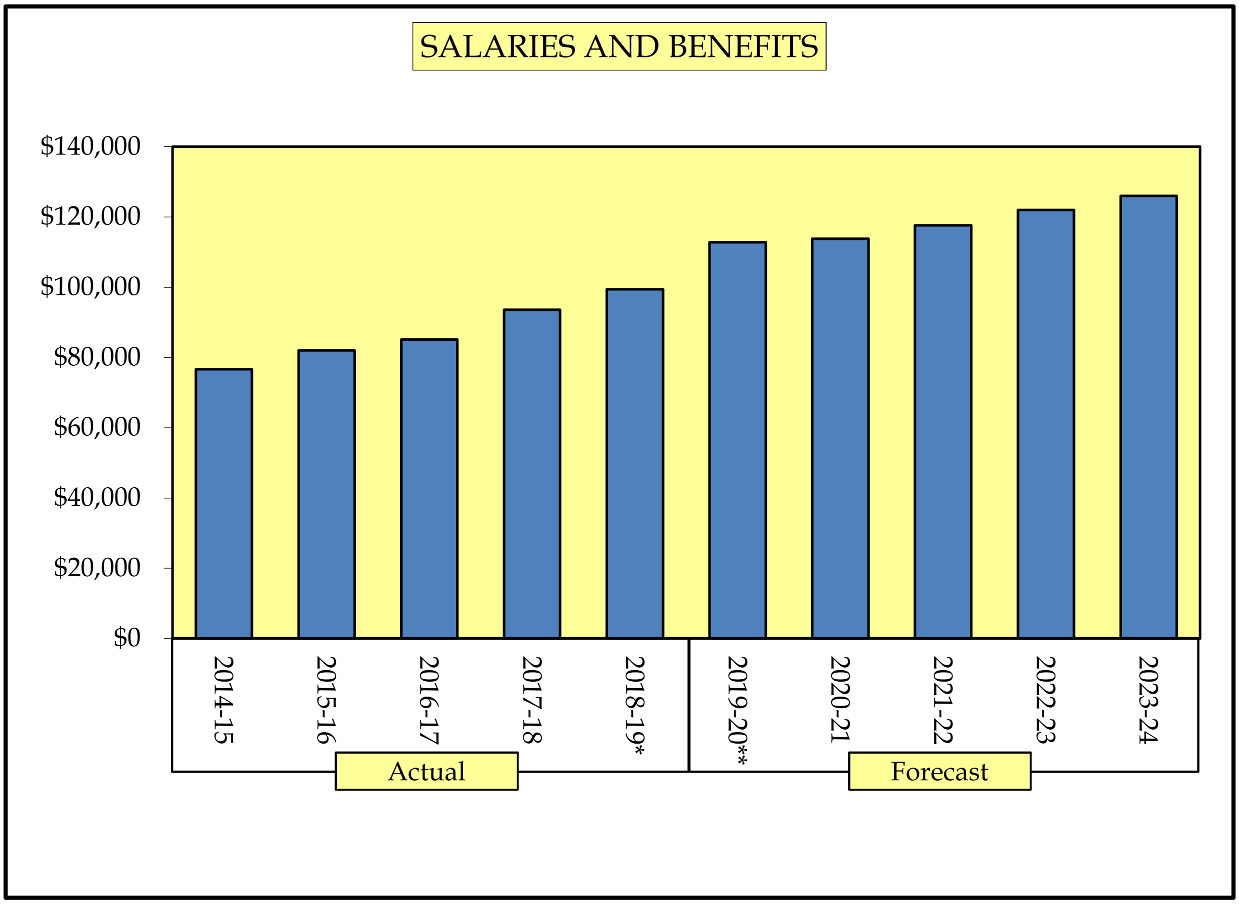
All labor contracts and resolutions expire June 30, 2020, but have a reopener on salary for Fiscal Year 2019-20, and discussions are under way. The Forecast includes COLAs and other benefits as negotiated for the third year of the contracts, 2019-20. Each of the remaining Forecast years includes a modest COLA and all Forecast years include step and merit increases.

Fiscal Year 2019-20 medical insurance rates are projected to increase 5.0 percent to 10.0 percent (depending on the health plan), for the second half of the fiscal year and dental rates are projected to increase 2.0 percent. The remaining Forecast years assume medical rates will increase 5.0 percent to 10.0 percent annually (depending on the health plan) and dental rates will continue to increase by 2.0 percent annually.

For Fiscal Year 2019-20, retirement benefit costs, overall (excluding the cost for new positions), are projected to increase 10.9 percent compared to the Fiscal Year 2018-19 Adopted Budget. In Fiscal Year 2020-21, retirement costs are projected to increase another 10.8 percent and gradually decline to a 4.0 percent increase in the last year of the Forecast period. Retirement costs are impacted by salary increases (COLAs, steps, and merits) and CalPERS rates which include the impact of the discount rate change. Annual increases range from $2.4 million to $1.1 million by the end of the Forecast period. The Forecast continues to include available funding to pay down the unfunded CalPERS pension obligation with recommended contributions of $2.0 million from the Fiscal Year 2018-19 carryover, $4.0 million in Fiscal Year 2019-20, and $1.0 million in Fiscal Year 2020-21 to reduce this unfunded liability. Contributions from other funds for their share of this liability are also included, proportionate to the GF contributions. The table in the Revenue and Expenditure Overview Section of the Forecast provides detailed amounts for each fiscal year.

