COUNCIL REPORT

CITY OF MOUNTAIN VIEW

DATE: February 11, 2020

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Fiscal Year 2019-20 Midyear Budget Status Report, Recommended Midyear Adjustments, Fiscal Year 2020-21 Preliminary General Operating Fund Forecast, and Fiscal Year 2019-20 Performance/Workload Measures**

RECOMMENDATION

1. Acknowledge and file the Fiscal Year 2019-20 Midyear Budget Status Report, the Fiscal Year 2020-21 Preliminary General Operating Fund Forecast, and the six-month status of the Fiscal Year 2019-20 Performance/Workload Measures (Attachment 1 to the Council report).

2. Approve the following 7.0 FTE positions (4.0 ongoing and 3.0 limited-period) as outlined in the three-year spending plan of Sustainability funds approved by City Council on October 22, 2019.

   Community Development:
   1.0 FTE Deputy Building Official (ongoing)
   1.0 FTE Analyst I/II (ongoing) (TDM and Parking Demand Analyst)

   Public Works:
   1.0 FTE Transportation Planner (ongoing)
   1.0 FTE Senior Civil Engineer (limited-period for two years) (Facilities Project Manager)
   1.0 FTE Facilities Maintenance Worker I/II (limited-period for two years)

   City Manager's Office:
   1.0 FTE Chief Sustainability and Resilience Officer (ongoing)
   1.0 FTE Analyst I/II (limited-period for two years) (Program Manager for Building and Vehicle Electrification)

3. Approve 1.0 FTE Equipment Mechanic I/II position and appropriate and transfer $27,000 from the General Fund Reserve to the Equipment Maintenance Fund,

Public Works Department, for estimated costs for the remainder of the Fiscal Year. (Five votes required)

4. Approve reclassification of the Communications Operation Supervisor position to Emergency Communications Manager and adjust the salary range for the Public Safety Support Services Manager position.

5. Approve increasing the salary steps for Public Safety Dispatcher I, Public Safety Dispatcher II, and Public Safety Dispatcher III classifications by 5 percent.

6. Adopt a Resolution Authorizing the City Manager or Designee to Amend the Classification and Salary Plans for Regular and Hourly Employees for Fiscal Year 2019-20, to be read in title only, further reading waived (Attachment 2 to the Council report).

INTRODUCTION

This report provides an update of the City's budgetary position at the midway point in the fiscal year as well as a preliminary General Operating Fund (GOF) forecast for the upcoming fiscal year. The six-month status of Fiscal Year 2019-20 Performance/Workload Measures is also attached to this report (Attachment 1).

The midyear budget status of the Fiscal Year 2019-20 GOF estimates revenues at $149.0 million, essentially as budgeted. Including estimated budget savings, operating expenditures are estimated at $134.7 million, $691,000 (0.5 percent) below the Adopted Budget, and $4.1 million (2.9 percent) below the Adjusted Budget. After the budgeted contributions to CalPERS and the transfers to the General Non-Operating Fund for the Sustainability Capital Project, General Fund Reserve, and Capital Improvement Reserve, the GOF is estimated with a $4.2 million ending balance. This balance will be available to fund limited-period expenditures for Fiscal Year 2020-21, supplement or replenish reserves, provide funding for the Capital Improvement Program (CIP), provide additional contributions to pay down unfunded liabilities, and/or other City priorities.

Development Services Fund revenues and expenditures are trending below budget, showing some signs of a slowdown in development activity. The ending balance is necessary to continue funding operations for projects that have already paid fees, as well as for the next slowdown in the economy. The revenues and expenditures of the Shoreline Golf Links/Michaels at Shoreline Restaurant are below budget. The Shoreline Regional Park Community (SRPC) revenues are trending below budget, primarily due to a decline in unsecured Assessed Value (AV) and an unanticipated lower-than-expected appraisal value for two properties. The SRPC expenditures are also trending below budget. For the Water, Wastewater, and Solid Waste Funds, revenues are currently trending higher than budget, and expenditures are currently trending below budget.

The preliminary Fiscal Year 2020-21 Forecast for the GOF indicates revenues are still growing, but at a slower pace. Anticipated revenue growth is primarily the result of increasing property tax revenue (from changes in ownership, new development, and the 2 percent CCPI), CPI increases on the City's leases, and the second-year phase-in of the new Business License structure. However, it should be noted 90.0 percent of the increased Business License Tax is transferred to the Transportation Reserve and Housing Fund. All other revenues are either flat or are projected with a slight decline. The projected revenues are sufficient to meet currently projected expenditures with a preliminary projected $9.7 million ending available balance which includes the preliminary recommended contribution towards the unfunded CalPERS liability and transfer to the Transportation Reserve as identified last year. **This balance does not reflect the cost of position changes recommended in this Midyear Report, the expenditure recommendations for Fiscal Year 2020-21 that will be considered as part of the budget process, any increased cost of janitorial services resulting from requiring a union-represented firm, or changes to labor agreements, including any cost-of-living adjustment (COLA) that may be negotiated.**

BACKGROUND AND ANALYSIS

I. FISCAL YEAR 2019-20 MIDYEAR BUDGET STATUS SUMMARY

The Midyear Budget Status Report represents staff's best estimate of the City's budgetary position at this time, taking into consideration data at approximately midway through the fiscal year and certain assumptions regarding revenues and expenditures for the remainder of the fiscal year. This section of the report includes a discussion of Fiscal Year 2019-20 revenue and expenditure estimates compared to budget for major funds.

A comparison of midyear estimated amounts to budget for the GOF follows (dollars in thousands):

	2018-19 Audited	2019-20 Adopted Budget	2019-20 Adjusted	**2019-20 Estimated**	Variance of 2019-20 Estimated to 2019-20 Adjusted
Revenues	$146,010	$148,324	$149,311	**$148,959**	$(352)
Expenditures[(1)]	(120,779)	(135,415)	(138,793)	**(134,724)**	4,069
Rebudgets[(2)]	(962)	-0-	2,502	**-0-**	(2,502)
Operating Balance	24,269	12,909	13,020	**14,235**	1,215
Transfer to GNOF[(3)]	(14,269)	(1,000)	(1,000)	**(1,000)**	-0-
Transfer to GF Reserve	(1,000)	(2,000)	(2,000)	**(2,000)**	-0-
Transfer to Trans Res	(2,000)	-0-	-0-	**-0-**	-0-
Transfer to Cap Imp Res	(2,000)	(3,000)	(3,000)	**(3,000)**	-0-
CalPERS Contribution	(4,000)	(4,000)	(4,000)	**(4,000)**	-0-
OPEB Contribution	(1,000)	-0-	-0-	**-0-**	-0-
Ending Balance	$ -0-	$ 2,909	$ 3,020	**$ 4,235**	$1,215

(1) Adopted and Adjusted Budgets include $2.3 million in estimated budget savings.

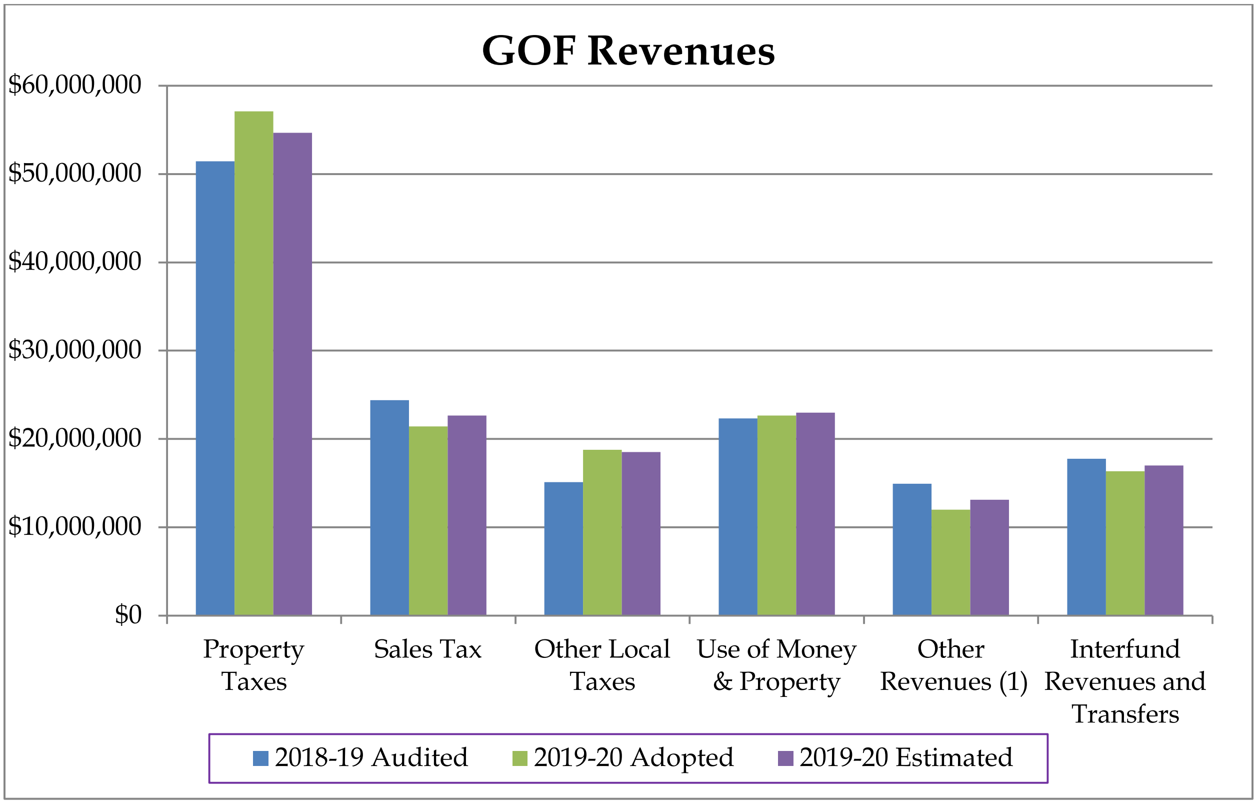
(2) Rebudgets include grant and donation carryovers from the prior fiscal year and changes in encumbrances and assets and liabilities for audited results.

