COUNCIL REPORT

City of Mountain View

DATE: February 9, 2021

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Fiscal Year 2020-21 Midyear Budget Status Report, Recommended Midyear Adjustments, Fiscal Year 2021-22 Preliminary General Operating Fund Forecast, and Fiscal Year 2020-21 Performance/Workload Measures**

RECOMMENDATION

1. Acknowledge and file the Fiscal Year 2020-21 Midyear Budget Status Report, the Fiscal Year 2021-22 Preliminary General Operating Fund Forecast, and the six-month status of the Fiscal Year 2020-21 Performance/Workload Measures (Attachment 1 to the Council report).

2. Increase appropriations $500,000 in the Finance and Administrative Services Department, General Non-Operating Fund, for COVID-19 emergency expenses. (Five votes required)

3. Increase appropriations in the Fire Department for Strike Team reimbursements when received for the amount of overtime reimbursement received (estimated to be $105,421 for the River Fire, $145,991 for the SCU Lightning and Deer Fire, $213,321 for the CZU August Lightning Fire, $512,635 for the Creek Fire, $205,358 for the August Complex Fire, and $253,004 for the Glass Fire). (Five votes required)

4. Increase appropriations $30,000 in the Finance and Administrative Services Department, Water Fund, for utility bill online payment processing costs. (Five votes required)

5. Increase appropriations $123,000 in the Information Technology Department, General Non-Operating Fund, for necessary costs related to COVID-19 mitigation efforts. (Five votes required)

6. Increase appropriations $150,000 in the Human Resources Department, General Non-Operating Fund, for necessary costs related to employees' working from home. (Five votes required)

7. Increase appropriations $400,000 in the Finance and Administrative Services Department, General Non-Operating Fund, for estimated costs of two regular overhire positions through the end of calendar year 2021. (Five votes required)

8. Adopt a Resolution of the City Council of the City of Mountain View Authorizing the City Manager or Designee to Amend the Classification and Salary Plan for Regular Employees for Fiscal Year 2020-21, to be read in title only, further reading waived (Attachment 2 to the Council report).

INTRODUCTION

The City Council was presented with a First Quarter update of the Fiscal Year 2020-21 budget on November 10, 2020. This report provides an update of the City's budgetary position at approximately the midway point in the fiscal year as well as a preliminary General Operating Fund (GOF) forecast for the upcoming fiscal year. A six-month status update of Fiscal Year 2020-21 Performance/Workload Measures is also attached to this report (Attachment 1).

The midyear budget status of the Fiscal Year 2020-21 GOF estimates revenues at $140.5 million, $3.7 million (2.6 percent) lower than budgeted. Including estimated budget savings, operating expenditures are estimated at $142.0 million, $2.1 million (1.4 percent) below the Adopted Budget and $5.7 million (3.9 percent) below the Adjusted Budget. The GOF is currently estimated with a negative $1.5 million ending balance. The Shelter-In-Place (SIP) restrictions from the global COVID-19 pandemic have continued much longer than anticipated in the Adopted Budget, which assumed SIP restrictions would be lifted June 30, 2020, followed by a transition period for business to resume. While the estimated GOF balance for the current fiscal year is negative at this time, it is not as drastic as the SIP-through-October scenario shown in the Adopted Budget. The Adopted Budget projected impacts to revenues for two scenarios: SIP through August showing a potential negative balance of $2.5 million, and SIP through October showing a potential negative balance of $5.0 million.

Even now, there remains a significant amount of uncertainty as to when restrictions will be lifted and businesses will be able to resume some type of normalcy. Given the duration of the pandemic, the state of the economy is very tenuous. COVID-19 vaccines have just begun to be administered and are progressing at a much slower pace than first anticipated. Consequently, it is assumed that the vast majority of the general public will not be completely vaccinated until sometime in fall 2021. This estimate assumes the earliest recovery period will start this summer for certain categories, such as sales tax and other local taxes, but other revenue categories are not expected to recover until well into the following fiscal year.

Development Services Fund revenues and expenditures are trending below budget, and the ending balance is necessary to continue funding operations for projects that have already paid fees as well as during this slowdown in the economy. The revenues and expenditures of the Shoreline Golf Links/Michaels at Shoreline Restaurant are below budget. While the golf course is doing well, the restaurant is significantly impacted by SIP restrictions. The Shoreline Regional Park Community (SRPC) revenues are trending higher than budget, primarily due to higher property tax revenue, and expenditures are trending below budget. For the Water and Solid Waste Funds, revenues are currently trending slightly higher than or at budget, and Wastewater revenues are trending below budget. Expenditures for all three funds are currently trending below budget.

The preliminary Fiscal Year 2021-22 Forecast for the GOF projects revenues at essentially the same level as the current fiscal year Adopted Budget. There is anticipated revenue growth from increasing property tax revenue (from changes in ownership, new development, and a lower, 1.036 percent California Consumer Price Index (CCPI)), Consumer Price Index increases on the City's leases, and the final year phase-in of the new Business License structure. However, it should be noted that 90 percent of the increased Business License Tax is transferred to the Transportation Reserve and Housing Fund per current Council policy. Most of these revenue increases are offset by lower projected revenues from Sales Tax, Transient Occupancy Tax, and Charges for Services due to continuing impacts of SIP restrictions. All other revenues are projected to be either flat or show a slight decline. The projected revenues are not sufficient to meet currently projected baseline expenditures, resulting in a preliminary projected shortfall of $1.4 million. **This balance does not reflect any expenditure recommendations for Fiscal Year 2021-22 that may be considered as part of the budget process or changes to labor agreements that may be negotiated later in the fiscal year.**

BACKGROUND AND ANALYSIS

I. FISCAL YEAR 2020-21 MIDYEAR BUDGET STATUS SUMMARY

The Midyear Budget Status Report represents staff's best estimate of the City's budgetary position at this point in time, approximately midway through the fiscal year and making certain assumptions regarding revenues and expenditures for the remainder of the fiscal year. This section of the report includes a discussion of Fiscal Year 2020-21 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):

	2019-20 Audited	2020-21 Adopted Budget	2020-21 Adjusted	**2020-21 Estimated**	Variance of 2020-21 Estimated to 2020-21 Adjusted
Revenues	$ 142,667	$ 144,162	$ 144,193	**$ 140,453**	($3,740)
Expenditures (1)	(129,911)	(144,021)	(147,700)	**(141,962)**	5,738
Rebudgets (2)	(1,229)	-0-	4,112	**-0-**	(4,112)
Operating Balance	11,527	141	605	**(1,509)**	(2,114)
Transfer to GNOF(3)	(5,527)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	(2,000)	-0-	-0-	**-0-**	-0-
CalPERS Contribution	(4,000)	-0-	-0-	**-0-**	-0-
Ending Balance	$ -0-	$ 141	$ 605	**($ 1,509)**	($2,114)

(1) Adopted and Adjusted Budgets include $4.0 million in projected budget savings.