Beginning with the June 30, 2015 CalPERS valuation report (rates for Fiscal Year 2017-18), CalPERS provides a rate for the normal cost component and a flat dollar payment for the UAL. Staff then converts the flat dollar UAL payment into a rate based on estimated payroll provided in the CalPERS actuarial in order to distribute the cost to all funds through payroll. Below are the projected employer rates provided in the June 30, 2017 CalPERS actuarial valuations (the valuation for Fiscal Year 2019-20 rates and estimates through Fiscal Year 2024-25).

	FY 2019-20	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**
Miscellaneous	33.151	35.357	36.922	38.028	38.519	39.080
Safety	50.153	53.516	55.890	57.666	58.480	59.384



Fiscal Year		Salaries and Benefits	% Change
2014-15		76,707	0.7%
2015-16		82,073	7.0%
2016-17		85,156	3.8%
2017-18		93,624	9.9%
2018-19	*	99,440	6.2%
2019-20	**	112,799	13.4%
2020-21		113,839	0.9%
2021-22		117,631	3.3%
2022-23		122,057	3.8%
2023-24		126,050	3.3%

* Estimated
** Recommended
(dollars in thousands)

Fiscal Years 2015-16 and 2016-17 include an additional $2.0M CalPERS contribution, Fiscal Years 2017-18 through 2019-20 include an additional $4.0M CalPERS contribution, and Fiscal Year 2020-21 includes an additional $1.0M CalPERS contribution.

SUPPLIES AND SERVICES

The Supplies and Services category makes up the second largest component of GOF expenditures and represents costs of operations.

CATEGORIES

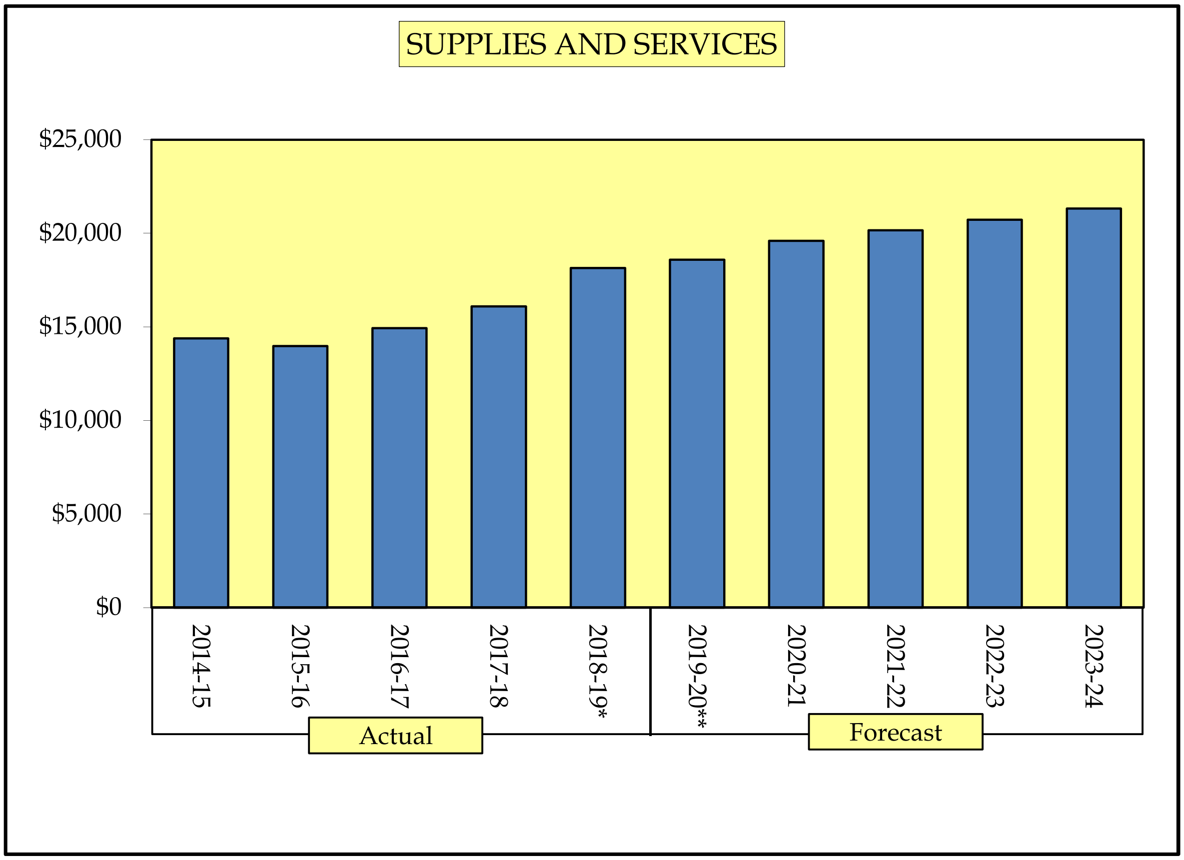
- Materials and Supplies.
- Maintenance and Operations.
- Utilities.
- Professional/Technical Services.
- Training, Conference, and Travel.
- Miscellaneous Expenditures.

HISTORY

The budget for Supplies and Services has fluctuated depending on economic conditions impacting the GOF, and staff has worked diligently to contain costs, particularly during recessionary times.