(3) Includes $6.5 million in Fiscal Year 2018-19 and $1.0 million in Fiscal Year 2019-20 for the Sustainability Capital Project.

GENERAL OPERATING FUND

Revenues

The chart below is a comparison of the Fiscal Year 2018-19 Audited and Fiscal Year 2019-20 Adopted and Estimated for GOF major revenue categories.



(1) Includes: Licenses, Permits, and Franchise Fees/Fines and Forfeitures; Intergovernmental; Charges for Services; and Miscellaneous Revenues.

Estimated results of revenue categories are mixed, with some trending higher than budget and others trending at or below budget. A detailed discussion of major revenue categories is as follows:

Property Taxes revenue is estimated at $54.7 million, $2.4 million (4.2 percent) below budget. The Fiscal Year 2019-20 Adopted Budget included projected growth based on a positive 2.0 percent California Consumer Price Index (CCPI) applied to a majority of properties, plus increased values related to changes in ownership and new development. The information provided by the Santa Clara County Assessor after the beginning of the current fiscal year indicates the total actual July 1, 2019 General Fund Assessed Value (AV) increased a net 8.6 percent compared to the July 1, 2018 AV, reflecting growth in secured and unsecured AV. However, the County continues to process appeals and refunds and the estimated revenue takes into consideration anticipated additional refunds by the end of the current fiscal year.

Sales Tax revenue is currently estimated at $22.7 million, $1.2 million (5.7 percent) higher than budget, primarily related to higher than expected receipts from State and County pools, restaurants, and hotels. In Fiscal Year 2017-18, the California Department of Tax and Fee Administration (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. Excluding these payments for the prior fiscal year, sales tax revenue for the current fiscal year is estimated at essentially the same as the Fiscal Year 2018-19 Audited. If the CDTFA late payments were adjusted to the correct fiscal year, it would show this is the fourth year that Sales Tax revenue has either declined or seen little growth, indicating a possible economic slowdown.

Other Local Taxes revenue is estimated at $18.5 million in total, $235,000 (1.3 percent) below budget. Transient Occupancy Tax (TOT) revenue is estimated to be $555,000 (6.3 percent) below budget, primarily related to a delay in an expected hotel opening. Although TOT revenue has been growing since mid-Fiscal Year 2009-10, it is now trending slightly lower, resulting from net overall declines in corporate housing and hotels. Short-term rental (STR) revenue received in the current fiscal year has offset part of the decline; additional STR revenues are not included in the estimate until staff can determine a reliable projection.

Based on the payments received to date, Utility Users Tax (UUT) revenue is estimated to be $253,000 (3.3 percent) higher than budget. UUT generated from telecommunications services has been steadily declining since Fiscal Year 2015-16. 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. UUT generated from energy services is trending higher than budget, primarily from an increase in PG&E and Silicon Valley Clean Energy (SVCE).

Business License revenue is estimated to be $67,000 (3.0 percent) higher than budget based on billings for the new Business License Tax structure. Staff continues to process renewal applications and will provide an updated estimate with the Narrative Budget Report in April.

Use of Money and Property revenue is comprised of Investment Earnings and Rents and Leases and is estimated at $23.0 million, $330,000 (1.5 percent) higher than budget. Investment Earnings revenue is estimated $239,000 (8.2 percent) higher than budget. From December 2016 to December 2018, the Federal Open Market Committee (FOMC) increased the benchmark interest rate eight times, resulting in increased yields on investment securities available for the City to purchase. Although the FOMC reduced the benchmark interest rate three times during the current fiscal year (July, September, and October), the portfolio is still benefiting from the securities purchased in the prior fiscal years. However, as investments mature, they are replaced with lower-yielding investments, having a moderating effect on the City's investment earnings. Rents and Leases revenue estimates are essentially as budgeted.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is estimated to be essentially as budgeted.

Intergovernmental revenue is estimated at $146,000 (28.0 percent) higher than budget. This is related to unbudgeted grants and reimbursements, such as SB 90 claims, Rapid Enforcement Allied Computer Team (REACT), and Santa Clara County Specialized Enforcement Team (SCCSET), from other governmental agencies.

Charges for Services revenue is generated by fees assessed for Recreation and other types of services and is estimated to be $84,000 (2.7 percent) below budget. This is primarily due to STR registration revenue estimated to be $143,000 lower than budget, partially offset by Recreation revenue estimated higher than budget.

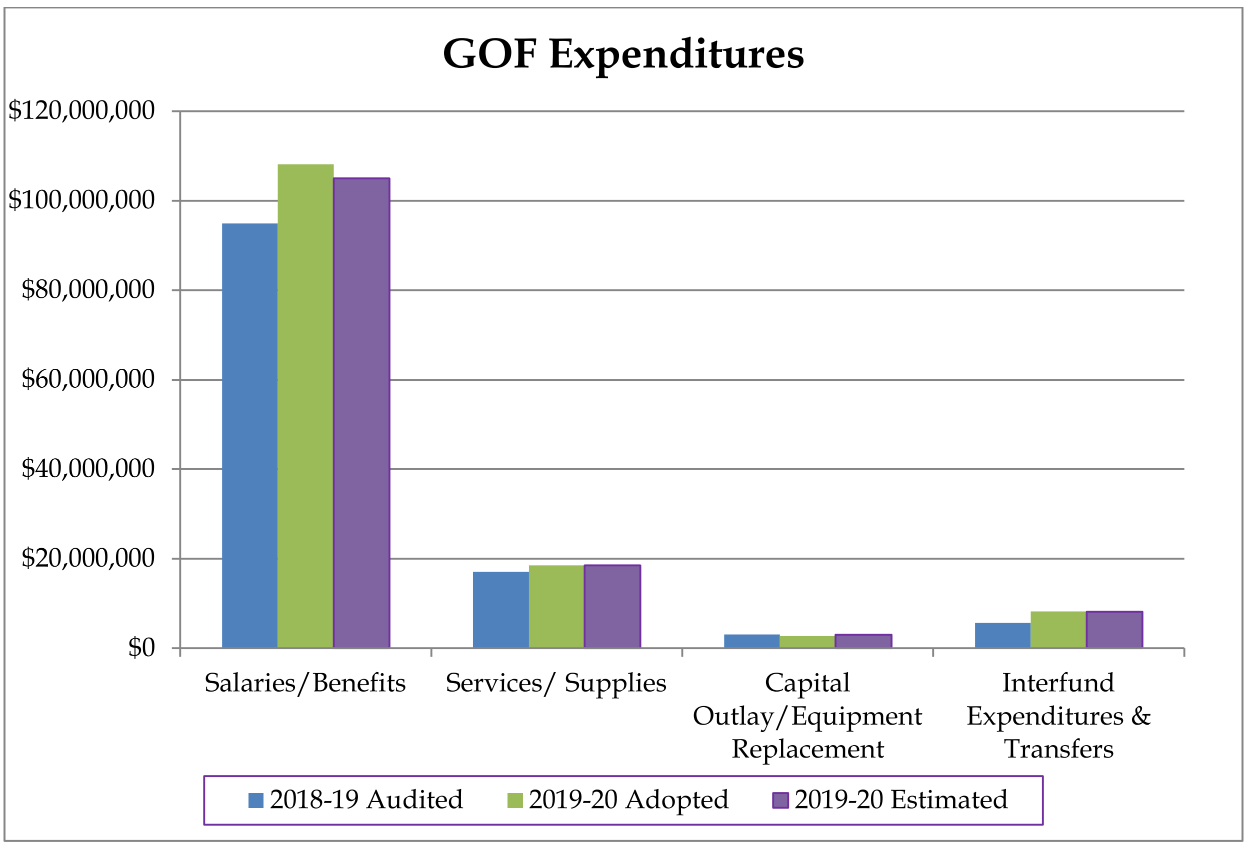
Miscellaneous Revenues are estimated to be $1.0 million (52.0 percent) and $797,000 (35.8 percent) higher than the Adopted and Adjusted Budget, respectively. This is primarily resulting from grants, donations, and expenditure reimbursements received that are not budgeted due to the uncertainty of receipt. Full fiscal year estimates are not calculated for most of these revenues as the amounts can vary greatly. Reimbursements for Fire mutual-aid overtime that have not been received are not included in the estimated revenue.

