COUNCIL REPORT

CITY OF MOUNTAIN VIEW

DATE: February 12, 2019

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Fiscal Year 2018-19 Midyear Budget Status Report, Fiscal Year 2019-20 Preliminary General Operating Fund Forecast, and Fiscal Year 2018-19 Performance/Workload Measures**

RECOMMENDATION

1. Acknowledge and file the Fiscal Year 2018-19 Midyear Budget Status Report, the Fiscal Year 2019-20 Preliminary General Operating Fund Forecast, and the six-month status of the Fiscal Year 2018-19 Performance/Workload Measures (Attachment 1 to the Council report).

2. Increase allocations and appropriate $3.0 million in the General Operating Fund for a $1.0 million contribution to the City's Other Post-Employment Benefit liability and $2.0 million transfer to the Strategic Property Acquisition Reserve. (Five votes required)

3. Increase appropriations in the amount of $387,000 in the Public Works Department, Solid Waste Management Fund, for the Fiscal Year 2017-18 SMaRT® station reconciliation. (Five votes required)

4. Change funding approved with the December 4, 2018 Council Action regarding Environmental Sustainability for EV Charger Grants, to transfer and appropriate $250,000 from the General Fund Reserve to the Annual New Energy Conservation Measures CIP (19-25) instead of to the General Operating Fund, Community Development Department. (Five votes required)

5. Change funding approved with the December 4, 2018 Council Action regarding Environmental Sustainability for the Community Shuttle Study, to transfer and appropriate $100,000 from the General Fund Reserve to the Comprehensive Modal Plan CIP (19-63) instead of to the General Operating Fund, Community Development Department. (Five votes required)

BACKGROUND AND ANALYSIS

This report is intended to provide the City Council, public, and employees with an update of the City's budgetary position at midyear as well as a preliminary General Operating Fund (GOF) forecast for the upcoming fiscal year. The six-month status of Fiscal Year 2018-19 Performance/Workload Measures is also attached to this report (see Attachment 1).

I. FISCAL YEAR 2018-19 MIDYEAR BUDGET STATUS

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 2018-19 revenue and expenditure estimates compared to budget for major funds.

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

	2017-18 Audited	2018-19 Adopted Budget	2018-19 Adjusted	**2018-19 Estimated**	Variance of 2018-19 Estimated to 2018-19 Adjusted
Revenues	$136,377	$137,682	$138,598	**$142,344**	$3,746
Expenditures[1]	(113,682)	(124,939)	(127,915)	**(122,626)**	5,289
Rebudgets[2]	429	-0-	2,255	**-0-**	(2,255)
Operating Balance	23,124	12,743	12,938	**19,718**	6,780
Transfer to GNOF	(15,124)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	-0-	(1,000)	(1,000)	**(1,000)**	-0-
Transfer to Trans Res	-0-	(2,000)	(2,000)	**(2,000)**	-0-
Transfer to Cap Imp Res	-0-	(2,000)	(2,000)	**(2,000)**	-0-
CalPERS Contribution	(4,000)	(4,000)	(4,000)	**(4,000)**	-0-
OPEB Contribution	(2,000)	-0-	-0-	**(1,000)**[3]	(1,000)
Transfer to SPAR	(2,000)	-0-	-0-	**(2,000)**[3]	(2,000)
Ending Balance	$ -0-	$ 3,743	$ 3,938	**$ 7,718**	$3,780