FORECAST

Fiscal Year 2019-20 (including recommended discretionary and nondiscretionary increases) is increasing $1.3 million (7.3 percent) compared to the Fiscal Year 2018-19 Adopted. The increase is primarily related to a shared public safety system maintenance (offset by revenue), IT licenses and maintenance, increased City utility cost increases, janitorial cost increase, STR compliance contract, school crossing guard services, and Library supplies. The remainder of the Forecast period includes average annual changes of 3.0 percent.



Fiscal Year		Supplies and Services	% Change
2014-15		14,386	5.7%
2015-16		13,969	(2.9%)
2016-17		14,926	6.9%
2017-18		16,089	7.8%
2018-19	*	18,146	12.8%
2019-20	**	18,582	2.4%
2020-21		19,595	5.5%
2021-22		20,155	2.9%
2022-23		20,731	2.9%
2023-24		21,325	2.9%

* Estimated
** Recommended
(dollars in thousands)

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CAPITAL OUTLAY AND EQUIPMENT REPLACEMENT

The Capital Outlay and Equipment Replacement category represents the new and replacement equipment needs of the City. Although Capital Outlay is one-time in nature, the City includes this category in the Operating Budget to reflect capital needs on an annual basis. In addition, annual contributions to the Equipment Replacement Fund are made by other funds as appropriate, based on the equipment used by each of those operations. Equipment replacement expenses are accounted for in the Equipment Replacement Reserve Fund.

CATEGORIES

- Capital Outlay.
- Equipment Replacement.

HISTORY

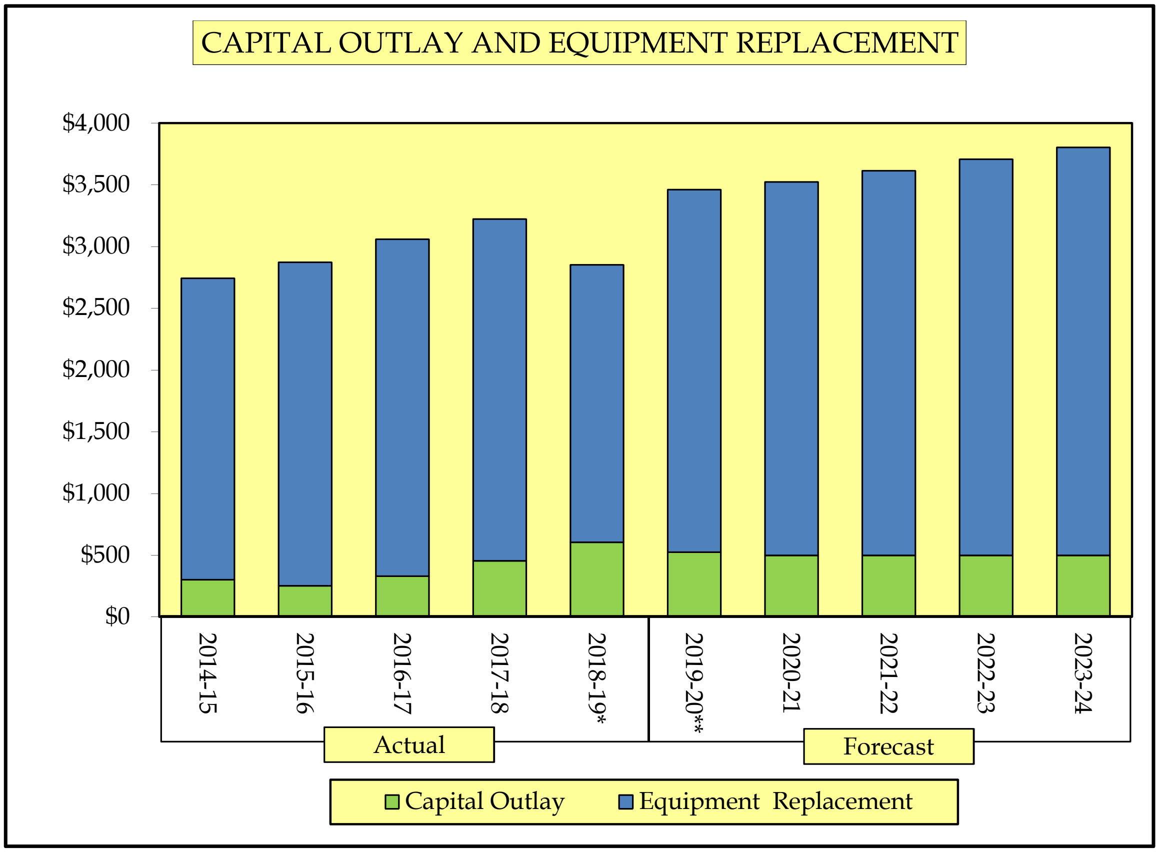
Capital Outlay: Since Fiscal Year 1993-94, annual expenditures have grown as a result of an increased level of technology and related equipment, an increase in the number and quality of safety vehicles, and the addition of hybrid vehicles to the fleet. This category is also influenced by the economic condition impacting the GOF and has experienced fluctuations over the past 10 fiscal years. For the past decade, annual budgeted expenditures for Capital Outlay have ranged between $200,000 and $500,000. For Fiscal Year 2018-19, Capital Outlay was funded at $508,000.