Interfund Revenues and Transfers are estimated to be $636,000 (3.9 percent) higher than the Adopted Budget and $114,000 (0.7 percent) below the Adjusted Budget. For Interfund Revenues, capital improvement project overhead is trending $161,000 higher than budget. For Interfund transfers, City Council approved a midyear transfer of $750,000 from the General Fund Reserve for the Public Works Engineering Division consultant contracts funding, and staff is currently estimating there will be no transfer from the Shoreline Golf Links/Michaels at Shoreline Restaurant Fund, which is budgeted at $275,000.

Expenditures

Budget savings are expected each fiscal year and are included in the Adopted Budget. Including budget savings, total estimated expenditures indicate a $691,000 (0.5 percent) and $4.1 million (2.9 percent) favorable variance compared to the Adopted and Adjusted Budgets, respectively.

The chart below is a comparison of the Fiscal Year 2018-19 Audited, and Fiscal Year 2019-20 Adopted and Estimated for GOF expenditures.



A brief explanation of the assumptions and changes in expenditures follows:

Salaries and Benefits expenditures are estimated at $105.0 million, $3.2 million (2.9 percent) and $3.0 million (2.8 percent) below the Adopted and Adjusted Budgets, respectively. This is the result of vacant positions and some personnel turnover during the first half of the fiscal year. There are currently 56 vacancies and 23 active recruitments to fill 32 current and anticipated vacancies. Although some savings are expected annually and included in the Adopted Budget, it is not possible to precisely predict the level and impact of vacancies.

Services and Supplies expenditures are estimated at $18.5 million, $3.3 million (14.9 percent) below the Adjusted Budget and essentially the same as the Adopted Budget. Savings are expected annually, and this is comparable to prior fiscal years.

Capital Outlay/Equipment Replacement expenditures are estimated at $3.0 million, slightly higher than the Adopted Budget, but equal to the Adjusted Budget, and include $2.2 million of annual funding for equipment replacement and $784,000 currently estimated for new capital purchases.

Interfund Expenditures and Transfers are estimated at $8.2 million, essentially as budgeted.

Expenditures by Department

All departments but one appear to be trending under budget for the current fiscal year. The Fire Department is currently estimated to be trending slightly over budget by $365,000 due to overtime incurred from several mutual-aid incidents that have not yet been reimbursed and a higher level of overtime during the first six months of the fiscal year. The department is estimating outstanding reimbursements to be approximately $300,000 for overtime costs. The Fire Department will also be managing expenditures to ensure staying within budget. The variances detailed below do not take into consideration encumbrances that may be incurred as of the end of the fiscal year.

A comparison of midyear estimated amounts to budget for the GOF department expenditures follows (dollars in thousands):

	2019-20 Adopted Budget	2019-20 Adjusted Budget	**2019-20 Estimated**	Variance of Estimated to Adjusted Budget	Percent Savings of Adjusted Budget
City Council	$ 428	$ 428	**$ 312**	$ 116	27.1
City Clerk	720	720	**677**	43	6.0
City Attorney	2,409	2,462	**2,179**	283	11.5
City Manager	5,311	5,500	**4,963**	537	9.8
Information Technology	5,615	5,703	**5,294**	409	7.2
Finance and Admin. Services	7,195	7,531	**6,706**	825	11.0
Community Development	1,770	2,063	**1,865**	198	9.6
Public Works	11,178	12,281	**11,102**	1,179	9.6
Community Services	17,696	18,088	**16,635**	1,453	8.0
Library Services	6,494	6,801	**6,219**	582	8.6
Fire	25,504	25,711	**26,076**	(365)	(1.4)
Police	42,652	43,062	**42,022**	1,040	2.4
Nondepartmental[(1)]	10,743	10,743	**10,674**	69	0.6
Projected Budget Savings	(2,300)	(2,300)	**Included**	(2,300)	100.0
Total Operating Expenditures	$135,415	$138,793	**$134,724**	$4,069	2.9

(1) Nondepartmental expenditures include interfund transfers for equipment replacement, self-insurance, and housing.

In summary, revenues are currently estimated at $149.0 million, essentially as budgeted. Including estimated budget savings, operating expenditures for the current fiscal year are estimated at $134.7 million, $691,000 (0.5 percent) below the Adopted Budget and $4.1 million (2.9 percent) below the Adjusted Budget. The ending balance is estimated at $4.2 million after the $4.0 million contribution to CalPERS, and transfers of $1.0 million to the General Non-Operating Fund for the Sustainability Capital Project, $2.0 million to the General Fund Reserve, and $3.0 million to the Capital Improvement Reserve. This balance will be available to fund limited-period expenditures for Fiscal Year 2020-21, supplement or replenish reserves, provide funding for the CIP, provide additional contributions toward the City's unfunded liabilities, and/or other City priorities.

DEVELOPMENT SERVICES

Development Services is a General Fund program separated from the GOF in order to facilitate better tracking and accounting. This separation allows for an effective way to match revenues and expenditures related to private development activity and provide support to sustain services throughout the fluctuations of development and economic cycles. Effective with the Fiscal Year 2014-15 Adopted Budget, the Development Services Fund was expanded to consolidate all development-related activities; previously, only Building-related services were segregated in the Building Services Fund.

A comparison of midyear estimated amounts to budget for Development Services follows (dollars in thousands):

	2019-20 Adopted Budget	2019-20 Adjusted Budget	**2019-20 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$17,567	$18,336	**$17,130**	$(1,206)
Expenditures	(16,179)	(23,655)	**(17,457)**	6,198
Operating Balance (Deficit)	1,388	(5,319)	**(327)**	4,992
Land Use Documents	800	800	**703**	(97)
CalPERS Contribution	(503)	(503)	**(503)**	-0-
Transfer to Comp Absences	(100)	(100)	**(100)**	-0-
Capital Projects	(1,071)	(1,071)	**(1,071)**	-0-
Excess (Deficiency) of Revenues	514	(6,193)	**(1,298)**	4,895
Beginning Balance	26,766	26,766	**26,766**	-0-
Land Use Doc Reserve	(8,547)	(8,547)	**(8,450)**	97
Ending Balance	$18,733	$12,026	**$17,018**	$4,992

The level of development activity is showing signs of slowing in the current fiscal year; operating revenues of $17.1 million are estimated to be $1.2 million (6.6 percent) below budget. Estimated operating expenditures of $17.5 million are estimated to be $6.2 million (26.2 percent) below the Adjusted Budget, reflecting salary and benefit savings from vacancies, plus savings in supplies and contractual services.

Operating expenditures are estimated to exceed operating revenue by $327,000. Revenue from the Land Use Document Fee is currently estimated to be $97,000 (12.1 percent) below budget. There is also a CalPERS contribution of $503,000, a transfer of $100,000 to fund Compensated Absences, and $1.1 million for Capital Projects, of which $1.0 million is funded from the Land Use Document Reserve. The ending balance is estimated at $17.0 million and will be necessary to continue funding operations during the next slowdown in development activity. In addition, fees are paid in advance of the services provided, including long-term existing development projects. A Development Services cost of services study is currently under way and estimated to be completed during the fiscal year.

SHORELINE GOLF LINKS/MICHAELS AT SHORELINE RESTAURANT

Shoreline Golf Links is an 18-hole course designed by Robert Trent Jones II & Associates that was completed in 1983. The course is owned by the City and scheduled to be open 364 days per year. The City contracts with Touchstone Golf (Touchstone) to manage and operate the Pro Shop and to maintain the course. A five-year extension with Touchstone commenced January 2016. Prior to contracting with Touchstone, Shoreline Golf Links incurred annual operating deficits over a five-year period totaling $2.1 million.

On October 23, 2018, the City Council approved amending the operating agreement with Touchstone to include management of Michaels at Shoreline Restaurant. The amended operating agreement began January 1, 2019 and, after making some improvements to the facility, Touchstone began operations January 24, 2019.