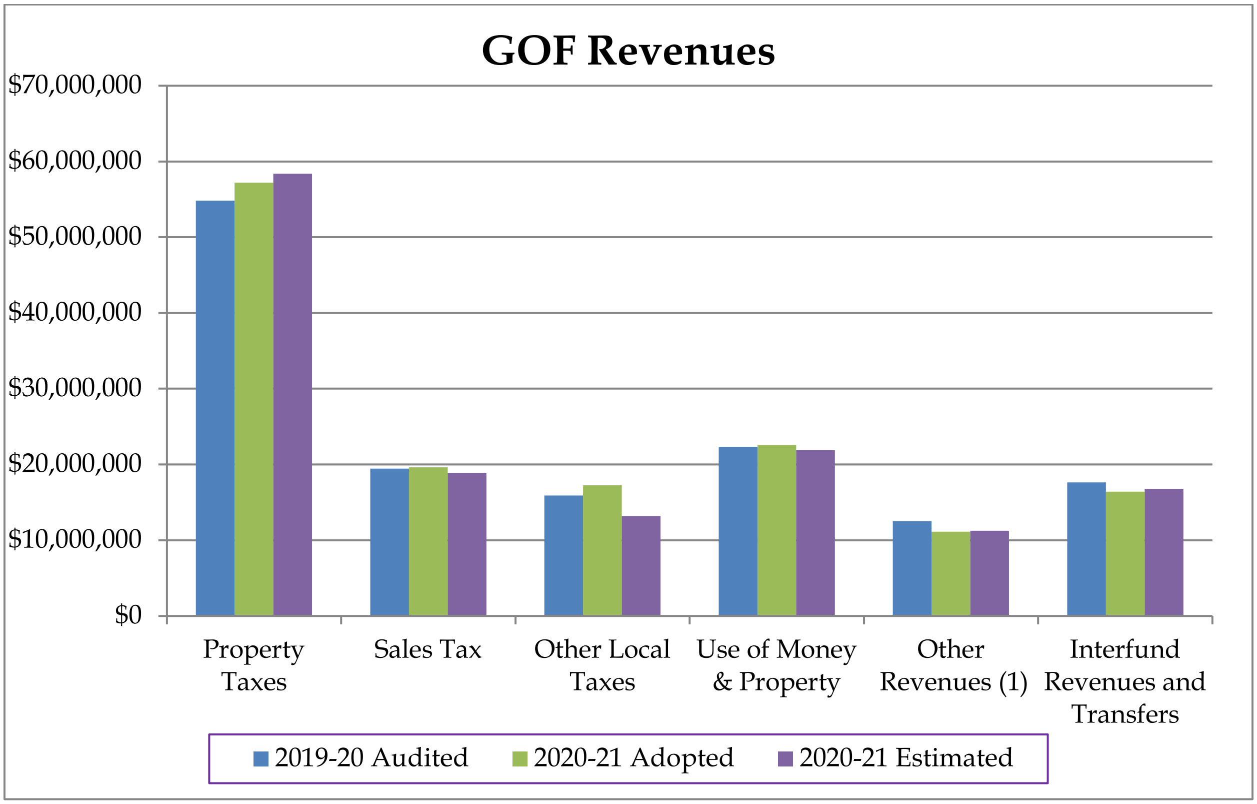
(2) Rebudgets include grant and donation carryovers from the prior fiscal year and changes in encumbrances and assets and liabilities for audited results.

(3) Includes $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 2019-20 Audited and Fiscal Year 2020-21 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 Tax revenue is estimated at $58.4 million, $1.2 million (2.1 percent) higher than budget. The Fiscal Year 2020-21 Adopted Budget included projected growth based on a positive 2.0 percent 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, 2020 General Fund Assessed Value (AV) increased a net 8.7 percent compared to the July 1, 2019 AV, reflecting growth in secured AV and a decline in 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 $18.9 million, $699,000 (3.6 percent) below budget. The estimate includes $1.2 million additional sales tax the City received for Q2 020, which was not accrued at 2019-20 fiscal year-end. After adjusting to exclude the unanticipated additional taxes, the adjusted current estimate is at $17.7 million, $1.9 million (9.9 percent) below budget. The scenarios provided in the Adopted Budget projected a sales tax revenue loss of $1.3 million and an additional $1.5 million with SIP restrictions continuing through August and October, respectively. Since the SIP restrictions were partially eased over the summer with restaurant dining allowed outdoors and retailers able to open with restrictions to the number of patrons allowed inside, the impact was not as severe as originally projected, and resulted in revenues ending up between the SIP through August and October projections.

Other Local Taxes revenue is estimated at $13.2 million in total, $4.0 million (23.4 percent) below budget. This is primarily due to Transient Occupancy Tax (TOT) revenue, which is estimated to be $3.7 million (72.0 percent) below budget. With the continued SIP restrictions, even with the easing over the summer, travel is significantly impacted, affecting hotel stays and TOT revenue. The scenarios provided in the Adopted Budget projected a TOT revenue loss of $1.1 million and an additional $558,000 with SIP restrictions continuing through August and October, respectively. Since SIP restrictions are now expected to continue for most of the remainder of Fiscal Year 2020-21, the impact is greater than projected. In addition, business travel has been further impacted by the decision of some local businesses and corporations to voluntarily extend telecommuting for their employees beyond the County's Work-from-Home order.

Based on the payments received to date, Utility Users Tax (UUT) revenue is estimated to be $125,000 (1.6 percent) below 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 slightly higher than budget, primarily from an increase in PG&E and smaller energy providers, offset by lower-than-projected revenue from Silicon Valley Clean Energy (SVCE).

Business License revenue is estimated to be $246,000 (5.6 percent) below 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 next quarterly update in April.

Use of Money and Property revenue is comprised of Investment Earnings and Rents and Leases and is estimated at $21.9 million, $647,000 (2.9 percent) below budget. Investment Earnings revenue is estimated $57,000 (2.0 percent) higher than budget. From December 2016 to December 2018, the Federal Open Market Committee (FOMC) increased the benchmark interest rate eight times from the benchmark target of 0.25 percent to 0.5 percent to a benchmark target of 2.25 percent to 2.5 percent, resulting in increased yields on investment securities available for the City to purchase. Since then, the FOMC reduced the benchmark interest rate five times, the most significant reduction being 150 basis points in March 2020 to a target benchmark of 0.0 percent to 0.25 percent. While the portfolio is still benefiting from the securities purchased in the prior fiscal years, as investments mature, they are replaced with lower-yielding investments. Rents and Leases revenue is estimated to be $705,000 (3.6 percent) below budget due to SIP restrictions and reduced or waived payments that resulted in reduced rental receipts.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is estimated at $5.6 million, $596,000 (9.6 percent) below budget. Licenses, Permits, and Franchise Fee revenue is estimated $144,000 (2.7 percent) below budget. Fines and Forfeiture revenue is estimated at $452,000 (56.3 percent) below budget, reflecting all categories of fines below budget, the largest being parking violations.