Equipment Replacement: The Equipment Replacement Reserve was funded with year-end General Fund carryover in Fiscal Years 1992-93 and 1993-94. Subsequently, appropriations were gradually increased until the GOF was fully funding its share in Fiscal Year 2001-02. Then, after several years of reduced contributions, a review of cost methodologies, useful life assumptions, and annual contributions was completed in Fiscal Year 2005-06 and staff concluded annual funding would need to be restored in order to financially sustain the replacement schedule. This was accomplished through a combination of increasing operating budget contributions supplemented by General Fund carryover. Beginning in Fiscal Year 2009-10, the full share of funding is budgeted in the GOF. The Fiscal Year 2018-19 contribution to Equipment Replacement was adopted at $2.8 million.

FORECAST

Capital Outlay: For Fiscal Year 2019-20, recommended capital outlay items total $524,900, and annual funding of $500,000 is included as the base level of funding for the remaining Forecast period.

Equipment Replacement: The GOF contribution for Fiscal Year 2019-20 is decreasing 18.8 percent to $2.2 million due to a net of inflation for replacement cost and some adjustments to quantity of items and life expectancy offset by no annual funding needed for certain pieces of equipment that have reached their life expectancy but are not recommended for replacement as they are still in good operating condition. This is a one-time reduction, as when this equipment is replaced, the full annual funding will be required again. Fiscal Year 2020-21 is increasing 30.6 percent to $2.9 million with the assumption that the delayed replacement of the equipment in the prior fiscal year will be replaced and the remaining Forecast period includes annual increases of 3.0 percent, continuing full funding of the GOF's share of equipment replacement.



Fiscal Year		Capital Outlay	Equipment Replacement	Total Capital Outlay & Equip. Replcmnt.	% Change
2014-15		303	2,279	2,582	0.8%
2015-16		254	2,442	2,696	4.4%
2016-17		331	2,619	2,950	9.4%
2017-18		456	2,728	3,184	7.9%
2018-19	*	605	2,768	3,373	5.9%
2019-20	**	525	2,247	2,772	(17.8%)
2020-21		500	2,936	3,436	24.0%
2021-22		500	3,024	3,524	2.6%
2022-23		500	3,115	3,615	2.6%
2023-24		500	3,209	3,709	2.6%

* Estimated
** Recommended
(dollars in thousands)

<u>INTERFUND EXPENDITURES AND TRANSFERS</u>

This category includes Self-Insurance funding and Interfund Transfers. Self-Insurance represents the GOF's share of insurance costs accounted for in the Internal Service Funds such as General Liability, Retirees' Health, and Vision Care. Special Funds and the Enterprise Funds also contribute to self-insurance. Interfund Transfers includes any transfers from the GOF to another fund (with the exception of the Equipment Replacement Transfer).

CATEGORIES

- General Liability.
- Vision Care.
- Retirees' Health Program.
- Housing.
- Limited-Period Needs.
- Capital Improvements.
- Strategic Property Acquisition.

HISTORY

<u>General Liability</u>: In Fiscal Year 1993-94, the City joined a liability insurance pool (ACCEL) with other select medium-sized cities for the provision of coverage in excess of the $1.0 million self-insured retention (SIR). Beginning in Fiscal Year 2001-02, funding of liability insurance was spread to all funds which receive a benefit from this insurance coverage. Previously, the cost was funded entirely by the GOF.

<u>Vision Care</u>: Vision care claims for employees and retirees with the City's Health Net medical coverage and safety employees and retirees who are covered by the CalPERS health insurance program (PEMHCA), and reimbursement for safety glasses submitted by current employees are paid for by the Employee Benefits Fund. The annual cost of this program is allocated to other funds as appropriate.

<u>Retirees' Health Insurance Program</u>: The medical premiums for eligible retirees are paid by the Retirees' Health Fund. Council began allocating funds to this reserve beginning in Fiscal Year 1992-93, although the City is not required to fund this liability.

In 2004, the Government Accounting Standards Board (GASB) published Statement No. 45—*Accounting and Financial Reporting by Employers for Postemployment Benefits Other*

Than Pensions (OPEB)—which required the City report the annual cost of this liability in the City's Comprehensive Annual Financial Report (CAFR) beginning in Fiscal Year 2007-08. The Retirees Health program encompasses annual funding of the normal cost (NC), annual self-insurance funding of the unfunded actuarial accrued liability (UAAL) and periodically includes additional funding transfers from the GOF. An actuarial report was completed and beginning in Fiscal Year 2006-07, the calculated NC portion for current employees has been budgeted in all the affected funds. In addition, for Fiscal Year 2006-07, Council approved contributions from other funds for their proportionate share of the UAAL. The combined NC and the amortization of the UAAL represents the annual required contribution (ARC). The City has committed to contributing the ARC on an annual basis. The actuarial valuation is required to be updated every two years and was most recently updated as of July 1, 2017.

In February 2008, Council approved an agreement authorizing the City's participation in the CalPERS-administered CERBT Fund, and in February 2009, the City began depositing funds into the CERBT. The balance in the CERBT is estimated to be $130.2 million by the end of the current fiscal year. All funds except the GOF had previously contributed their full share of the actuarial accrued liability. However, changes such as the option to choose the Defined Contribution plan, has added volatility to calculating the actuarial accrued liability for each fund. Staff will continue to work towards all other funds contributing their full share as valuations are updated. The City Council has approved additional General Fund contributions totaling $11.5 million from Fiscal Years 2014-15 through 2018-19. As part of the agreement for Public Safety to move to the CalPERS Health Care system, Public Safety employees are contributing an ongoing 1.2 percent of salary towards the OPEB liability.

GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*, is effective with the fiscal year ending June 30, 2018. The new OPEB standard parallels the pension standard issued with GASB Statement No. 68, *Financial Reporting for Pension Plans*, which essentially requires the City to report the unfunded liability on the face of the City's financial statements and enhances the note disclosures and required supplementary information (RSI) the City's OPEB liability.

<u>Housing</u>: As a result of the dissolution of the former Revitalization Authority (RDA), the GOF now receives its share of the former RDA property taxes. For Fiscal Years 2014-15 and 2015-16, 20.0 percent of the GOF share has been appropriated for low- and moderate-income housing as limited-period funding in the General Non-Operating Fund. As directed by Council, beginning Fiscal Year 2016-17, the budget includes an annual transfer of these property taxes, in the amount of $51,000, to the General Housing Fund. In addition, the Fiscal Year 2016-17 Adopted Budget included a transfer from the General Non-Operating Fund to the General Housing Fund for the balance of prior fiscal year funds.

General Non-Operating Fund (GNOF): As directed by the City Council at the Fiscal Year 2016-17 budget public hearing, the Adopted Budget included a transfer of $500,000 to the GNOF to fund a one-time employee bonus, recruitment strategies and employee engagement activities, and a new limited-term Communications Training Supervisor position.

General Fund Reserve: For Fiscal Year 2018-19, a transfer of $1.0 million from the General Fund is included to bring this reserve above the 20.0 percent minimum level.

GF Budget Contingency Reserve: The full projected annual revenue from the Ameswell property after a few years of operations is estimated at over $3.5 million. The majority of this revenue is currently recommended to be earmarked for debt service to fund the Police/Fire Administration Building Remodel and Expansion (see Debt Service section).

During the Fiscal Year 2017-18 budget process, a strategy was adopted for the Ameswell property revenue received in the fiscal years prior to the beginning of debt service to be transferred to this reserve and used for a limited-period need. The Fiscal Year 2017-18 Adopted Budget included a transfer of $755,400 to the Budget Contingency Reserve; however, only $35,000 was transferred as the project was delayed and the building permit was not issued until June 2018. The Fiscal Year 2018-19 Adopted Budget included a transfer of $1.4 million, which reflects a full year of office base rent.

GF Transportation Reserve: A number of priority transportation projects have been identified and a new Transportation Reserve was established with $2.0 million initial funding from the Fiscal Year 2017-18 GF carryover and $2.0 million from the Fiscal Year 2018-19 GOF.

GF Capital Improvement Reserve: By mid-Fiscal Year 2017-18, the decennial revaluation process had been completed for the three City-owned land leases between the City and Google. Based on the revaluations of the three sites, annualized rent payments increased approximately $6.8 million. It is probable that during the time span before the next decennial adjustment in April 2026, there will be at least one economic downturn, and if a downturn occurs when a revaluation occurs, the lease revenues to the City could decline. Staff reviewed the changes in AV for the past 13 years and identified a potential 15.0 percent loss in secured AV in the event of an economic downturn. Therefore, to reduce the dependency on these revenues, staff recommended, and the City Council adopted, a strategy to set aside 10.0 percent of this potential decline in lease revenues ("at-risk" lease revenue) to fund future capital projects. In Fiscal Year 2017-18, a potential 10.0 percent decline in revenues, calculated at $1.2 million, was transferred to the Capital Improvement Reserve to fund projects in Fiscal Year 2018-19 or later. In Fiscal Year 2018-19, a total $3.4 million was transferred;

$1.4 million in "at-risk" lease revenue, and an additional $2.0 million from GOF balance for potential debt service to fund the Police/Fire Administration Building Remodel and Expansion project should the City Council desire to fund the project sooner than revenues from the Ameswell development will be received.

GF Strategic Property Acquisition Reserve (SPAR): The City has successfully leveraged City-owned property for ongoing revenues, and setting aside available resources in the SPAR could assist in obtaining future strategic properties. The Fiscal Years 2016-17 and 2017-18 Adopted Budgets included transfers of $2.0 million each and Fiscal Year 2018-19 includes a transfer of $2.0 million to the SPAR in order to increase the available funding for future property investment.

FORECAST

General Liability: The Fiscal Years 2019-20 through 2023-24 projections are based on maintaining the minimum policy level for reserve balances. The City currently has a $1.0 million SIR. For Fiscal Year 2019-20, the GOF is contributing $1.2 million for the cost of claims and administering the program, a 21.0 percent increase from Fiscal Year 2018-19 Adopted. The remaining Forecast period includes 3.0 percent annual increases.

Vision Care: The GOF's contribution is the same level as Fiscal Year 2018-19 Adopted.

Retirees' Health Insurance Program: Fiscal Year 2019-20 includes $2.2 million for the UAAL amortization. The remaining Forecast years use projections based on information provided in the July 1, 2017 valuation for the UAAL amortization.