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

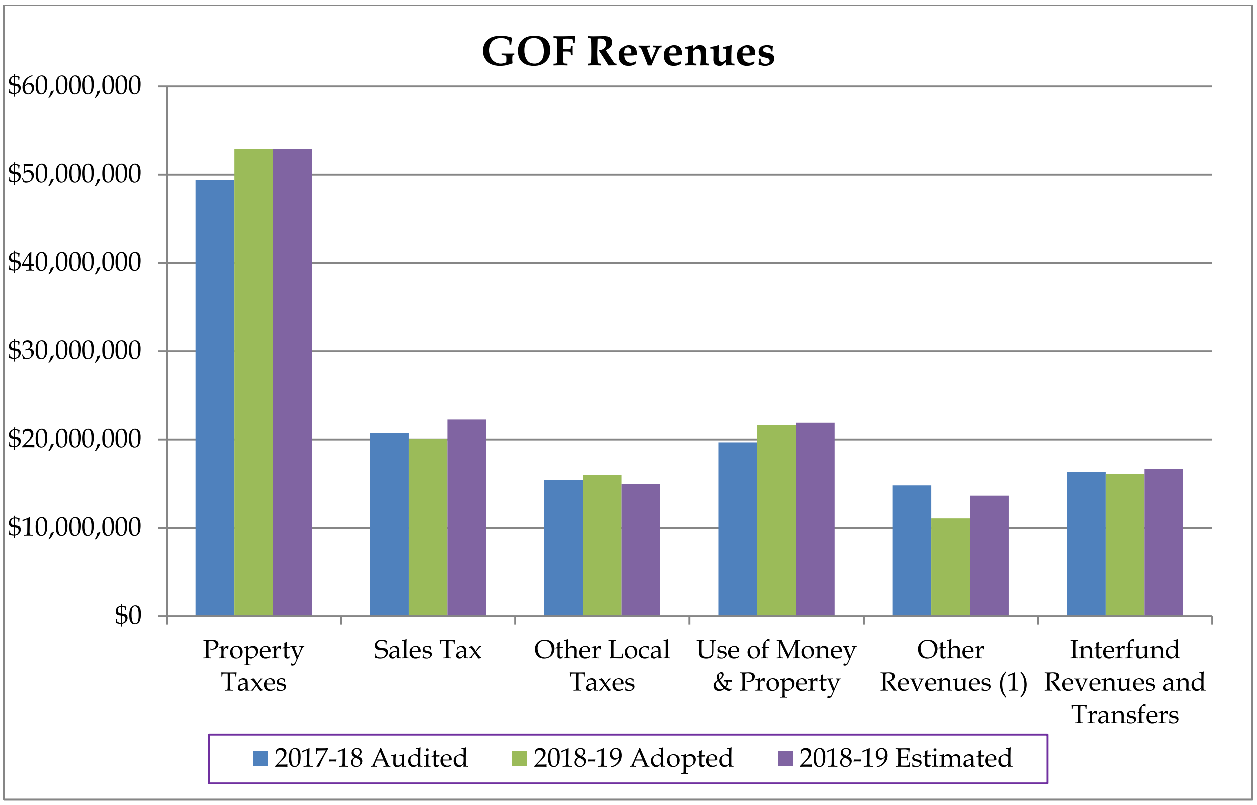
(2) Rebudgets include grant and donation carryovers from the prior fiscal year and changes in encumbrances and assets and liabilities for audited results.

(3) New staff recommendation with this Midyear Report.

GENERAL OPERATING FUND

Revenues

The chart below is a comparison of the Fiscal Year 2017-18 Audited, and Fiscal Year 2018-19 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 the majority trending higher than budget, but others trending at or below budget. A detailed discussion of major revenue categories is as follows:

Property Taxes revenue is estimated at $52.9 million, essentially as budgeted. The Fiscal Year 2018-19 Adopted Budget included projected growth based on a positive 2.0 percent California Consumer Price Index (CCPI) applied to the majority of secured properties, plus increased values related to changes in ownership and new development. The information provided by Santa Clara County after the beginning of the current fiscal year indicates the total actual July 1, 2018 General Fund AV increased a net 6.2 percent compared to the July 1, 2017 AV, reflecting growth in secured AV, but a decline in unsecured AV. The July 1, 2018 tax roll did not include exemptions for 583 secured parcels in the County, including 30 parcels in the City, resulting in a $24.4 million overstatement of General Fund secured AV. The County subsequently processed these exemptions and mailed accurate property tax bills. The significant factors contributing to the decline in unsecured AV are the movement of assets from the unsecured roll to the secured roll with a net AV decline; AV added in error to the July 1, 2017 tax roll that has since been corrected; and removal of unsecured assets from certain business locations.

Sales Tax revenue is currently estimated at $22.3 million, $2.2 million (11.2 percent) higher than budget primarily related to $1.4 million in payments belonging to the prior fiscal year of which $1.3 million has been received and an additional $49,000 is anticipated to be received in the current fiscal year. The California Department of Tax and Fee Administration (CDTFA) experienced issues with its new software system which delayed Fiscal Year 2017-18 payments. Without these payments for the prior fiscal year, sales tax is trending $892,000 (4.5 percent) higher than budget. Fiscal Year 2018-19 Sales Tax was adopted at 3.3 percent below Fiscal Year 2017-18 Audited. The current estimate without the prior year payments is essentially the same as the Fiscal Year 2017-18 Audited. However, after adjusting the Fiscal Year 2017-18 Audited to reflect the $1.3 million late payments and anticipated $49,000, the current fiscal year estimate is 5.2 percent lower than the Fiscal Year 2017-18 Audited. This is the third year that Sales Tax revenue has either declined or seen little growth, indicating a possible slowing of the economy, as well as changes in the economy that result in less sales tax revenue.