A comparison of midyear estimated amounts to budget for Shoreline Golf Links/ Michaels at Shoreline Restaurant follows (dollars in thousands):

	2019-20 Adopted Budget	2019-20 Adjusted Budget	**2019-20 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$4,458	$4,458	**$3,691**	$(767)
Expenditures	(4,177)	(4,190)	**(3,664)**	526
Operating Balance	281	268	**27**	(241)
Transfer to GOF	(275)	(275)	**-0-**	275
Excess (Deficiency) of Revenues	6	(7)	**27**	34
Beginning Balance	(56)	(56)	**(56)**	-0-
Ending Balance	$ (50)	$ (63)	**$ (29)**	$ 34

Paid rounds of golf played in Fiscal Year 2018-19 totaled 57,143, a 13.3 percent decrease from the prior fiscal year and 27.1 percent lower than the record high in Fiscal Year 2014-15. Based on financial information midway through the fiscal year, activity at the golf course is estimated to generate $2.2 million in revenues, $280,000 (11.4 percent) below budget, and is estimated 7.2 percent higher than the prior fiscal year Audited. The restaurant is estimated to generate $1.5 million in revenues, $486,000 (24.3 percent) below budget. Revenues for Shoreline Golf Links are down for the first half of the fiscal year due to increased competition from Moffett and Baylands Golf Courses, which are now run by the same operator and offer joint memberships. Restaurant revenues are down, primarily due to certain types of sales lower than budgeted. The Fiscal Year 2019-20 budget was an estimate based on other restaurants at other courses and will be adjusted for Fiscal Year 2020-21 to better represent the operations and patrons at Michaels at Shoreline.

In total, golf expenditures for the current fiscal year are estimated at $2.2 million, $160,000 (6.9 percent) below budget. Restaurant expenditures are estimated at $1.5 million, $366,000 (19.5 percent) below budget. Golf expenditures are trending lower with organizational restructuring offsetting the increases in minimum wage. Water costs are trending higher due to unexpected projects requiring additional water to resod, revegetate, or refill the pond. However, Touchstone is offsetting the additional water costs with savings in materials costs. Restaurant expenditures are also trending lower than budget as Touchstone continues to better understand the operational needs of the restaurant and is able to be more efficient with personnel, supplies, and materials.

The fund is trending to finish the fiscal year with an operational balance of $27,000; the golf course is trending with a positive balance of $26,000 while the restaurant is essentially trending to break even. Because the fund ended Fiscal Year 2018-19 with a negative balance of $56,000, the $27,000 estimated operating balance will partially offset this negative balance, and staff is estimating no transfer to the GOF compared to the $275,000 that is budgeted. Staff will closely monitor the fund and will return to City Council with a recommendation, if needed, later in the fiscal year to address the negative balance, currently estimated at $29,000.

SHORELINE REGIONAL PARK COMMUNITY (SHORELINE COMMUNITY)

The Shoreline Community is a separate legal entity created by legislation in 1969, known as the Shoreline Regional Park Community Act (the Act), to fund a regional park, develop the surrounding North Bayshore Area economically and environmentally, and provide a means of financing the short- and long-term responsibilities of the Shoreline Community. In accordance with the Act, all tax revenues received by the Shoreline Community are deposited into a special fund and used to pay the principal of and interest on loans, advances, or other indebtedness of the Shoreline Community. However, for purposes of financial reporting, the Shoreline Community is considered a blended component unit of the City and its financial activities are reported with the City's financial documents.

A comparison of midyear estimated amounts to budget for the Shoreline Community Fund follows (dollars in thousands):

	2019-20 Adopted Budget	2019-20 Adjusted Budget	**2019-20 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$50,619	$50,619	**$48,001**	$(2,618)
Expenditures	(31,429)	(31,758)	**(30,006)**	1,752
Operating Balance	19,190	18,861	**17,995**	(866)
Development Impact Fees[1]	-0-	-0-	**507**	507
CalPERS Contribution	(201)	(201)	**(201)**	-0-
Transfer to Comp Absences	(70)	(70)	**(70)**	-0-
Retirees' Health UAAL	(500)	(500)	**(500)**	-0-
Capital Projects	(87,899)	(87,899)	**(87,899)**	-0-
Excess (Deficiency) of Revenues	(69,480)	(69,809)	**(70,168)**	(359)
Beginning Balance	99,769	99,769	**99,769**	-0-
Reserve	(5,300)	(5,300)	**(5,300)**	-0-
Reserve for Bond Proceeds	(225)	(225)	**(618)**	(393)
Landfill Reserve	(8,000)	(8,000)	**(8,000)**	-0-
Sea Level Rise Reserve	(6,000)	(6,000)	**(6,000)**	-0-
Dev Impact Fee Reserve	(482)	(482)	**(989)**	(507)
Ending Balance	$10,282	$ 9,953	**$ 8,694**	$(1,259)

(1) Includes interest earned on the balance.

Operating revenues, primarily property taxes, for the current fiscal year are estimated at $48.0 million, $2.6 million (5.2 percent) below budget. Property Taxes revenue is trending lower than budget, primarily due to a 23.8 percent decline in unsecured AV and the results of an appraisal of two large commercial properties that were valued significantly below the $1.0 billion purchase price because it was not an open-market transaction. Subsequent to adoption of the budget, the County provided the July 1, 2019 tax roll information for the Shoreline Community indicating a net 7.9 percent increase compared to the July 1, 2018 tax roll.

Operating expenditures for the current fiscal year are estimated at $30.0 million, $1.8 million (5.5 percent) below budget. Included in operating expenditures are $10.3

million for the combined annual interagency payments to the school districts and the County and $6.3 million for debt service.

It is estimated that operating revenues will exceed operating expenditures by $18.0 million, which will fund the CalPERS contribution of $201,000, the transfer of $70,000 to fund the Compensated Absences Fund, $500,000 toward the Retirees' Health UAAL, and $14.8 million for Capital Projects. An additional $69.3 million for capital projects is funded by bond proceeds from long-term debt issued last fiscal year, and $3.8 million for capital projects is funded by the North Bayshore Development Impact Fees (NBSDIF) previously received and interest earned on the fees. The NBSDIF revenue is designated for transportation improvements in the Shoreline Community, and because the timing of each development process and the payment of fees are uncertain, revenue is not budgeted. A portion of the NBSDIF revenue is for water and wastewater infrastructure improvement projects and is accounted for in those funds. After reserving $19.3 million for the General Reserve, the Landfill Reserve, and the Sea Level Rise Reserve, $618,000 for bond proceeds (mainly from interest earnings), and $1.0 million for the Development Impact Fee Reserve, the fund is estimated with an $8.7 million ending balance.

ENTERPRISE UTILITY FUNDS

The City's three enterprise utility funds (Water, Wastewater, and Solid Waste) are fully funded by the rates charged to customers; there is no General Fund support to the utility funds. Utility rates charged by governmental entities for water, sewer, and trash and recycling services are considered property-related fees and are subject to the procedural requirements of Proposition 218, Article XIII, of the California Constitution. The City has complied with Proposition 218 and will be reviewing the revenues and expenditures for each of the utility funds and returning to City Council with rate recommendations in the Narrative Budget Report in April.

WATER FUND

The Water Enterprise Fund is a utility fund accounting for the revenues and expenditures associated with the provision of retail water and recycled water services to Mountain View residents and businesses. The City provides potable water service to approximately 96.0 percent of water customers within the City limits while California Water Service (a private company) provides potable water service to the remaining 4.0 percent of water customers in a few previously unincorporated neighborhoods. Potable water for the City's system is obtained primarily from the San Francisco Public Utilities Commission (SFPUC) regional Hetch Hetchy water system (88.0 percent).

Potable water is also purchased from the Santa Clara Valley Water District (SCVWD) (10.0 percent) and City well production (2.0 percent). The primary costs associated with water service are the purchase of water, staffing to operate and maintain the system, ongoing maintenance, and capital replacement and improvement projects. Charges for services are designed to fully fund ongoing annual costs and a base level of annual capital projects as well as to maintain adequate reserves in accordance with Council policy.

A comparison of the midyear estimated amounts to budget for the Water Fund follows (dollars in thousands):

	2019-20 Adopted Budget	2019-20 Adjusted Budget	**2019-20 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$37,713	$37,713	**$38,113**	$ 400
Expenditures	(33,921)	(37,712)	**(33,010)**	4,702
Operating Balance	3,792	1	**5,103**	5,102
Capacity/Development Impact Fees	-0-	-0-	**517**	517
CalPERS Contribution	(387)	(387)	**(387)**	-0-
Retirees' Health UAAL	(500)	(500)	**(500)**	-0-
Capital Projects from Fees	(6,173)	(6,173)	**(6,173)**	-0-
Capital Projects	(3,174)	(3,174)	**(3,174)**	-0-
Excess (Deficiency) of Revenues	(6,442)	(10,233)	**(4,614)**	5,619
Beginning Balance	30,573	30,573	**30,573**	-0-
Capacity/Dev Impact Fees Reserves	(136)	(136)	**(653)**	(517)
Water Transfer Reserve	(5,000)	(5,000)	**(5,000)**	-0-
Reserves	(11,342)	(11,342)	**(11,342)**	-0-
Ending Balance	$ 7,653	$ 3,862	**$ 8,964**	$5,102

A 1.0 percent increase for the average cost of water and meter rates, and a 20.0 percent increase (the second year phase-in of increasing the rate to recover the cost of the program) for the recycled water rate were adopted for Fiscal Year 2019-20. Operating revenues are estimated at $38.1 million, $400,000 (1.1 percent) higher than budget. Water usage year-over-year through November is again trending higher than the prior fiscal year as it has for the past two fiscal years. After years of revenues being severely impacted by reduced water usage as a result of conservation due to the drought, the financial condition of the fund is benefiting from the increased water usage. However, usage is still approximately 22.0 percent below the 2013 drought baseline. Recycled water sales are trending higher comparing usage through November in the current fiscal year to last fiscal year.