The City has made great strides toward funding the AAL of $189.9 million (projected for Fiscal Year 2019-20), with estimated assets of $130.2 million as of June 30, 2019, or 68.5 percent funded, at a discount rate of 6.25 percent. The discount rate for Fiscal Year 2019-20 is reduced from 6.5 percent to 6.25 percent, as previously approved, to provide a margin for adverse deviation or uncertainty.

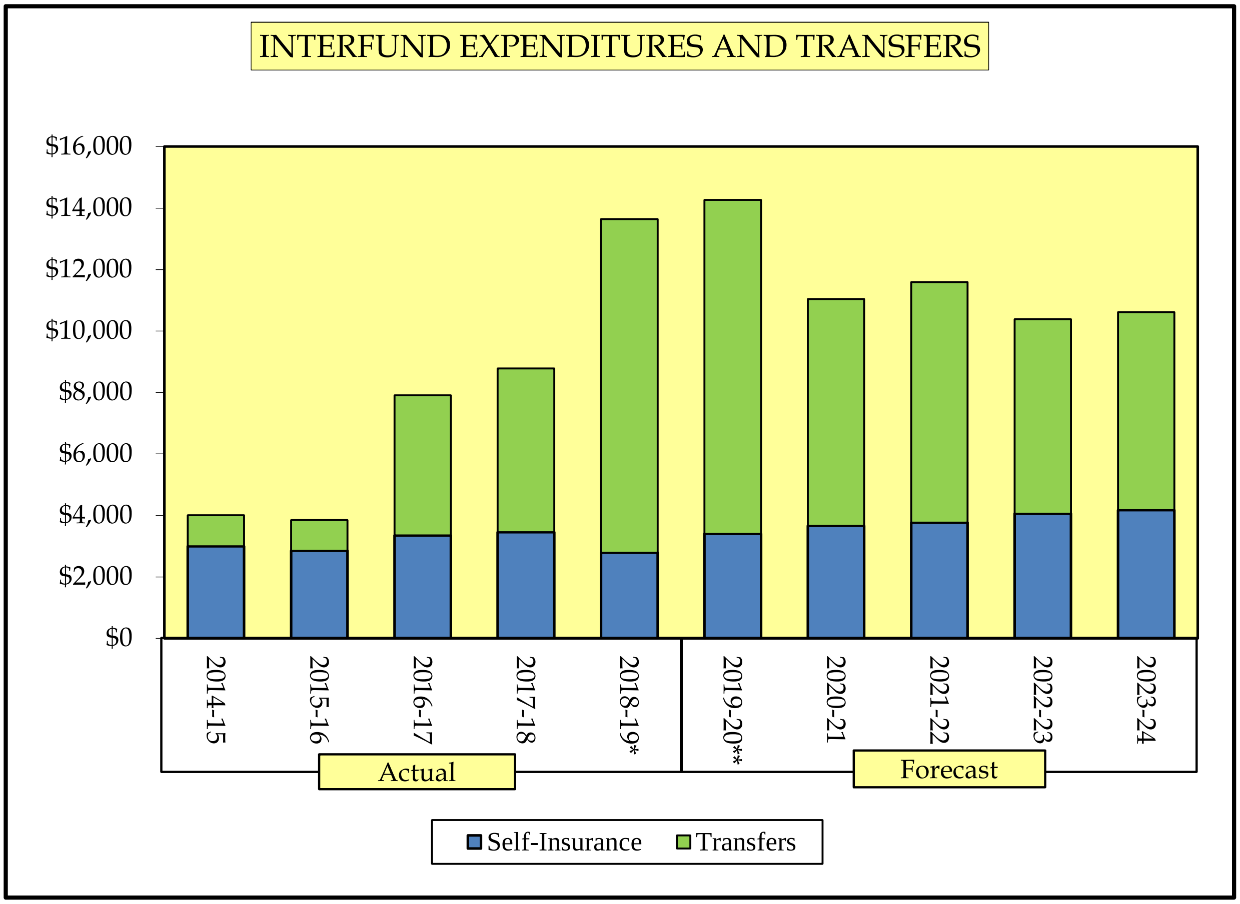
Housing: As a result of the dissolution of the former Revitalization Authority (RDA), the GOF now receives its share of the former RDA property taxes. An annual transfer of these property taxes, in the amount of $51,000, to the Housing Fund is included for the remaining Forecast period. As discussed previously in this document, in November 2018, Mountain View voters approved Measure P, which restructures the Business License Tax. The new structure is an incremental, progressive, tax based on a tiered number of employees. Persons operating businesses with 50 employees or more shall pay a phased-in tax over a three-year period, with the first phase of the new tax rates effective January 1, 2020. The City Council initially earmarked 80.0 percent of the increased tax revenue for transportation and 10.0 percent for housing. The Forecast reflects 10.0 percent of the increased business license tax revenue estimated at $195,400 for Fiscal Year 2019-20, growing to $521,900 in the last year of the Forecast period.

General Fund Reserve: For Fiscal Year 2019-20, a transfer of $2.0 million from the General Fund is recommended to bring this reserve above the 20.0 percent minimum level.

GF Budget Contingency Reserve: As discussed above, revenue from the Ameswell development began late Fiscal Year 2017-18 and by the end of the forecast period is projected over $3.5 million annually. This revenue is earmarked for debt service payments related to the Police/Fire Administration Building Remodel and Expansion project (see Debt Service section). It is anticipated the debt will be issued in Fiscal Year 2022-23 and, in the interim, Fiscal Years 2019-20 through 2021-22 include transfers of $1.6 million to the Budget Contingency Reserve.