Other Local Taxes revenue is estimated at $15.0 million in total, $1.0 million (6.4 percent) below budget. Transient Occupancy Tax (TOT) revenue is estimated to be $461,000 (6.3 percent) below budget and 2.2 percent below the prior fiscal year Audited. Although TOT revenue has been growing since mid-Fiscal Year 2009-10, it is now trending slightly down, resulting from declines in corporate housing properties and one of the larger hotels. Based on the payments received to date, Utility Users Tax (UUT) revenue is estimated to be $569,000 (6.8 percent) below budget and 4.0 percent below the prior fiscal year Audited. 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 also trending below budget, possibly due to increased usage of solar.

Use of Money and Property revenue is comprised of Investment Earnings and Rents and Leases and is estimated at $21.9 million, $298,000 (1.4 percent) higher than budget. Investment Earnings revenue is estimated $214,000 (9.0 percent) higher than budget due to higher yields resulting from the Federal Open Market Committee (FOMC) increasing the benchmark interest rate twice during the current fiscal year. Rents and Leases revenue estimates are in line with budget.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is estimated to be $311,000 (5.2 percent) higher than budget. This is primarily due to estimated higher franchise fees from Recology (see Solid Waste Management section for more information).

Intergovernmental revenue is estimated at $100,000 (16.0 percent) higher than budget. This is related to unbudgeted grants and reimbursements from other governmental agencies offset by lower reimbursements for the Regional Auto Theft Task Force program as there is no assigned Police Officer for this program due to position vacancies.

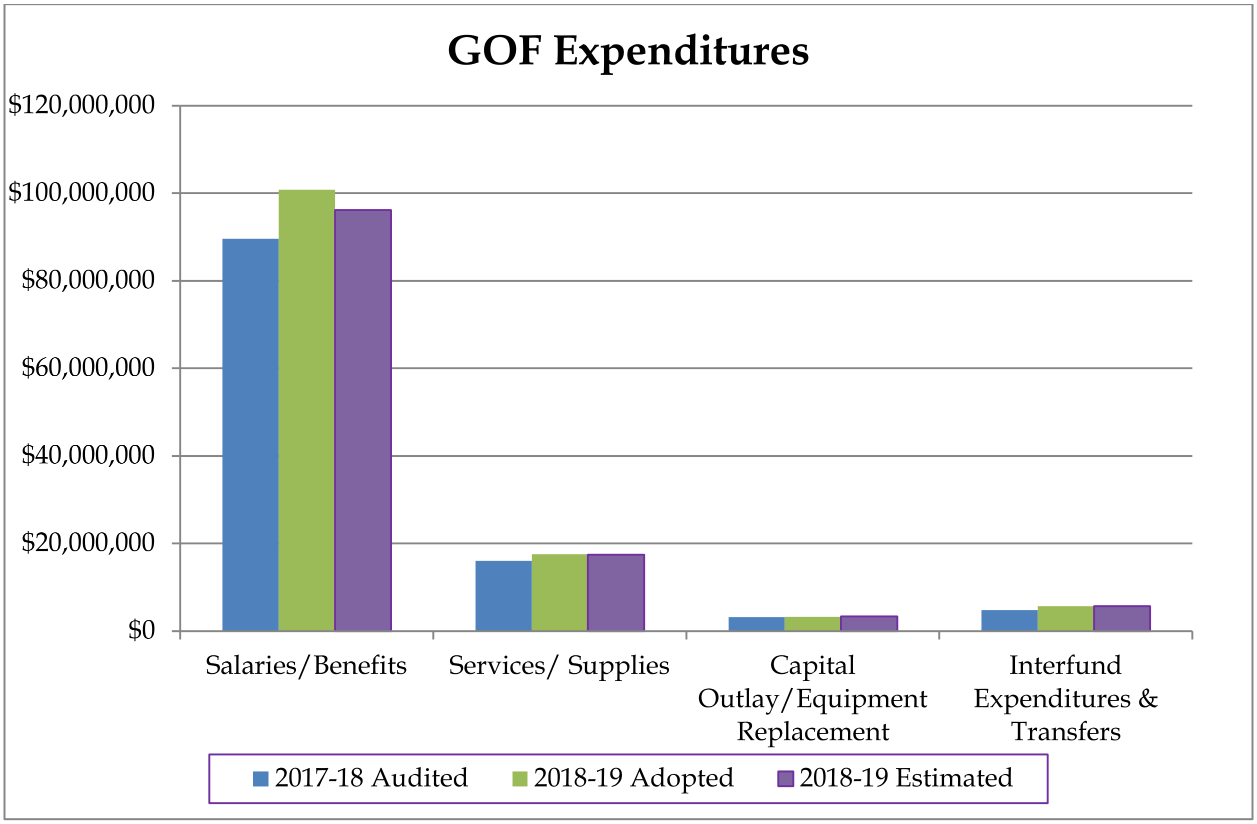
Charges for Services revenue is generated by fees assessed for Recreation and other types of services and is estimated to be on target with budget.