Intergovernmental revenue is estimated at $845,000, $143,000 (20.4 percent) higher than budget. This is related to unbudgeted and higher-than-expected reimbursements from governmental agencies, such as SB 90 claims and Rapid Enforcement Allied Computer Team (REACT).

Charges for Services revenue is generated by fees assessed for Recreation and other types of services and is estimated at $914,000, $1.4 million (60.5 percent) below budget. Recreation classes and camps have been significantly impacted by SIP restrictions, and the Center for the Performing Arts (CPA) has been closed since March 2020. The Adopted Budget did not include such a significant impact on both Recreation and CPA revenues. In addition, Short-Term Rental (STR) registration revenue is estimated to be $145,000 lower than budget.

Miscellaneous Revenues are estimated at $3.8 million, $2.0 million (104.9 percent) and $1.9 million (101.6 percent) higher than the Adopted and Adjusted Budget, respectively.

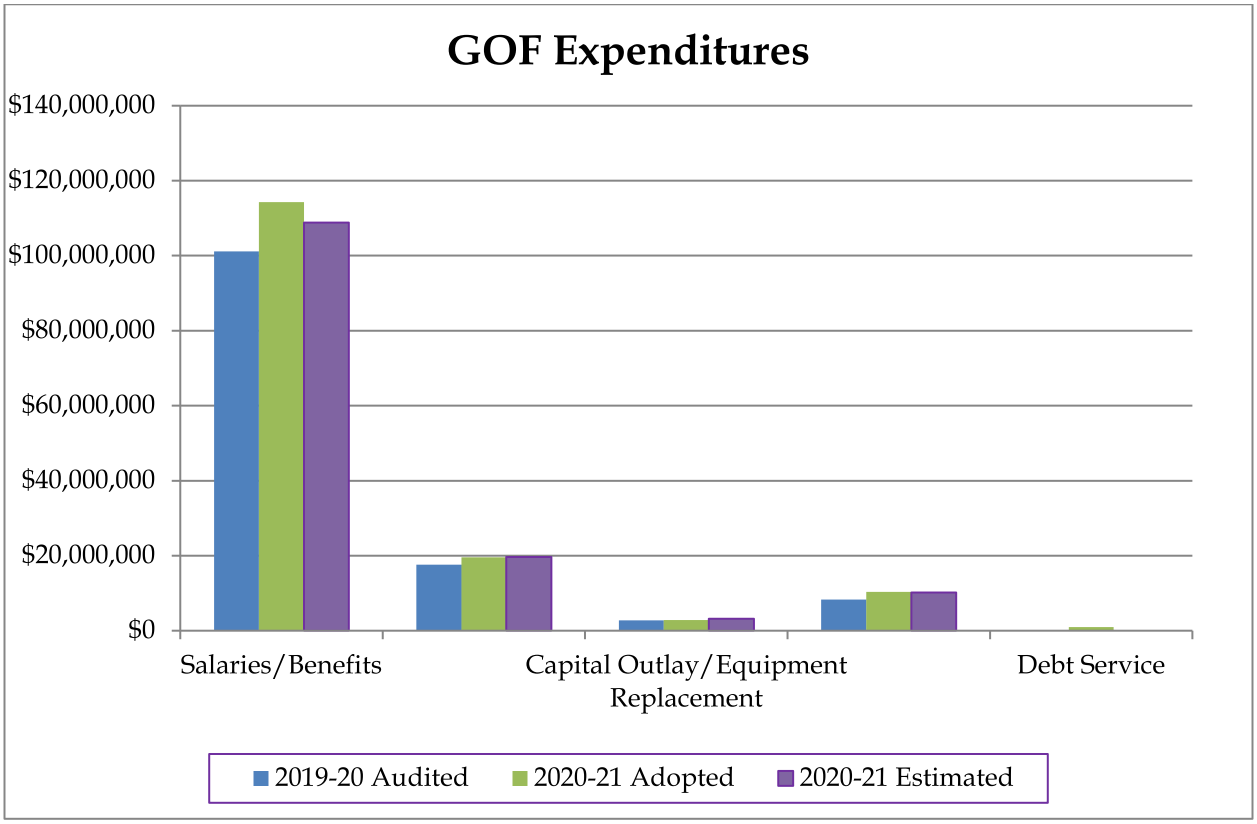
Included in the estimate is $2.5 million in reimbursements for Fire mutual-aid overtime, including administration, that have not been received, but invoices have been approved, and funds are expected to be received during this fiscal year. Reimbursements in the amount of $239,000 have not been approved and are, therefore, not included in the estimated revenue. Notably, there were no reimbursements for Police patrol staff at Shoreline Amphitheatre events or CPA reimbursements from vendors. There are other smaller grants, donations, and expenditure reimbursements received that are not budgeted due to the uncertainty of receipt, and full fiscal year estimates are not calculated for these revenues as the amounts can vary greatly.

Interfund Revenues and Transfers are estimated at $16.8 million, $366,000 (2.2 percent) higher than budget. For Interfund Revenues, CIP overhead is trending $466,000 higher than budget. For Interfund transfers, staff is currently estimating the transfer from the Shoreline Golf Links/Michaels at Shoreline Restaurant Fund $100,000 lower than the budgeted $200,000.

Expenditures

Budget savings are expected each fiscal year and are included in the Adopted Budget. Including the projected budget savings, total estimated expenditures indicate a $2.1 million (1.4 percent) and $5.7 million (3.9 percent) favorable variance compared to the Adopted and Adjusted Budgets, respectively.

The chart below is a comparison of the Fiscal Year 2019-20 Audited and Fiscal Year 2020-21 Adopted and Estimated for GOF expenditures.



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

Salaries and Benefits expenditures are estimated at $108.8 million, $5.5 million (4.8 percent) and $5.4 million (4.7 percent) below the Adopted and Adjusted Budgets, respectively. This is the result of vacant positions and personnel turnover during the first half of the fiscal year. There are also significantly higher savings in hourly wages of $1.4 million resulting from reduced Recreation programs, events, and facility rentals and from both the CPA and Library being closed. For regular (nonhourly) positions, there are currently 86 vacancies (30 more than the same time period last fiscal year) and 28 active recruitments to fill 42 current and anticipated vacancies. Beginning in March 2020, recruitment efforts were strategically planned to ensure essential staffing and, in some cases, to delay recruitment in functions that were modified by COVID-19 restrictions. While recruitments continue to be prioritized, regular recruitment activity has resumed. 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 $19.7 million, $3.3 million (14.2 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 $3.2 million, $400,000 higher than the Adopted Budget, but equal to the Adjusted Budget, and include $2.4 million of annual funding for equipment replacement and $847,000 currently estimated for new capital purchases.

Interfund Expenditures and Transfers are estimated at $10.2 million, essentially as budgeted.

Debt Service is budgeted at $1.0 million for the Hope Street Parking Certificates of Participation. However, the project and debt issuance has been delayed and, therefore, there is no debt service payment estimated.