GF Transportation Reserve: Fiscal Year 2020-21 includes a $1.0 million transfer to this Reserve. The Forecast also reflects 80.0 percent of the increased business license tax revenue, estimated at $1.6 million for Fiscal Year 2019-20 and growing to $4.2 million in the last year of the Forecast period.

GF Capital Improvement Reserve: As mentioned in the History section above, in order to reduce the dependency on the long-term lease revenues, $1.5 million is recommended to be transferred to the Capital Improvement Reserve for Fiscal Year 2019-20. For the remaining Forecast period, this amount is increased by the annual rent escalation factors referenced in the lease agreements. In addition, for Fiscal Year 2019-20 an additional $3.0 million allocation is included for potential debt service to fund the Police/Fire Administration Building Remodel and Expansion project should the City Council desire to fund the project sooner than revenues from the Ameswell development will be received.



Fiscal Year		Self Insurance	Transfers	Total SI & Transfers	% Change
2014-15		3,002	1,000	4,002	56.0%
2015-16		2,852	1,000	3,852	(3.7%)
2016-17		3,353	4,551	7,904	105.2%
2017-18		3,457	5,328	8,785	11.1%
2018-19	*	2,792	10,853	13,645	55.3%
2019-20	**	3,404	10,859	14,263	4.5%
2020-21		3,659	7,385	11,044	(22.6%)
2021-22		3,769	7,821	11,590	4.9%
2022-23		4,055	6,331	10,386	(10.4%)
2023-24		4,176	6,443	10,619	2.2%

* Estimated
** Recommended
(dollars in thousands)

DEBT SERVICE

The Debt Service category represents the GOF's debt payment obligations.

CATEGORIES

- Police/Fire Administration Building.

HISTORY

The GOF has had no debt obligations since prior to Fiscal Year 2009-10, when the City Hall/Center for the Performing Arts debt repayment was transferred to Construction/ Conveyance Tax funding. This debt was fully retired in Fiscal Year 2015-16.

FORECAST

The Forecast assumes revenue generated from the Ameswell development is earmarked for the Police/Fire Administration Building Remodel and Expansion. It is assumed debt will be issued for the project and annual debt service payments of approximately $3.3 million have been included as a placeholder beginning in Fiscal Year 2022-23.

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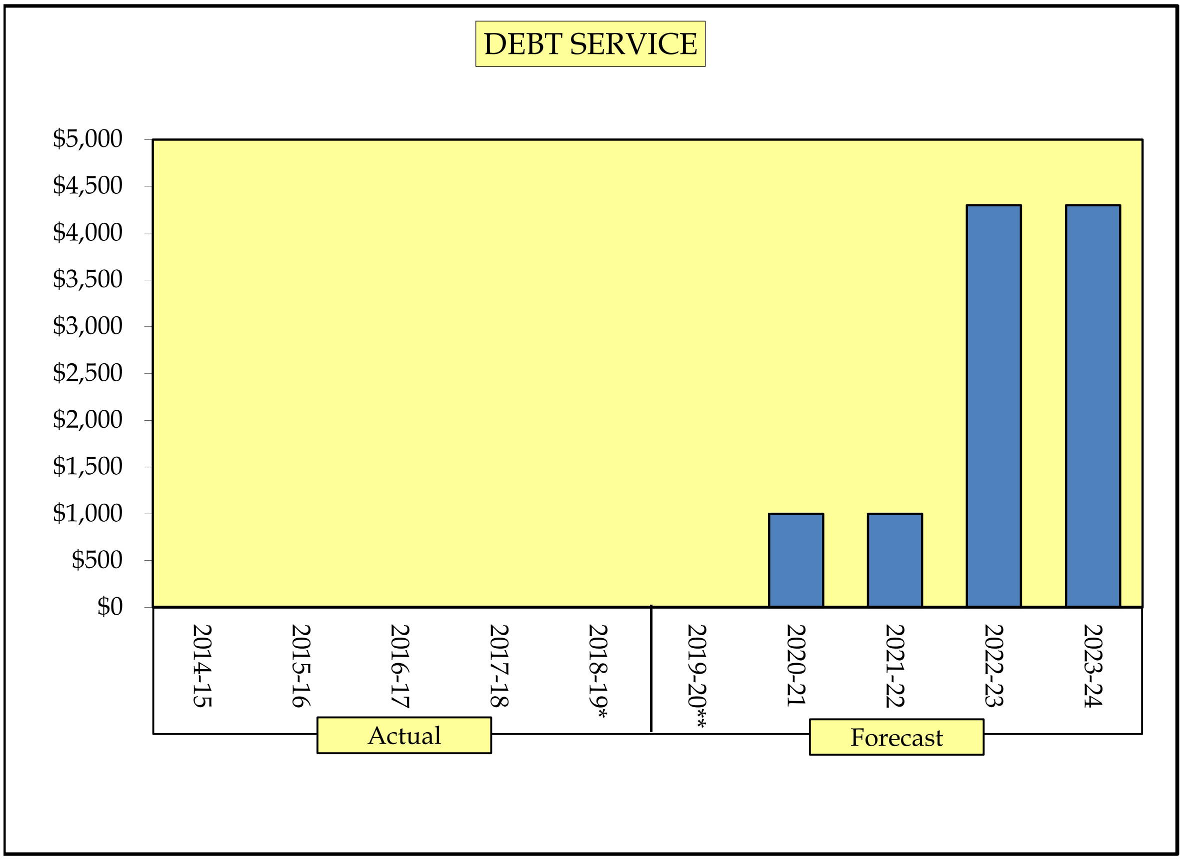