Operating expenditures are estimated at $33.0 million, $4.7 million (12.5 percent) below budget, primarily as a result of a prior-year accrual for the minimum water purchase payment of $3.4 million and savings in operations. The City has a required minimum water purchase and the Fiscal Year 2018-19 budget included full funding of the minimum purchase requirement; however, because the minimum payment was not billed until July 2019, the balance was carried forward in the Adjusted Budget.

During Fiscal Year 2016-17, staff evaluated options to minimize or eliminate future penalties as a result of the City's minimum water purchase requirement with the SFPUC. The City of East Palo Alto was approaching their individual water supply guarantee (ISG) with the SFPUC, which precluded approval of large development projects in East Palo Alto. The City of Mountain View is not anticipated to reach its ISG through 2040. Therefore, staff worked with the City of East Palo Alto to transfer 1.0 million gallons of the City's ISG to East Palo Alto in return for $5.0 million. The agreement was approved in 2017, and this $5.0 million is reserved to use toward future minimum water purchase penalties when insufficient water services charges are collected. A penalty of $2.3 million is currently estimated for Fiscal Year 2019-20.

The estimated operating balance is $5.1 million, which is sufficient to fund the CalPERS contribution of $387,000, Retirees' Health UAAL of $500,000, and the current fiscal year's $3.2 million for Capital Projects.

Restructured capacity fees were adopted by the City Council effective July 1, 2015. The updated fee structure accounts for increased water and sewer infrastructure costs based on additional demands resulting from new development or changes to the type of development. Capacity fees are not included in the Adopted Budget as the fees are uncertain; funds are available for capital projects after the fees are actually received. The Capacity fees received through November 2019 total $257,000 and interest is estimated at $126,000. Various development impact fees have been adopted by the City Council, and for Fiscal Year 2019-20, no revenue has been received through November 2019, but interest is estimated at $134,000. Any fees received and interest earned will be designated for specific projects and will be identified in the Five-Year CIP. Capacity and Development Impact Fees received in prior fiscal years are sufficient to fund the

$6.2 million in additional capital projects. The Water Fund is estimated to have a $9.0 million ending balance and $17.0 million in reserves.

WASTEWATER FUND

The Wastewater Enterprise Fund is a utility fund that accounts for the costs and revenues associated with the collection, transportation, and treatment of wastewater generated by all residents and businesses in the City. Other associated functions included in this fund are the Hazardous Materials Permit Program and the Industrial Liquid Waste Management Program. Expenditures in this fund include the construction and maintenance of sanitary sewer lines, stormwater lines, and pump stations; the City's costs associated with the operation of the Palo Alto Regional Water Quality Control Plant (Treatment Plant), in which the City is a partner; and personnel costs for the operation and maintenance of the system.

A comparison of midyear estimated amounts to budget for the Wastewater Fund follows (dollars in thousands):

	2019-20 Adopted Budget	2019-20 Adjusted Budget	**2019-20 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$24,658	$24,658	**$24,836**	$ 178
Expenditures	(20,045)	(22,477)	**(18,125)**	4,352
Operating Balance	4,613	2,181	**6,711**	4,530
Loan Proceeds & Interest	10,042	10,042	**10,042**	-0-
Capacity/Development Impact Fees	-0-	-0-	**845**	845
CalPERS Contribution	(222)	(222)	**(222)**	-0-
Capital Projects from Fees	(499)	(499)	**(499)**	-0-
Capital Projects from Loan	(5,891)	(6,052)	**(6,052)**	-0-
Capital Projects	(2,157)	(2,157)	**(2,157)**	-0-
Excess (Deficiency) of Revenues	5,886	3,293	**8,668**	5,375
Beginning Balance	18,998	18,998	**18,998**	-0-
Capacity/Dev Impact Fees Reserves	(2,053)	(2,053)	**(2,898)**	(845)
Treatment Plant Reserve	(8,343)	(8,343)	**(9,058)**	(715)
Reserve for Loan Proceeds	(1,051)	(890)	**(890)**	-0-
Reserves	(6,974)	(6,974)	**(6,974)**	-0-
Ending Balance	$ 6,463	$ 4,031	**$ 7,846**	$3,815

A 3.0 percent overall rate increase was adopted for Fiscal Year 2019-20, including a 1.0 percent rate increase for operations, and a 2.0 percent rate increase for future Treatment Plant capital costs. As previously outlined, future capital expenditures are forecasted for the Treatment Plant as the facility began operations in 1972 and is in need of major renovations. A cumulative rate increase of 20.0 percent is projected and the City Council approved a gradual phase-in of 2.0 percent annually for 10 years to fund these long-term capital costs, of which Fiscal Year 2019-20 is the sixth year.

Operating revenues are estimated at $24.8 million, on target with budget. Estimated operating expenditures of $18.1 million are trending $4.4 million (19.4 percent) below budget. This is primarily due to a $715,000 credit for prior-year Treatment Plant expenses and savings in operations.

Each fall, an annual reconciliation of the prior fiscal year's actual treatment costs (based on volume) is performed by the Treatment Plant, and an adjustment is provided to each member agency. The City's share of audited expenditures of the Treatment Plant for last fiscal year was $715,000 lower than budgeted, resulting in a credit that is applied towards the current fiscal year's treatment costs. The credit from the Treatment Plant is related to obligations encumbered but not spent and, therefore, is being reserved in anticipation of the expenditures being included in the reconciliation for Fiscal Year 2019-20. The estimated operating balance of $6.7 million will fund the CalPERS contribution of $222,000, and $2.2 million for Capital Projects.

Restructured capacity fees were adopted by the City Council effective July 1, 2015. Capacity fees are not included in the Adopted Budget as the fees are uncertain; funds are available for capital projects after the fees are actually received. The Capacity fees received through November 2019 total $631,000 and interest is estimated at $186,000. Various Development Impact fees have been adopted by the City Council, and for Fiscal Year 2019-20, no revenue has been received through November 2019, but interest is estimated at $28,000. Any fees and interest earned will be designated for specific projects and will be identified in the Five-Year CIP. Capacity and Development Impact Fees received in prior fiscal years are sufficient to fund the $499,000 in additional capital projects.

The majority of the trunk main infrastructure was installed in the 1950s and 1960s. Staff has previously indicated through the CIP process that there are major City sewer main replacement projects necessary over the next 10 years. As identified last year, capacity and development impact fees have provided a source of funding for some projects; however, the fees received are not sufficient to fund all projects and staff recommended issuing debt to secure additional funds. On October 23, 2018, the City Council approved a $10.1 million loan financing for Wastewater infrastructure projects. The proceeds have funded $3.1 million of midyear capital projects in Fiscal Year 2018-19 and $6.1 million of scheduled capital projects in Fiscal Year 2019-20. There are remaining proceeds currently not allocated to a capital project in the amount of $890,000. The financing structure includes the ability to draw funds as needed for the first 18 months, lowering interest cost, and the ability to prepay 10.0 percent of the outstanding balance each year and all of the outstanding balance after 10 years without penalty. After the full $10.1 million is drawn, annual payments will be approximately $852,000.

The fund is estimated with a $7.8 million ending balance and $19.8 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, the $2.9 million Treatment Plant credits for Fiscal Years 2016-17 through 2018-19, and the Capacity and Development fees balance.

SOLID WASTE MANAGEMENT FUND

The Solid Waste Management Enterprise Fund is a utility fund that accounts for the revenues and expenditures of solid waste-related services, including trash collection and disposal, recycling services, street sweeping, and the maintenance of two of the City's three closed landfill sites.

Trash and recyclables generated in the City are transported to the SMaRT® Station (the City is one of three partners) for removal of recyclables, and the remaining trash is transported for final disposal at the Kirby Canyon Landfill in South San Jose. The City provides a variety of services through an outside contractor (Recology) for the collection of trash and recyclables. The City bills and collects all revenues for solid waste services.