Expenditures by Department

All but one of the departments appear to be trending under budget for the current fiscal year. The Fire Department is currently trending $2.0 million over budget; however, this is primarily due to a timing issue with reimbursements, where overtime incurred from several mutual-aid incidents has not yet been reimbursed, and a higher level of overtime during the first six months of the fiscal year. The past year was the worst fire season in the State's history, requiring a significant amount of assistance to combat multiple wildfires throughout the State. As mentioned earlier, the department is estimating outstanding reimbursements to be approximately $2.0 million for overtime costs and $953,000 for administration and vehicle reimbursement. Historically, these reimbursements have typically been received by fiscal year-end. 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):

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget	Percent Savings of Adjusted Budget
City Council	$ 385	$ 385	**$ 313**	$ 72	18.7
City Clerk	783	787	**720**	67	8.5
City Attorney	2,422	2,487	**2,223**	264	10.6
City Manager	6,397	6,666	**5,726**	940	14.1
Information Technology	5,873	6,031	**5,571**	460	7.6
Finance and Admin. Services	7,561	7,982	**6,951**	1,031	12.9
Community Development	1,847	2,076	**1,773**	303	14.6
Public Works	11,768	12,789	**11,692**	1,097	8.6
Community Services	18,273	18,766	**16,155**	2,611	13.9
Library Services	6,760	7,043	**5,791**	1,252	17.8
Fire	27,088	27,206	**29,229**	(2,023)	(7.4)
Police	44,840	45,458	**42,905**	2,553	5.6
Nondepartmental[(1)]	14,024	14,024	**12,913**	1,111	7.9
Projected Budget Savings	(4,000)	(4,000)	**Included**	(4,000)	100.0
Total Operating Expenditures	$144,021	$147,700	**$141,962**	$5,738	3.9

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

In summary, revenues are currently estimated at $140.5 million, $3.7 million (2.6 percent) below budget, including $2.5 million in reimbursements not yet received for Fire Strike Team deployment. Including projected budget savings, operating expenditures for the current fiscal year are estimated at $142.0 million, $2.1 million (1.4 percent) below the Adopted Budget and $5.7 million (3.9 percent) below the Adjusted Budget. Expenditures are currently estimated to be $1.5 million more than revenues.

Development Services

Development Services is a General Fund program separated from the GOF in order to facilitate better tracking and accounting for development activity. 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):

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 15,100	$15,897	**$13,957**	($1,940)
Expenditures	(16,695)	(20,957)	**(16,539)**	4,418
Operating Balance (Deficit)	(1,595)	(5,060)	**(2,582)**	2,478
Land Use Documents	800	800	**1,106**	306
Transfer to Comp Absences	(85)	(85)	**(85)**	-0-
Capital Projects	(823)	(1,123)	**(1,123)**	-0-
Excess (Deficiency) of Revenues	(1,703)	(5,468)	**(2,684)**	2,784
Beginning Balance	24,624	24,624	**24,624**	-0-
Land Use Document Reserve	(9,481)	(9,180)	**(9,486)**	(306)
Ending Balance	$ 13,440	$ 9,976	**$12,454**	$2,478

The level of development activity is approximately as budgeted for the current fiscal year with the exception of Plan Checking, which is under budget; operating revenues of $14.0 million are estimated to be $1.9 million (12.2 percent) below budget with Plan Check revenue estimated $2.5 million (55.4 percent) below budget. Estimated operating expenditures of $16.5 million are estimated to be $4.4 million (21.1 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 $2.6 million. This is primarily due to projects paid for in the prior fiscal year requiring plan check and other services in the current fiscal year. Revenue from the Land Use Document Fee is currently estimated to be $306,000 (38.3 percent) higher than budget. There is also a transfer of

$85,000 to fund Compensated Absences and $1.1 million for Capital Projects, of which $300,000 was approved midyear and is funded from the Land Use Document Reserve. The ending balance is estimated at $12.5 million and will be necessary to continue funding operations during a period of slower development activity. In addition, fees are paid in advance of the services provided, including long-term existing development projects.

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):

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$4,228	$4,228	**$2,789**	($1,439)
Expenditures	(4,013)	(4,029)	**(2,685)**	1,344
Operating Balance	215	199	**104**	(95)
Transfer to GOF	(200)	(200)	**(100)**	100
Excess (Deficiency) of Revenues	15	(1)	**4**	5
Beginning Balance	80	80	**80**	-0-
Ending Balance	$ 95	$ 79	**$ 84**	$ 5

Paid rounds of golf played in Fiscal Year 2019-20 totaled 55,824, a 2.3 percent decrease from the prior fiscal year, primarily due to impacts of SIP restrictions, and 28.8 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 $2.5 million in revenues, $120,000 (5.1 percent) higher than budget. Golf has become a popular activity as it is one of few activities allowed with SIP restrictions. Unfortunately, not the same is true for the restaurant, which is estimated to generate $299,000 in revenues, $1.6 million (83.9 percent) below budgeted revenues of $1.9 million. The restaurant has not been able to hold banquets or have indoor dining due to SIP restrictions. Outdoor seating was available with the lightening of restrictions during the summer, but with recent tighter restrictions has reduced operation to take-out only. The Fiscal Year 2020-21 budget assumed SIP restrictions would cease June 30 with a ramp-up period to normal operations.

In total, golf expenditures for the current fiscal year are estimated at $2.1 million, $159,000 (6.9 percent) below budget. Restaurant expenditures are estimated at $543,000, $1.2 million (68.6 percent) below budget. Golf expenditures are trending lower than budget, reflecting savings in operations. Water costs are trending slightly higher due to additional water needs associated with the renovations of the driving range as well as additional rounds of golf played. Restaurant expenditures are trending lower than budget as there is minimal staffing for reduced operations; however, expenditures are trending higher than revenue as there are also fixed costs associated with restaurant operations.

The fund is trending to finish the fiscal year with an operational balance of $104,000; the golf course is trending with a positive balance of $348,000 while the restaurant is essentially trending at a loss of $244,000. For Fiscal Year 2019-20, the General Non-Operating Fund transferred $500,000 to this fund to cover operating losses due to the impact of SIP restrictions the last quarter of the fiscal year. Not all the funds were needed, and the fund ended the fiscal year with a balance of $80,000. For the current fiscal year, an operating transfer to the General Operating Fund of $200,000 was included. With the prior fiscal year balance of $80,000 and estimated operating balance for the current fiscal year of $104,000, staff is conservatively estimating a transfer to the General Operating Fund of $100,000. Staff will closely monitor the fund and will update this transfer, if needed, in the next quarterly update.