Fiscal Year		Debt Service	% Change
2014-15		0	0.0%
2015-16		0	0.0%
2016-17		0	0.0%
2017-18		0	0.0%
2018-19	*	0	0.0%
2019-20	**	0	0.0%
2020-21		1,000	100.0%
2021-22		1,000	0.0%
2022-23		4,300	330.0%
2023-24		4,300	0.0%

* Estimated
** Recommended
(dollars in thousands)

EXHIBIT A

GENERAL OPERATING FUND HISTORY
(dollars in thousands)

	2008-09 AUDITED	2009-10 AUDITED	2010-11 AUDITED	2011-12 AUDITED	2012-13 AUDITED
REVENUES:					
Property Taxes	$ 25,647	$26,017	$25,142	$26,216	$28,122
Sales Tax	16,264	15,242	15,502	15,940	16,744
Other Local Taxes[1]	9,242	9,144	9,870	10,774	12,015
Use of Money and Property	11,480	10,881	10,290	10,138	10,783
Other Revenues[2]	23,270	23,072	24,361	27,079	27,253
Loan Repayments	2,060	2,060	2,075	1,894	1,894
TOTAL REVENUES	87,963	86,416	87,240	92,041	96,811
EXPENDITURES:					
Salaries and All Pays	50,868	51,273	50,187	50,445	51,252
Retirement	7,275	7,330	7,286	10,028	10,856
Health Benefits	6,300	6,519	7,055	7,701	8,086
All Other Benefits	3,648	4,427	4,479	4,363	4,367
Salaries and Benefits	68,091	69,549	69,007	72,537	74,561
Supplies and Services	13,155	11,933	12,226	12,910	13,414
Capital Outlay/ Equipment Replc.	1,504	2,213	2,253	2,282	2,315
Interfund Expenditures and Transfers	809	2,441	2,674	2,876	2,751
Debt Service	1,020	-0-	-0-	-0-	-0-
TOTAL EXPENDITURES	84,579	86,136	86,160	90,605	93,041
Transfer to GNOF	-0-	-0-	-0-	-0-	-0-
CalPERS Contrib.	-0-	-0-	-0-	-0-	-0-
OPEB Contrib.	-0-	-0-	-0-	-0-	-0-
Transfer to SPAR	-0-	-0-	-0-	-0-	-0-
OPERATING BALANCE[3]	$ 3,384	$ 280	$ 1,080	$ 1,436	$ 3,770

1 Other Local Taxes consists of Transient Occupancy Tax, Business Licenses, and Utility Users Tax.
2 Other Revenues consists of Licenses, Permits & Franchise Fees, Fines & Forfeitures, Intergovernmental, Charges for Services, Miscellaneous Revenues, and Interfund Revenues & Transfers.
3 Balance prior to changes in assets and liabilities, encumbrances, and rebudgets for grants and donations, net transferred to General Non-Operating Fund and General Fund Reserve.

GENERAL OPERATING FUND HISTORY
(dollars in thousands)

	2013-14 AUDITED	2014-15 AUDITED	2015-16 AUDITED	2016-17 AUDITED	2017-18 AUDITED
REVENUES:					
Property Taxes	$ 31,120	$ 35,173	$ 39,461	$ 43,774	$ 49,419
Sales Tax	16,936	19,773	21,401	21,828	20,713
Other Local Taxes[1]	13,089	14,805	15,137	15,866	15,444
Use of Money and Property	10,690	10,928	12,219	16,896	19,659
Other Revenues[2]	28,316	26,261	27,693	28,325	31,142
Loan Repayments	1,894	-0-	-0-	-0-	-0-
TOTAL REVENUES	102,045	106,940	115,911	126,689	136,377
EXPENDITURES:					
Salaries and All Pays	52,379	52,231	54,024	55,262	59,483
Retirement	11,219	11,799	12,575	13,606	15,360
Health Benefits	8,215	7,886	8,102	8,320	8,527
All Other Benefits	4,385	4,791	5,372	5,968	6,254
Salaries and Benefits	76,198	76,707	80,073	83,156	89,624
Supplies and Services	13,608	14,386	13,969	14,926	16,089
Capital Outlay/ Equipment Replc.	2,562	2,582	2,696	2,950	3,184
Interfund Expenditures and Transfers	2,565	3,002	2,852	3,404	4,785
TOTAL EXPENDITURES	94,933	96,677	99,590	104,436	113,682
Transfer to GNOF	-0-	-0-	-0-	(500)	-0-
CalPERS Contrib.	-0-	-0-	(2,000)	(2,000)	(4,000)
OPEB Contrib.	-0-	(1,000)	(1,000)	(2,000)	(2,000)
Transfer to SPAR	-0-	-0-	-0-	(2,000)	(2,000)
OPERATING BALANCE[3]	$ 7,112	$ 9,263	$ 13,321	$ 15,753	$ 14,695

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