Miscellaneous Revenues are estimated to be $1.9 million (89.1 percent) higher than budget 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. However, reimbursements for Fire mutual-aid overtime are estimated to exceed $1.2 million.

Interfund Revenues and Transfers are estimated as budgeted.

Expenditures

The chart below is a comparison of the Fiscal Year 2017-18 Audited, and Fiscal Year 2018-19 Adopted and Estimated for GOF expenditures.



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

Salaries and Benefits expenditures are estimated at $96.2 million, $4.6 million (4.6 percent) and $4.8 million (4.7 percent) below the Adopted and Adjusted Budgets, respectively, the result of vacant positions and some personnel turnover during the first half of the fiscal year. There are currently 70 vacancies and 32 active recruitments to fill 45 current and anticipated vacancies. Some savings are expected annually and included in the Adopted Budget.

Services and Supplies expenditures are estimated at $17.4 million, $81,000 (0.5 percent) and $2.8 million (13.9 percent) below the Adopted and Adjusted Budgets, respectively. Savings are expected annually, and this is comparable to prior fiscal years.

Capital Outlay/Equipment Replacement expenditures are estimated at $3.4 million, slightly higher than the Adopted Budget, but equal to the Adjusted Budget, and include $2.8 million of annual funding for equipment replacement and $606,000 currently estimated for new capital purchases.

Interfund Expenditures and Transfers are estimated at $5.6 million, as budgeted.

Budget savings are expected each fiscal year and are included in the Adopted Budget. Including budget savings, total estimated expenditures indicate a $2.3 million (1.9 percent) and $5.3 million (4.1 percent) favorable variance compared to the Adopted and Adjusted Budgets, respectively.

<u>Expenditures by Department</u>

All departments, except for Fire, appear to be trending under budget for the current fiscal year. The Fire Department is currently estimated to be trending over budget by $182,000 due to overtime incurred from several mutual-aid incidents that have not yet been reimbursed. The department is estimating the remaining/outstanding reimbursements to be in excess of $850,000. 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):

	2018-19 Adopted Budget	2018-19 Adjusted Budget	**2018-19 Estimated**	Variance of Estimated to Adjusted Budget	Percent Savings of Adjusted Budget
City Council	$ 452	$ 452	**$ 335**	$ 117	25.9
City Clerk	714	714	**691**	23	3.2
City Attorney	2,041	2,089	**2,013**	76	3.6
City Manager	4,164	4,406	**4,100**	306	6.9
Information Technology	5,066	5,106	**4,691**	415	8.1
Finance and Admin. Services	6,973	7,355	**6,568**	787	10.7
Community Development	2,049	2,698	**2,231**	467	17.3
Public Works	10,496	10,760	**10,059**	701	6.5
Community Services	17,013	17,448	**15,043**	2,405	13.8
Library Services	6,171	6,427	**5,766**	661	10.3
Fire	24,267	24,544	**24,726**	(182)	(0.7)
Police	39,240	39,535	**37,760**	1,775	4.5
Nondepartmental[(1)]	8,593	8,681	**8,643**	38	0.4
Projected Budget Savings	(2,300)	(2,300)	**Included**	(2,300)	100.0
Total Operating Expenditures	$124,939	$127,915	**$122,626**	$5,289	4.1

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

In summary, revenues are currently estimated at $142.3 million, $4.7 million (3.4 percent) and $3.7 million (2.7 percent) higher than both the Adopted and Adjusted Budgets, respectively. Including estimated budget savings, operating expenditures for the current fiscal year are estimated at $122.6 million, $2.3 million (1.9 percent) below the Adopted Budget and $5.3 million (4.1 percent) below the Adjusted Budget. The ending balance is estimated at $10.7 million after the $4.0 million contribution to CalPERS, and transfers of $1.0 million to the General Fund Reserve, $2.0 million to the Capital Improvement Reserve, and $2.0 million to the Transportation Reserve as included in the Adopted Budget. *Staff is recommending an additional $1.0 million contribution to the City's Other Post-Employment Benefit (OPEB) liability for Retirees' Health and $2.0 million transfer to the Strategic Property Acquisition Reserve (SPAR), resulting in a remaining balance of $7.7 million*. This balance will be available to fund limited-period expenditures for Fiscal Year 2019-20, replenish reserves, and provide additional contributions toward the City's unfunded liabilities, capital improvement projects, 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):