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):

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 48,820	$48,820	**$50,777**	$1,957
Expenditures	(32,656)	(33,018)	**(31,603)**	1,415
Operating Balance	16,164	15,802	**19,174**	3,372
Development Impact Fees[(1)]	-0-	-0-	**423**	423
Bond Proceeds Interest	-0-	-0-	**114**	114
Transfer to Comp Absences	(50)	(50)	**(50)**	-0-
Capital Projects	(4,152)	(4,354)	**(4,354)**	-0-
Excess (Deficiency) of Revenues	11,962	11,398	**15,307**	3,909
Beginning Balance	37,054	37,054	**37,054**	-0-
Reserve	(5,300)	(5,300)	**(5,300)**	-0-
Reserve for Bond Proceeds	(2,044)	(2,044)	**(2,158)**	(114)
Landfill Reserve	(9,000)	(9,000)	**(9,000)**	-0-
Sea Level Rise Reserve	(9,000)	(9,000)	**(9,000)**	-0-
Dev. Impact Fee Reserve	(2,547)	(2,547)	**(2,970)**	(423)
Ending Balance	$ 21,125	$20,561	**$23,933**	$3,372

(1) Includes interest earned on the balance.

Operating revenues, primarily property taxes, for the current fiscal year are estimated at $50.8 million, $2.0 million (4.0 percent) higher than budget. Property Taxes revenue is trending higher than budget as, subsequent to adoption of the budget, the County provided the July 1, 2020 tax roll information for the Shoreline Community, indicating a net 11.1 percent increase compared to the July 1, 2019 tax roll. The City estimated a 7.7 percent increase for Fiscal Year 2020-21, which corresponds to an approximate $1.5 million difference compared to the tax roll actual increase. The City also collected about $508,000 more supplemental taxes than budgeted. Supplemental taxes tend to fluctuate due to changes in ownership and new construction during the fiscal year. Over the past five years, they have been as low as $111,000 and as high as $2.9 million.

Operating expenditures for the current fiscal year are estimated at $31.6 million, $1.4 million (4.3 percent) below budget. Included in operating expenditures are $11.7 million for the combined annual interagency payments to the school districts and the County and $6.4 million for debt service.

It is estimated that operating revenues will exceed operating expenditures by $19.2 million, which will fund the transfer of $50,000 to fund the Compensated Absences Fund and $4.4 million for Capital Projects. There are no capital projects funded by the North Bayshore Development Impact Fees (NBSDIF) in the current fiscal year. 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 $23.3 million for the General Reserve, the Landfill Reserve, and the Sea Level Rise Reserve, $2.2 million for bond proceeds (mainly from interest earnings), and $3.0 million for the Development Impact Fee Reserve, the fund is estimated with a $23.9 million ending balance.

A study to update the impacts of Sea Level Rise is currently under way and is expected to be completed by fiscal year-end. It is anticipated additional reserves will be needed to provide for increased mitigation over that which was recommended by the initial study.

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 the City Council with rate recommendations in the next quarterly update 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):

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 36,662	$36,662	**$37,191**	$ 529
Expenditures	(34,696)	(37,513)	**(33,858)**	3,655
Operating Balance	1,966	(851)	**3,333**	4,184
Capital Project Refunds	640	640	**640**	-0-
Capacity/Development Impact Fees	-0-	-0-	**2,195**	2,195
Capital Projects from Fees	(600)	(600)	**(600)**	-0-
Capital Projects	(3,056)	(3,056)	**(3,056)**	-0-
Excess (Deficiency) of Revenues	(1,050)	(3,867)	**2,512**	6,379
Beginning Balance	28,883	28,883	**28,883**	-0-
Capacity/Dev Impact Fees Reserves	(2,731)	(2,731)	**(4,926)**	(2,195)
Water Transfer Reserve	(5,000)	(5,000)	**(5,000)**	-0-
Reserves	(11,567)	(11,567)	**(11,567)**	-0-
Ending Balance	$ 8,535	$ 5,718	**$ 9,902**	$4,184

A 1.0 percent increase for the average cost of water and meter rates effective January 1, 2021, and a 50-cent-per-unit increase (the third-year phase-in of increasing the rate to recover the cost of the program) for the recycled water rate were adopted for Fiscal Year 2020-21. Operating revenues are estimated at $37.2 million, $529,000 (1.4 percent) higher than budget. Water usage year-over-year through November is trending approximately the same as the prior fiscal year, unlike the prior three fiscal years in which water usage increased. 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 over the prior three fiscal years. However, usage is still approximately 22.0 percent below the 2013 drought baseline. Recycled water sales are trending lower comparing usage through November in the current fiscal year to last fiscal year.

Operating expenditures are estimated at $33.9 million, $3.7 million (9.7 percent) below budget, primarily as a result of a prior-year accrual for the minimum water purchase payment of $2.5 million to the SFPUC and savings in operations. The City has a required minimum water purchase, and the Fiscal Year 2019-20 budget included full funding of the minimum purchase requirement; however, because the minimum payment was not billed until July 2020, 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 $2.2 million is currently estimated for Fiscal Year 2020-21.

The estimated operating balance is $3.3 million, which is sufficient to fund the current fiscal year's $3.1 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 2020 total $1.9 million, and interest is estimated at $153,000. Various development impact fees have been adopted by the City Council, and for Fiscal Year 2020-21, no revenue has been received through November 2020, but interest is estimated at $114,000. 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 $600,000 in additional capital projects for Fiscal Year 2020-21. The Water Fund is estimated to have an ending balance of $9.9 million and $21.5 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):

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 25,460	$25,460	**$23,741**	($1,719)
Expenditures	(21,648)	(22,599)	**(20,487)**	2,112
Operating Balance	3,812	2,861	**3,254**	393
Loan Proceeds & Interest	-0-	-0-	**11**	11
Capacity/Development Impact Fees	-0-	-0-	**2,250**	2,250
Capital Projects from Loan	(640)	(640)	**(640)**	-0-
Capital Projects	(1,969)	(1,969)	**(1,969)**	-0-
Excess (Deficiency) of Revenues	1,203	252	**2,906**	2,654
Beginning Balance	30,272	30,272	**30,272**	-0-
Capacity/Dev Impact Fees Reserves	(4,339)	(4,339)	**(6,589)**	(2,250)
Treatment Plant Reserve	(10,105)	(10,105)	**(10,683)**	(578)
Reserve for Loan Proceeds	2	2	**(9)**	(11)
Reserves	(7,499)	(7,499)	**(7,499)**	-0-
Ending Balance	$ 9,534	$ 8,583	**$ 8,398**	($ 185)

A 4.0 percent overall rate increase was adopted for Fiscal Year 2020-21, including a 2.0 percent rate increase for operations effective January 1, 2021 and a 2.0 percent rate increase for future Treatment Plant capital costs effective July 1, 2020. 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 2020-21 is the seventh year.

Operating revenues are estimated at $23.7 million, $1.7 million (6.8 percent) below budget due to a $1.1 million one-time correction and lower service charge revenue. Estimated operating expenditures of $20.5 million are trending $2.1 million (9.3 percent) below budget. This is primarily due to savings in operations offset slightly by $185,000 owed for prior-year Treatment Plant expenses.

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 $185,000 more than budgeted, resulting in an additional amount due and paid in the current fiscal year. The additional Treatment Plant charge is applied against the Treatment Plant Reserve. The estimated operating balance of $3.3 million includes $2.3 million collected for future Treatment Plant Capital Costs, as stated above, and will partially fund $2.0 million for Capital Projects with the remainder needed from fund balance.