A comparison of midyear estimated amounts to budget for the Solid Waste Management Fund follows (dollars in thousands):

	2019-20 Adopted Budget	2019-20 Adjusted Budget	**2019-20 Estimated**	Variance of Estimated to Adjusted Budget
City Revenues	$15,878	$15,878	**$16,733**	$ 855
Recology Revenues(1)	17,534	17,534	**18,305**	771
Total Revenues	33,412	33,412	**35,038**	1,626
City Expenditures	(14,710)	(16,056)	**(14,874)**	1,182
Recology Payments(1)	(17,534)	(17,534)	**(18,305)**	(771)
Total Expenditures	(32,244)	(33,590)	**(33,179)**	411
Operating Balance (Deficit)	1,168	(178)	**1,859**	2,037
CalPERS Contribution	(159)	(159)	**(159)**	-0-
Capital Projects	(293)	(293)	**(293)**	-0-
Excess (Deficiency) of Revenues	716	(630)	**1,407**	2,037
Beginning Balance	13,240	13,240	**13,240**	-0-
Reserve for Future Facility Equipment	(1,320)	(1,320)	**(1,320)**	-0-
Reserves	(3,677)	(3,677)	**(3,677)**	-0-
Ending Balance	$ 8,959	$ 7,613	**$ 9,650**	$2,037

(1) Neither revenues nor expenditures are adopted for Recology.

For Fiscal Year 2019-20, a 3.0 percent rate increase was adopted. The City's Solid Waste Fund operating revenues are estimated at $16.7 million, $855,000 (5.4 percent) higher than budgeted, primarily related to increased debris box revenue. City operating expenditures are estimated at $14.9 million, $1.2 million (7.4 percent) below budget, as a result of savings in operations offset by higher SMaRT Station costs due to the prior fiscal year SMaRT Station reconciliation. The SMaRT Station performs an annual reconciliation of the prior fiscal year's costs and an adjustment is provided to each member agency. For Fiscal Year 2018-19, the City owed $867,000, which was charged in the current fiscal year and an appropriation was requested earlier in the fiscal year.

The estimated operating balance of $1.9 million will fund the CalPERS contribution of $159,000 and $293,000 for Capital Projects. The fund is estimated with a $9.7 million ending balance and reserves of $5.0 million.

II. RECOMMENDED MIDYEAR ADJUSTMENTS

Spending Plan for Sustainability Funds—7.0 FTE Positions

On October 22, 2019, the City Council adopted the Sustainability Action Plan-4 (SAP-4) and approved a three-year spending plan for the $7.5 million Sustainability funds approved by City Council in April 2019 and incorporated into the Fiscal Year 2019-20 budget as a capital project. The spending plan presented at the October 22, 2019 meeting included adding 10.0 FTE positions, 4.0 ongoing and 6.0 limited-period with a provision that the classifications required review. Since October, 7.0 positions have been studied, and 4.0 were found to be classified in the appropriate existing classifications: Deputy Building Official ($228,000), Analyst I/II (TDM and Parking Demand Analyst) ($194,600), Transportation Planner ($242,400), and Facilities Maintenance Worker I/II ($158,100); 3.0 positions required new or different classifications based on the functions required of the positions: Chief Sustainability and Resilience Officer is a new classification and is proposed at Job Grade 39, Family 2 ($247,400); Program Manager for Building and Vehicle Electrification will be classified as an Analyst I/II ($194,600); and Facilities Project Manager will be classified as a Senior Civil Engineer ($242,400).

The annual cost for the 4.0 FTE ongoing positions is estimated to be $912,400 and for the limited-period positions is estimated to be $595,100, all of which are to be funded from the Sustainability Capital Project in the three-year spending plan. Ongoing funding sources will need to be identified for the positions extending beyond the three years of funding in the Sustainability Capital Project.

The remaining 3.0 positions not studied are the 3.0 FTE limited-period Project Managers for the Transportation CIP team, which will be funded through other capital project funding, not the designated Sustainability Capital Project. The Public Works Department is evaluating the current needs of the department related to capital projects, and the 3.0 positions will be discussed during the CIP process and brought forward in the Fiscal Year 2020-21 budget.

Equipment Mechanic I/II Position

Staff is requesting an additional Equipment Mechanic I/II position to assist with the increase in volume and complexity of the City's diverse fleet. Industry standards of mechanic-to-equipment ratios indicate that best practice is to staff a fleet operation of the City's size with 6.5 FTE mechanics. Adding one additional Equipment Mechanic I/II will result in 6.0 FTE mechanics working on the City's fleet.

The annual cost of this position is estimated at $170,000 and is not included in the Fiscal Year 2020-21 Preliminary Forecast. Fleet Services is an Internal Service Fund and the General Operating Fund's share is approximately 68 percent. It is estimated this new position can be filled as early as the beginning of May 2020, and staff recommends the additional funds needed for the remainder of the fiscal year, estimated at $27,000, come from the General Fund Reserve.

Reclassification of Communications Operations Supervisor Position to Emergency Communications Manager and Salary Range Adjustment of the Public Safety Support Services Manager Position

Staff is requesting the reclassification of the Communications Operations Supervisor position to Emergency Communications Manager. This position will oversee the daily operations of the Emergency Communications Center. The department has had difficulty recruiting for the Communications Operations Supervisor, which has been vacant since May 2018. The most recent recruitment and two previous placements were unsuccessful. The Communications Operations Supervisor reports to the Public Safety Support Services Manager and is not considered a management position. Through reclassifying to the management position of Emergency Communications Manager, the City is looking to attract qualified candidates to direct the division and develop and implement programs and procedures to support the effective operation of the Center and successful recruitment and retention of Center staff.

In conjunction with the above reclassification request, staff is recommending to adjust the salary range of the Public Safety Support Services Manager position from Grade 41 to Grade 39. This adjustment would make this position equivalent in range to the Emergency Communications Manager position. Both positions will report to either a Police Captain or the Deputy Police Chief, and will result in a reorganization that will be reflected in next fiscal year's budget.

The incremental annual cost of the reclassification is estimated at $18,300 and is not included in the Fiscal Year 2020-21 Preliminary Forecast. Both positions are fully funded by the GOF. The Police Department can absorb any additional costs resulting from the reclassification for the remainder of the fiscal year. The incremental annual savings of the salary range adjustment is estimated to be $10,400; however, the position is currently filled, and this change will have no impact on the current budget.

Increase Salary Steps for Public Safety Dispatcher I, Public Safety Dispatcher II, and Public Safety Dispatcher III

Staff is requesting an increase to the Dispatcher I, Dispatcher II, and Dispatcher III steps by 5.0 percent. Increasing the salary ranges will help the City be successful in the competitive recruitment market for Dispatchers and attract a qualified candidate pool to address significant and sustained vacancies.

The incremental annual cost of this increase in steps is estimated to be $119,800 and is not included in the Fiscal Year 2020-21 Preliminary Forecast. These positions are fully funded by the General Operating Fund, and the change would go into effect the full pay period following City Council's approval. The Police Department can absorb any additional costs resulting from this salary increase for the remainder of the fiscal year.

Salary Plan Update

The regular and hourly salary plans have been updated to reflect the recommended changes in this Midyear Report. The updates include 3.0 new classifications (Chief Sustainability and Resilience Officer, Deputy Building Official, and Communications Operations Manager), the removal of the Communications Operations Supervisor, and the 5.0 percent increase for Dispatcher I, Dispatcher II, and Dispatcher III classifications. The hourly salary plan is updated to include the 5.0 percent increase for the hourly Dispatcher I, II, and III classifications and the addition of an hourly Police Records Specialist.

III. **FISCAL YEAR 2020-21 PRELIMINARY GOF FORECAST**

This section of the report will focus on the Fiscal Year 2020-21 Preliminary GOF Forecast. This forecast is based on limited data, and many assumptions, as are discussed in this report, are being made at this time. An updated forecast will be incorporated into the Narrative Budget, scheduled for the April 21, 2020 City Council meeting.

The **preliminary** projection for Fiscal Year 2020-21 follows (dollars in thousands):

	2018-19 Audited	2019-20 Adopted Budget	2019-20 Estimated	**2020-21 Preliminary Forecast**	Variance of 2020-21 Forecast to 2019-20 Adopted
Revenues	$146,010	$148,324	$148,959	**$152,560**	$4,236
Expenditures[1]	(120,779)	(135,415)	(134,724)	**(140,888)**	(5,473)
Rebudgets[2]	(962)	-0-	-0-	**-0-**	-0-
Operating Balance	24,269	12,909	14,235	**11,672**	(1,237)
Transfer to GNOF[3]	(14,269)	(1,000)	(1,000)	**-0-**	1,000
Transfer to GF Reserve	(1,000)	(2,000)	(2,000)	**-0-**	2,000
Transfer to Trans Res	(2,000)	-0-	-0-	**(1,000)**	(1,000)
Transfer to Cap Imp Res	(2,000)	(3,000)	(3,000)	**-0-**	3,000
CalPERS Contribution	(4,000)	(4,000)	(4,000)	**(1,000)**	3,000
OPEB Contribution	(1,000)	-0-	-0-	**-0-**	-0-
Ending Balance	$ -0-	$ 2,909	$ 4,235	**$ 9,672**	$6,763

(1) Adopted Budget and Preliminary Forecast include $2.3 million in estimated budget savings.