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 2020 total $1.9 million and interest is estimated at $147,000. Various Development Impact fees have been adopted by the City Council, and for Fiscal Year 2020-21, $218,000 has been received through November 2019, and interest is estimated at $29,000. Any fees and interest earned will be designated for specific projects and will be identified in the Five-Year CIP. There are no additional capital projects funded by these fees for Fiscal Year 2020-21.

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 in the Fiscal Year 2018-19 Midyear Report, 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, $6.3 million of scheduled and midyear capital projects in Fiscal Year 2019-20, and $640,000 of scheduled projects in Fiscal Year 2020-21. There is a nominal amount of interest earned on proceeds currently not allocated to a capital project. Staff will return to the City Council with a recommendation for use of the proceeds at a later time. The financing structure includes the ability to prepay 10.0 percent of the outstanding balance each year and all of the outstanding balance after 10 years without penalty. Annual payments are approximately $852,000.

The fund is estimated with an ending balance of $8.4 million and $24.8 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, $2.7 million in Treatment Plant credits for prior fiscal years, 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):

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
City Revenues	$ 15,021	$15,021	**$15,022**	$ 1
Recology Revenues[1]	17,351	17,351	**17,238**	(113)
Total Revenues	32,372	32,372	**32,260**	(112)
City Expenditures	(15,555)	(16,216)	**(14,346)**	1,870
Recology Payments[1]	(17,351)	(17,351)	**(17,237)**	114
Total Expenditures	(32,906)	(33,567)	**(31,583)**	1,984
Operating Balance (Deficit)	(534)	(1,195)	**677**	1,872
Capital Projects	(284)	(284)	**(284)**	-0-
Excess (Deficiency) of Revenues	(818)	(1,479)	**393**	1,872
Beginning Balance	14,423	14,423	**14,423**	-0-
Reserve for Future Facility Equipment	(1,760)	(1,760)	**(1,760)**	-0-
Reserves	(3,889)	(3,889)	**(3,889)**	-0-
Ending Balance	$ 7,956	$ 7,295	**$ 9,167**	$1,872

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

For Fiscal Year 2020-21, a 2.0 percent rate increase effective January 1, 2021 was adopted. The City's Solid Waste Fund operating revenues are estimated at $15.0 million, on target with budget. This is the result of lower commercial account revenue offset by higher debris box revenue. City operating expenditures are estimated at $14.3 million, $1.9 million (11.5 percent) below budget, as a result of a credit of $568,000 from the SMaRT® Station for prior-year services and savings in operations. 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 2019-20, the City received a credit of $568,000, which was credited against current fiscal year charges.

There is estimated operating balance of $677,000 which will fund $284,000 for Capital Projects. The fund is estimated with an ending balance of $9.2 million and reserves of

$5.6 million. The balance will be needed to smooth future rate adjustments needed for the new Recology Agreement and potential changes to the SMaRT Agreement.

II. RECOMMENDED MIDYEAR ADJUSTMENTS

COVID-19 Emergency Expenditures Appropriation and FEMA

The City Council authorized an appropriation of $600,000 in Fiscal Year 2019-20 for emergency-related expenses related to the COVID-19 pandemic. Actual expenditures in Fiscal Year 2019-20 were $358,000. In addition, $187,000 in encumbrances were outstanding at the end of the fiscal year and carried forward along with the remaining budget balance of $55,000 (as authorized by Council) to the current fiscal year. As of November 30, 2020, there are expenditures of $335,000 and outstanding encumbrances of $127,000 for these emergency-related expenditures, $220,000 more than the amount carried over from the prior fiscal year. President Joe Biden recently issued a memorandum to increase the Federal Emergency Management Agency (FEMA) reimbursement maximum from 75.0 percent to 100.0 percent of qualified expenditures. However, it is not expected the City will receive any reimbursement for a long time, and it is unknown how strict the reimbursement requirements will be. Staff is in the process of submitting FEMA reimbursements for anticipated allowed expenditures. Staff is currently estimating whether additional funding of approximately $500,000 will be needed for the remainder of the fiscal year, which includes, among other costs, $65,000 to extend the renting of portable hygiene stations and showers at various City locations through June.

Appropriations for Fire Strike Team Deployment Reimbursements

The City provides mutual aid for fire incidents, and Fire staff is deployed on an overtime basis. The City has paid Fire overtime costs of $2.0 million for this mutual aid during the current fiscal year and is expected to be reimbursed for this overtime as well as administrative and vehicle cost reimbursements. Fire staff submits invoices to the California Office of Emergency Services (CalOES) for each fire incident. CalOES then needs to approve the invoices before they are paid. The majority of the invoices have been approved, and staff has been told these should be paid in the February time frame. Under Council Policy A-10, the City Manager is authorized to increase appropriations for such reimbursements up to $100,000. Because six of these reimbursements will exceed $100,000, staff is requesting Council approve increasing appropriations as the overtime reimbursements are received. The following are the expected reimbursements for overtime:

- $105,421 for the River Fire
- $145,991 for the SCU Lightning and Deer Fire
- $213,321 for the CZU August Lightning Fire
- $512,635 for the Creek Fire
- $205,358 for the August Complex Fire
- $253,004 for the Glass Fire

Utility Bill Online Payment Processing Costs

The Finance and Administrative Services Department is requesting increased funding for payment processing costs associated with increased usage of the payment gateway for utility bill online payments. Usage of online payments for utility bills has increased the last couple of years with average cost and current fiscal year trend of $225,000, and the current budget for these processing costs is $195,000. This increase will also be requested for the Fiscal Year 2021-22 Budget.

Technology-Related Expenditures Due to COVID-19

Due to operational changes necessitated by the pandemic, a number of technology-related expenditures were or are needed in order to accommodate or comply with public health directives and allow City staff to continue working efficiently while adhering to social distancing requirements, including working from home. These costs include Zoom web conferencing licensing, expanded use of electronic document signing and management software, and third-party support for deployment of a significant number of laptops that will allow for improved user connections and to meet the requirements of the soon-to-be-implemented paperless permitting system. These costs amount to approximately $123,000 in the Information Technology Department and will be funded by the General Non-Operating Fund.

Work-from-Home Mitigation Costs Due to COVID-19

Due to the COVID-19 pandemic being extended so long and expected to continue for the remainder of the fiscal year, additional costs are necessary to provide City staff working from home with resources necessary to allow them to continue to do so in a safe and efficient manner. The City, under direction from public health authorities, is continuing to have most employees work from home until such time as it is deemed safe to return on a regular basis to the office. As a result, it is necessary to provide employees with adequate ergonomic and other equipment to enable them to perform their job functions safely and efficiently. It is estimated that $150,000 is needed to fund these costs through fiscal year-end.