(2) Rebudgets include grant and donation carryovers from the prior fiscal year and changes in encumbrances and assets and liabilities for audited results.

(3) Includes $6.5 million in Fiscal Year 2018-19 and $1.0 million if Fiscal Year 2019-20 for the Sustainability Capital Project.

The preliminary forecast projects total GOF revenues of $152.6 million, an increase of $4.2 million (2.9 percent) and $3.6 million (2.4 percent) compared to the current fiscal year Adopted Budget and Estimated, respectively.

Baseline expenditures are anticipated to increase $5.5 million (4.0 percent) to $140.9 million compared to the current fiscal year Adopted. For Fiscal Year 2020-21, there is a preliminary positive operating balance of $11.7 million, reduced to $9.7 million after the previously recommended contribution to CalPERS and transfer to the Transportation Reserve. **This forecast does not include the cost of position changes recommended in this Midyear Report, any Fiscal Year 2020-21 recommendations requested by departments through the budget process, or any increased cost of janitorial services resulting from requiring a union-represented firm. Any recommended expenditure changes will be included with the Narrative Budget Report.** All labor agreements expire June 30, 2020 and negotiations of new contracts will be commencing. **This forecast does not make assumptions for changes to labor**

agreements and does not include a COLA, which will be determined through the negotiation process.

The Narrative Budget Report will also include the five-year forecast. This forecast will continue to incorporate a slowdown in the economy through Fiscal Year 2021-22. While the forecast years will likely show a slight improvement from the forecast presented with the Fiscal Year 2019-20 Adopted Budget, staff is seeing signs of a slowing economy as shown by the revenues estimated for the current fiscal year and preliminarily projected for Fiscal Year 2020-21. Revenue projections are 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.), checking with neighboring agencies, reviewing State of California and national economic trends, and factoring in known Mountain View conditions such as lease terms and property development.

A more detailed discussion of the projected GOF revenues and expenditures follows.

Revenues

A comparison of the Preliminary Forecast to current fiscal year Estimated and Adopted Budget and prior fiscal year Audited for the GOF follows (dollars in thousands):

	2018-19 Audited	2019-20 Adopted Budget	2019-20 Estimated	**2020-21 Preliminary Forecast**	Variance of 2020-21 Forecast to 2019-20 Adopted
Property Taxes	$ 51,451	$ 57,091	$ 54,673	**$ 57,816**	$ 725
Sales Tax	24,390	21,433	22,656	**22,069**	636
Other Local Taxes	15,131	18,771	18,535	**20,454**	1,683
Use of Money and Property	22,316	22,657	22,987	**23,799**	1,142
Licenses, Permits, and Fees/Fines and Forfeitures	6,448	6,420	6,424	**6,550**	130
Intergovernmental	728	522	668	**542**	20
Charges for Service	2,963	3,081	2,997	**3,014**	(67)
Miscellaneous Revenues	4,817	1,989	3,023	**1,967**	(22)
Interfund Revenues and Transfers	17,766	16,360	16,996	**16,349**	(11)
Total Operating Revenues	$146,010	$148,324	$148,959	**$152,560**	$4,236

A brief explanation of the assumptions and changes for Fiscal Year 2020-21 follows:

Property Taxes revenue is projected at $57.8 million, an increase of $725,000 compared to the current fiscal year Adopted and $3.1 million compared to the current fiscal year Estimated. Compared to the July 1, 2019 tax roll, the Fiscal Year 2020-21 AV of secured property-generating tax revenues for the GOF is projected with net growth, reflecting the following:

- A 2.0 percent increase in AV for most properties resulting from the annual CCPI inflation factor (October 2018 to October 2019).

- AV increases resulting from changes in ownership which occurred from January 1, 2019 through October 31, 2019 (information currently available).

- Increased AV related to new development anticipated to be included in the July 1, 2020 tax roll.

- Anticipated AV decreases resulting from the resolution of appeals.

Staff will continue to collect data from the Santa Clara County Assessor and City staff and revise the property tax forecast with updated information pertaining to new development and appeal resolutions.

Sales Tax revenue is projected at $22.1 million for Fiscal Year 2020-21, based on the actual second-quarter sales tax activity and the prior three quarters, adjusted for the following:

- One-time payments;

- CDTFA (previously known as State Board of Equalization, SBOE) one-time audit adjustments; and

- Anticipated new businesses and business closures.

This results in an increase of $636,000 compared to the current fiscal year Adopted Budget and a decline of $587,000 compared to the current fiscal year Estimated. At the high in Fiscal Year 2000-01, Sales Tax revenues reached $24.1 million. During the recession that followed, sales tax revenue declined an unprecedented $7.4 million in Fiscal Year 2001-02 to a low of $14.2 million in Fiscal Year 2003-04. Taking into consideration the CDTFA corrections, Sales Tax revenues have still not recovered to the peak level reached in Fiscal Year 2000-01.

Other Local Taxes revenue is projected at $20.5 million, $1.7 million (9.0 percent) and $1.9 million (10.4 percent) higher than the current fiscal year Adopted and Estimated, respectively. TOT revenue is estimated to decline $602,000 and $47,000 from the current fiscal year Adopted and Estimated, respectively, primarily due to a delay in the opening of the Shashi Hotel that was previously expected to open in July 2019 but is still under construction. The Fiscal Year 2020-21 Business License Tax projection includes the second year of the new Business License structure as approved by voters. The new structure is phased in over three years with the first phase effective January 2020, included in the Fiscal Year 2019-20 Estimated. The second phase will be effective January 2021, and an additional $2.2 million is included in the Fiscal Year 2020-21 Preliminary Forecast. The City Council earmarked 80.0 percent of the increased tax for transportation and 10.0 percent for housing; transfers are included and discussed in the expenditure section below. Fiscal Year 2020-21 UUT revenue is projected $84,000 higher than the current fiscal year Adopted and $169,000 lower than the current fiscal year Estimated in anticipation of an economic slowdown.

Use of Money and Property revenue is projected to increase by $1.1 million (5.0 percent) and $812,000 (3.5 percent) compared to the current fiscal year Adopted and Estimated, respectively. Investment revenue is estimated to be flat as it is not anticipated the FOMC will change the benchmark interest rate. Lease revenues are projected with inflators as stipulated in the leases, averaging a 3.1 percent increase.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is projected to be approximately $130,000 (2.0 percent) higher than the current fiscal year Adopted Budget and Estimated, reflecting general inflationary increases.

Intergovernmental revenue is projected to be $20,000 (3.8 percent) higher than the current fiscal year Adopted and $126,000 (18.9 percent) below the current fiscal year Estimated. The projected budget does not include any mandated reimbursement funding or intergovernmental grants and reimbursements as the amounts are variable.

Charges for Services revenue is projected to be $67,000 (2.2 percent) below the current fiscal year Adopted and essentially the same as the current fiscal year Estimated, reflecting adjustments to a few specific revenues and a general inflationary increase for the remainder until preliminary information is received from spring registrations.

Miscellaneous Revenues are projected to be $22,000 (1.1 percent) below the current fiscal year Adopted and $1.1 million (34.9 percent) below the current fiscal year Estimated. Some grants, donations, and reimbursements cannot be anticipated and, therefore, are not budgeted.

Interfund Revenues and Transfers are projected at $16.3 million, essentially the same as the current fiscal year Adopted and $647,000 (3.8 percent) below the current fiscal year Estimated, primarily due to transfers from the General Fund Reserve approved by the City Council during Fiscal Year 2019-20.

As new information becomes available, all revenue sources and projections will be reviewed and revised as appropriate for the Fiscal Year 2020-21 Narrative Budget Report.

Expenditures

A comparison of the Preliminary Forecast to current fiscal year Estimated and Adopted Budget and prior fiscal year Audited for the GOF follows (dollars in thousands). **As stated previously, the departmental budget requests have not been reviewed and, thus, are not included in the Preliminary Forecast. In addition, the forecast does not include the cost of position changes recommended in this Midyear Report, any increased cost of janitorial services resulting from requiring a union-represented firm, or changes to labor agreements including any COLA that may be negotiated**:

	2018-19 Audited	2019-20 Adopted Budget	2019-20 Estimated	**2020-21 Preliminary Forecast**	Variance of 2020-21 Forecast to 2019-20 Adopted
Salaries and Benefits:					
Salaries and All Pays	$ 62,949	$ 67,699	$ 67,044	**$ 67,246**	$ (453)
Retirement	16,723	22,134	21,747	**23,639**	1,505
Health Benefits	8,675	10,887	9,111	**11,085**	198
All Other Benefits	6,547	7,408	7,052	**7,509**	101
	94,894	108,128	104,954	**109,479**	1,351
Services and Supplies	17,128	18,552	18,545	**19,309**	757
Capital Outlay/Equipment Replacement	3,086	2,772	3,031	**2,885**	113
Interfund Expenditures and Transfers	5,671	8,263	8,194	**10,515**	2,252
Debt Service	-0-	-0-	-0-	**1,000**	1,000
Budget Savings	Included	(2,300)	Included	**(2,300)**	-0-
Total Operating Expenditures	$120,779	$135,415	$134,724	**$140,888**	$5,473

A brief explanation of the assumptions and changes in expenditures follows:

Salaries and Benefits expenditures are projected with a $1.4 million (1.2 percent) increase over the current fiscal year Adopted. As noted previously, the forecast does not include the position changes recommended in this Midyear Report or make assumptions for changes to labor agreements and does not include a COLA since this has not yet been determined past the expiration of current labor agreements. All labor agreements expire June 30, 2020, and labor negotiations will begin shortly. The forecast includes the minimum wage increase from $15.65 to $16.05 per hour effective January

2020. The preliminary forecast for salaries and all pays are lower than the current fiscal year adopted as there has been a high level of retirements of long-time employees which has changed the base level of salaries. The cost for retirement benefits reflects the third and final year of the phased-in impact of the reduction of the discount rate from 7.5 percent to 7.0 percent. The rates are provided by CalPERS and result in a 6.8 percent increase in pension costs compared to the Fiscal Year 2019-20 Adopted Budget. Health benefit costs are projected with increases based on historical trends.

<u>CalPERS Discount Rate Change</u>

On December 21, 2016, the CalPERS Board approved the lowering of the discount rate from 7.5 percent to 7.0 percent. The reduction is phased in for local governments over three years beginning in Fiscal Year 2018-19. The lowering of the discount rate meant the City, as well as other CalPERS agencies, saw increases in our normal costs and unfunded actuarial liabilities (UAL) annual payments. The City's CalPERS actuary report as of June 2016 (for the Fiscal Year 2018-19 budget) included projected normal cost rates for Fiscal Year 2020-21 (the third year) of 12.0 percent and 21.4 percent for miscellaneous and safety plans, respectively, an increase from 10.092 percent and 18.283 percent, respectively, in Fiscal Year 2017-18. The City's most recent CalPERS actuarial valuation as of June 2018 (for the Fiscal Year 2020-21 budget) shows the normal cost of 12.09 percent and 20.946 percent for miscellaneous and safety, respectively, approximately as what CalPERS projected.

Services and Supplies expenditures are currently projected to increase $757,000 over the current fiscal year Adopted Budget, related to projected inflationary increases for each type of service or supply and a $200,000 increase for potential City water, wastewater, and trash rate increases. This forecast does not include any additional appropriations requested by departments that may be recommended by the City Manager through the Fiscal Year 2020-21 budget process or any increased cost of janitorial services resulting from requiring a union-represented firm. Any recommended increases will be included with the Narrative Budget Report in April.

Capital Outlay/Equipment Replacement expenditures include $500,000 for Capital Outlay. The annual equipment replacement funding amount is projected at $2.4 million, 6.1 percent higher than the current fiscal year adopted due to inflation for replacement cost and some adjustments to quantity of items and life expectancy. This is approximately $550,000 lower than annually required (essentially the same as included in the current fiscal year) as no annual funding is needed for certain pieces of equipment that have reached their life expectancy but are not recommended to be replaced yet as they are still operating well. This is a one-time decrease in funding as once this equipment is replaced, full annual funding will be required again.

Interfund Expenditures and Transfers are projected with a $2.3 million (27.3 percent) increase over the current fiscal year Adopted. Inflationary increases for liability insurance and the cost of the Retirees' Health Unfunded Actuarial Accrued Liability (UAAL) amortization based on the actuarial valuation as of July 1, 2017 result in a net increase of $255,000. The results of the July 1, 2019 Retirees' Heath actuarial valuation are not final as of this report and will be included with the updated projections in the Narrative Budget Report. The transfer for "At-Risk" lease revenue is projected to increase $98,000 (6.7 percent) to $1.6 million. These revenues will fund future capital projects and are set aside to reduce the dependency on the significant increases that have resulted in the recent revaluation of City leases to Google and represent an estimate of annual lease revenue loss that could result from the potential secured AV decline in the Shoreline Community after a downturn in the economy.

During previous economic slowdowns, the Shoreline Community experienced approximately 15.0 percent declines in secured AV. The lease revenue from the Ameswell (Moffett Gateway) property is projected at $1.5 million and is 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 project begins. The new Business License structure was approved by voters in November 2018 and the City Council earmarked 80.0 percent of the increased tax (above the then current $250,000 received annually) for transportation and 10.0 percent for housing. Based on the projected $4.4 million to be received in January 2021 for the second year of the phased-in structure, the projection includes $3.3 million transferred to the Transportation Reserve and $415,000 transferred to the General Housing Fund, leaving an additional $415,000 above the $250,000 base amount in the GOF.

Debt Service is projected at $1.0 million for Fiscal Year 2020-21 based on an upcoming long-term debt issue for the Hope Street project, which is expected to be completed early in the new fiscal year.

The Fiscal Year 2020-21 projections will be updated for the Narrative Budget Report in April, at which time budget recommendations will be presented to the City Council.

IV. FISCAL YEAR 2018-19 GENERAL FUND REMAINING BALANCE

As discussed in the Analysis of Fiscal Year 2018-19 Audited Financial Results for the GOF and General Fund Available Balance report, Attachment 1 to the Comprehensive Annual Financial Report on the December 10, 2019 Council Agenda, the City's General Fund ended the 2018-19 fiscal year with an unallocated balance of $6.3 million. The table below details the General Fund balance, including one-time revenues and expenditure savings, budgeted transfers, and limited-period expenditure allocations (dollars in thousands):

GOF Balance	$ 7,769
Remaining Available Balance from prior Fiscal Years	5,827
One-Time Revenues and Expenditure Savings:	
Property Taxes—Excess ERAF	2,733
Unspent Limited-Period Expenditures	1,403
Miscellaneous Revenues	1,023
Sales Tax Liability Adjustment	668
Child-Care Center Rent	117
Total Available for Allocation	19,540
Allocations in the Fiscal Year 2019-20 Adopted Budget:	
Limited-Period Expenditures	(4,444)
Capital Improvement Reserve	(3,000)
CalPERS	(2,000)
Compensated Absences Reserve	(2,000)
General Fund Reserve	(1,800)
Total Allocated	(13,244)
Remaining Unallocated Balance	$ 6,296

Council Policy A-11 provides, to the extent possible, the GOF carryover funds remaining, not designated for other reserve purposes, shall be applied to the Capital Improvement Reserve. The Fiscal Year 2019-20 Budget has already allocated $3.0 million to the Capital Improvement Reserve from the GOF and $3.0 million from the Fiscal Year 2018-19 carryover. Staff is still reviewing potential priority funding needs and will provide recommendations for the use of the remaining unallocated balance with the Narrative Budget Report in April.

V. FISCAL YEAR 2019-20 MIDYEAR PERFORMANCE/WORKLOAD MEASURE UPDATE

Departments review and revise their performance measures from time to time to ensure measures provide relevant and clear information about department operations. Attachment 1 includes the Fiscal Year 2018-19 actual results as well as the annual target and midyear (six-month) status of each measure for the current fiscal year.

Updated results for Fiscal Year 2019-20 will be reported in the Fiscal Year 2020-21 Adopted Budget.

FISCAL IMPACT

The various fiscal impacts are identified and discussed within this report. The positions recommended for the three-year spending plan of Sustainability funds will be funded from the Sustainability Capital Project; the funding source will need to be determined for those ongoing positions past the funding available in the Sustainability Capital Project. The addition of the Equipment Mechanic I/II will cost approximately $170,000 annually and is funded by all funds in the Equipment Maintenance Internal Service Fund, of which the General Operating Fund's share is approximately 68 percent. The reclassification of the Communications Operations Supervisor position to Emergency Communications Manager and the 5 percent increase to the Dispatcher classifications are fully funded by the General Operating Fund and will cost approximately $138,100 annually. The adjustment to the salary range of the Public Safety Support Services Manager will have no fiscal impact as the position is currently filled.

ALTERNATIVES

1. Do not approve the recommended new positions, position changes, appropriations, and updated salary plans.

2. Provide other direction.

PUBLIC NOTICING—Agenda posting.

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Attachments:
1. Performance/Workload Measures
2. Resolution Amending the City's Regular and Hourly Salary Plans