Appropriations for Two Regular Overhire Positions

Two key positions in the Finance and Administrative Services Department are anticipated with retirements by the end of calendar year 2021. The Senior Payroll Accountant (working title of Payroll Manager) has been with the City for over 26 years and has accumulated a wealth of knowledge regarding payroll and all the disparate subsystems that comprise the payroll process. The Assistant Finance and Administrative Services Director has been with the City for over 30 years and in her current position over 10 years. Assuming successful candidates for both of these positions can be hired by early May, the additional cost to fund both overhire positions through the end of calendar year 2021 is estimated to be $400,000. The wealth of institutional knowledge cannot easily be replaced, especially as there are other expected positions in the department turning over this fiscal year. Thus, it is critical to the City's operations to have sufficient time to facilitate as smooth a transition as possible and transfer as much knowledge to whomever is hired to replace the two incumbents.

Salary Plan Update

The regular salary plan has been updated to reflect midyear reclassifications approved by the City Manager. The updates include a new classification Planning Board Clerk, a new classification of Senior Librarian to replace the Librarian III which will be removed, and the removal of the Water Environment Specialist.

III. FISCAL YEAR 2021-22 PRELIMINARY GOF FORECAST

This section of the report focuses on the Fiscal Year 2021-22 Preliminary GOF Forecast. This forecast is based on limited data and financial assumptions made with information staff has at this time. Due to the ongoing uncertainties surrounding the COVID-19 pandemic, it remains a challenge to determine how and when economic conditions will change for better or worse. An updated five-year forecast will be incorporated into the Recommended (formerly called "Proposed") Budget, scheduled for the June 8, 2021 City Council meeting.

The **preliminary** projection for Fiscal Year 2021-22 follows (dollars in thousands):

	2019-20 Audited	2020-21 Adopted Budget	2020-21 Estimated	**2021-22 Preliminary Forecast**	Variance of 2021-22 Forecast to 2020-21 Adopted
Revenues	$ 142,667	$144,162	$ 140,453	**$144,354**	$ 192
Expenditures[1]	(129,911)	(144,021)	(141,962)	**(145,780)**	(1,759)
Rebudgets[2]	(1,229)	-0-	-0-	**-0-**	-0-
Operating Balance	11,527	141	(1,509)	**(1,426)**	(1,567)
Transfer to GNOF[3]	(5,527)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	(2,000)	-0-	-0-	**-0-**	-0-
CalPERS Contribution	(4,000)	-0-	-0-	**-0-**	-0-
Ending Balance	$ -0-	$ 141	($ 1,509)	**($ 1,426)**	($ 1,567)

(1) Adopted Budget and Preliminary Forecast include $4.0 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 $1.0 million in Fiscal Year 2019-20 for the Sustainability Capital Project.

The preliminary forecast projects total GOF revenues of $144.4 million, essentially the same as the current fiscal year Adopted Budget and an increase of $3.9 million (2.8 percent) compared to the current fiscal year Estimated.

Baseline expenditures are anticipated to increase $1.8 million (1.2 percent) to $145.8 million compared to the current fiscal year Adopted. For Fiscal Year 2021-22, there is a preliminary negative operating balance of $1.4 million. **Notably, this forecast does not include any Fiscal Year 2021-22 potential changes from departments; any recommended expenditure changes will be included with the Forecast update in the next quarterly budget report.** All labor agreements expire June 30, 2021, and negotiations of new contracts will be commencing. This forecast does not make assumptions for changes to labor agreements, which will be determined through the negotiation process.

The full five-year forecast will be presented in the Recommended Budget in June. This forecast will continue to incorporate impacts from the COVID-19 pandemic in Fiscal Year 2022-23. 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. However, there are still many unknowns of when SIP restrictions will be lifted. The forecast assumes that the vast majority of the general public will be vaccinated by fall 2021, but it is uncertain how long it will take the economy to recover from the pandemic.

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):

	2019-20 Audited	2020-21 Adopted Budget	2020-21 Estimated	**2021-22 Preliminary Forecast**	Variance of 2021-22 Forecast to 2020-21 Adopted
Property Taxes	$ 54,839	$ 57,207	$ 58,394	**$ 58,868**	$1,661
Sales Tax	19,452	19,604	18,905	**19,191**	(413)
Other Local Taxes	15,880	17,237	13,211	**16,327**	(910)
Use of Money and Property	22,345	22,571	21,924	**22,982**	411
Licenses, Permits, and Fees/Fines and Forfeitures	6,364	6,232	5,636	**6,032**	(200)
Intergovernmental	795	702	845	**738**	36
Charges for Service	2,094	2,315	914	**1,997**	(318)
Miscellaneous Revenues	3,273	1,872	3,836	**1,760**	(112)
Interfund Revenues and Transfers	17,625	16,422	16,788	**16,459**	37
Total Operating Revenues	$142,667	$144,162	$140,453	**$144,354**	$ 192

A brief explanation of the assumptions and changes for Fiscal Year 2021-22 follows:

Property Tax revenue is projected at $58.9 million, an increase of $1.7 million compared to the current fiscal year Adopted and $474,000 compared to the current fiscal year

Estimated. Compared to the July 1, 2020 tax roll, the Fiscal Year 2021-22 AV of secured property-generating tax revenues for the GOF is projected with net growth, reflecting the following:

- A 1.036 percent increase in AV for most properties resulting from the annual CCPI inflation factor (October 2019 to October 2020);

- AV increases resulting from changes in ownership which occurred from January 1, 2020 through November 30, 2020 (information currently available);

- Increased AV related to new development anticipated to be included in the July 1, 2021 tax roll; and

- Anticipated AV decreases resulting from the resolution of current appeals and projected new 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 $19.2 million for Fiscal Year 2021-22 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 a decline of $413,000 compared to the current fiscal year Adopted Budget and an increase of $286,000 compared to the current fiscal year Estimated. Sales Tax revenues have been impacted by SIP restrictions due to the pandemic. 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 prior fiscal years' 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 $16.3 million, $910,000 (5.3 percent) lower than the current fiscal year Adopted and $3.1 million (23.6 percent) higher than the current fiscal year Estimated, primarily from the third and final year phase-in of the new Business License Tax structure. TOT revenue has been significantly impacted by the pandemic and is projected $2.1 million lower than the current fiscal year adopted and $1.5 million higher than the current fiscal year Estimated. The projection assumes that with the COVID vaccine administered by fall 2021, hotel stays should begin to increase. In addition, the Shashi Hotel is expected to open in 2021, and the Moffett Gateway Hotel is expected to open the beginning of 2022. The Fiscal Year 2021-22 Business License Tax projection includes the third and final year phase-in of the new Business License structure as approved by voters. This is an increase of $1.6 million from the current fiscal year Adopted, $500,000 lower than anticipated in the previous forecast, resulting from business closures due to the pandemic. 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 2021-22 UUT revenue is projected $354,000 and $229,000 lower than the current fiscal year Adopted and Estimated, respectively, also due to the pandemic.

Use of Money and Property revenue is projected to increase by $411,000 (1.8 percent) and $1.1 million (4.8 percent) compared to the current fiscal year Adopted and Estimated, respectively. Investment revenue is projected to decline due to the current market of low interest rates. Lease revenues are projected with inflators as stipulated in the leases or estimated with 2.0 percent increases. Rental revenue is projected to decline due to SIP restrictions on gatherings.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is projected to be $200,000 (3.2 percent) lower than the current fiscal year Adopted Budget and $396,000 (7.0 percent) higher than the current fiscal year Estimated. The projection assumes about the same level of activity as the current fiscal year plus the approval of one cannabis permit and higher vehicle and parking fines reflecting more vehicles back on the road and parking downtown.

Intergovernmental revenue is projected to be $36,000 (5.1 percent) higher than the current fiscal year Adopted and $107,000 (12.7 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 $318,000 (13.7 percent) below the current fiscal year Adopted and $1.1 million (118.5 percent) higher than the current fiscal year Estimated. Charges for Services revenue has been another source of revenue significantly impacted by the pandemic. The CPA has been closed since March 2020, and there are limited Recreation programs offered due to SIP restrictions. The projection assumes that with the COVID-19 vaccine administered fall 2021, CPA events and Recreation classes and camps will be able to resume after a transition period to ramp up services.

Miscellaneous Revenues are projected to be $112,000 (6.0 percent) below the current fiscal year Adopted, primarily due to lower CPA revenue similar to as stated above for Charges for Services. The projection is $2.1 million (54.1 percent) below the current fiscal year Estimated primarily due to the $2.5 million in reimbursements for Fire Strike Team deployments in 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 $16.5 million, essentially the same as the current fiscal year Adopted and $329,000 (2.0 percent) below the current fiscal year Estimated, primarily due to estimated higher-than-budgeted CIP overhead in the current fiscal year.

As new information becomes available, all revenue sources and projections will be reviewed and revised as appropriate for the next quarterly update.

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 yet been reviewed and, thus, are not included in the Preliminary Forecast.

	2019-20 Audited	2020-21 Adopted Budget	2020-21 Estimated	**2021-22 Preliminary Forecast**	Variance of 2021-22 Forecast to 2020-21 Adopted
Salaries and Benefits:					
Salaries and All Pays	$ 64,899	$ 71,000	$ 68,798	**$ 69,791**	($1,209)
Retirement	20,247	24,668	23,857	**24,877**	209
Health Benefits	8,963	11,213	9,303	**11,613**	400
All Other Benefits	7,076	7,416	6,876	**7,638**	222
	101,185	114,297	108,834	**113,919**	(378)
Services and Supplies	17,611	19,575	19,691	**19,575**	-0-
Capital Outlay/Equipment Replacement	2,797	2,820	3,220	**3,015**	195
Interfund Expenditures and Transfers	8,318	10,329	10,217	**12,271**	1,942
Debt Service	-0-	1,000	-0-	**1,000**	-0-
Budget Savings	Included	(4,000)	Included	**(4,000)**	-0-
Total Operating Expenditures	$129,911	$144,021	$141,962	**$145,780**	$1,759

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

Salaries and Benefits expenditures are projected $378,000 lower than the current fiscal year Adopted. The forecast includes any impact from the minimum wage increase from $16.05 to $16.30 per hour effective January 2021. The preliminary forecast for salaries and all pays are lower than the current fiscal year adopted as there continues to be a high level of retirements of long-tenured employees, which has changed the base level of salaries, in addition to no merit increases for management/professional staff during the current fiscal year. The cost for retirement benefits reflects the rates provided by CalPERS and results in a less than 1.0 percent increase in pension costs compared to the Fiscal Year 2020-21 Adopted Budget. Health benefit costs are projected with increases based on historical trends. All labor agreements expire June 30, 2021, and labor negotiations will begin shortly.

Services and Supplies expenditures are currently projected the same as the current fiscal year Adopted Budget. This forecast does not include any additional appropriations requested by departments that may be recommended by the City Manager through the Fiscal Year 2021-22 budget development process or any increased cost needed for potential City water, wastewater, and trash rate increases. Any recommended increases will be included with the Recommended Budget in June.

Capital Outlay/Equipment Replacement expenditures include $500,000 for Capital Outlay. The annual equipment replacement funding amount is projected at $2.5 million, 6.0 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 $937,000 lower than annually required 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 $1.9 million (18.8 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, 2019 result in a net increase of $49,000. The transfer for "At-Risk" lease revenue is projected to increase $61,000 (3.9 percent), still approximately $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 LLC 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 $1.9 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 $6.0 million to be received in January 2022 for the fully phased-in structure, the projection includes $4.6 million transferred to the Transportation Reserve and $577,000 transferred to the

General Housing Fund, leaving an additional $577,000 above the $250,000 base amount in the GOF.

Debt Service is projected at $1.0 million for Fiscal Year 2021-22 based on an upcoming long-term debt issue for the Hope Street project, which was originally expected to be issued in the current fiscal year, but has been delayed and is now expected to be completed in the new fiscal year.

The Fiscal Year 2021-22 projections will be updated for the next quarterly budget update in April.

IV. **FISCAL YEAR 2019-20 GENERAL FUND REMAINING BALANCE**

As discussed in the Analysis of Fiscal Year 2019-20 Audited Financial Results for the GOF and General Fund Available Balance report, which is Attachment 1 to the Comprehensive Annual Financial Report on the December 8, 2020 Council Agenda, the City's General Fund ended the 2019-20 fiscal year with an unallocated balance of $9.3 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	$ 4,527
Remaining Available Balance from Prior Fiscal Years	6,296
Midyear Allocations Approved by City Council	(1,941)
One-Time Revenues and Expenditure Savings:	
Property Taxes—Excess ERAF	4,707
Unspent Limited-Period Expenditures	905
Miscellaneous Revenues	386
Child-Care Center Rent	201
Total Available for Allocation	15,081
Allocations in the Fiscal Year 2020-21 Adopted Budget:	
Limited-Period Expenditures	(3,869)
Compensated Absences Reserve	(1,300)
General Fund Reserve	(600)
Total Allocated	(5,769)
Remaining Unallocated Balance at June 30, 2020	$ 9,312
Fiscal Year 2020-21 Midyear Council Actions	(285)
Recommendations in this Midyear Report	(1,173)
Remaining Available Balance	$ 7,854

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. However, in light of the continuing significant levels of uncertainty from the COVID-19 pandemic, staff is still reviewing potential priority funding needs, including potentially using some portion for addressing the projected current fiscal year deficit, and will provide recommendations for the use of the remaining unallocated balance with the Recommended Budget in June.

V. FISCAL YEAR 2020-21 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 2019-20 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 2020-21 will be reported in the Fiscal Year 2021-22 Adopted Budget.

FISCAL IMPACT

The various fiscal impacts are identified and discussed within this report.

ALTERNATIVES

1. Do not approve the recommendation.

2. Provide other direction.

<u>**PUBLIC NOTICING**</u>—Agenda posting.

Prepared by:	Approved by:
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Attachments: 1. Performance/Workload Measures
2. Resolution Amending the City's Regular Salary Plan