	2018-19 Adopted Budget	2018-19 Adjusted Budget	**2018-19 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$13,953	$14,442	**$17,540**	$3,098
Expenditures	(14,905)	(21,336)	**(16,360)**	4,976
Operating Balance (Deficit)	(952)	(6,894)	**1,180**	8,074
Land Use Documents	800	800	**1,183**	383
CalPERS Contribution	(503)	(503)	**(503)**	-0-
Transfer to Comp Absences	(56)	(56)	**(56)**	-0-
Retirees' Health UAAL	(250)	(250)	**(250)**	-0-
Capital Projects	(295)	(295)	**(295)**	-0-
Excess (Deficiency) of Revenues	(1,256)	(7,198)	**1,259**	8,457
Beginning Balance	22,544	22,544	**22,544**	-0-
Land Use Doc Reserve	(7,751)	(7,751)	**(8,134)**	(383)
Ending Balance	$13,537	$ 7,595	**$15,669**	$8,074

The level of development activity continues to be strong and midway through the current fiscal year, estimated operating revenues of $17.5 million are $3.1 million (21.5 percent) higher than budget. Estimated operating expenditures of $16.4 million are $5.0

million (23.3 percent) below the Adjusted Budget, reflecting salary and benefit savings from vacancies, plus savings in supplies and contractual services.

There is an estimated operating balance of $1.2 million. Revenue from the Land Use Document Fee is currently estimated $383,000 (47.9 percent) higher than budget and after total contributions and transfers of $1.1 million, including a $503,000 CalPERS contribution, $56,000 to fund Compensated Absences, $250,000 toward the Retirees' Health UAAL, and $295,000 for Capital Projects, the ending balance is estimated at $15.7 million. This ending balance 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 for inclusion in the Fiscal Year 2019-20 budget.

SHORELINE GOLF LINKS/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. The five-year extension with Touchstone commenced January 2016. Prior to contracting with Touchstone, Shoreline Golf Links had annual operating deficits over a five-year period totaling $2.1 million.

In March 2018, the current tenant of Michaels at Shoreline Restaurant advised staff of his desire to terminate the lease at the end of the calendar year. Following deliberations on the terms for the termination of the lease, the City Council directed staff to work with Touchstone to integrate the Michaels at Shoreline Restaurant operation into the Touchstone golf course management agreement. On October 23, 2018, 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):

	2018-19 Adopted Budget	2018-19 Adjusted Budget [1]	**2018-19 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$2,532	$3,357	**$3,086**	$(271)
Expenditures	(2,423)	(3,251)	**(2,973)**	278
Operating Balance	109	106	**113**	7
Transfer to GOF	(110)	(110)	**(110)**	-0-
Excess (Deficiency) of Revenues	(1)	(4)	**3**	7
Beginning Balance	7	7	**7**	-0-
Ending Balance	$ 6	$ 3	**$ 10**	$ 7

[1] Includes the addition of the Restaurant operation of $825,000 for half a year.

Paid rounds of golf played in Fiscal Year 2017-18 totaled 65,905, a 2.0 percent increase from the prior fiscal year but 16.0 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 $2.3 million in revenues, $255,000 (10.1 percent) below budget, and are estimated 2.0 percent below the prior fiscal year Audited. Restaurant revenues are estimated essentially as budgeted as operations just recently began. Revenues for Shoreline Golf Links are down for the first half of the fiscal year, especially in the second quarter, due to some unfortunate timing of weather and the smoke from the fires up north impacting air quality. With almost two weeks of air quality advisory, outdoor golf play suffered. Also, some of the biggest historical golfing days in November are Thanksgiving weekend; there was substantial rain that weekend that also impacted the number of rounds.

In total, golf expenditures for the current fiscal year are estimated at $2.1 million, $275,000 (11.3 percent) below budget. Restaurant expenditures are estimated essentially as budgeted as operations just recently began. Golf expenditures are trending lower except for water, which is trending higher than budget due to warmer weather in the first quarter compared to the first quarter last fiscal year. However, Touchstone is offsetting the additional water costs with savings in personnel and materials costs.

There is a sufficient operating balance estimated for the golf course to transfer the budgeted $110,000 to the GOF.

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):

	2018-19 Adopted Budget	2018-19 Adjusted Budget	**2018-19 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$43,513	$43,513	**$44,181**	$ 668
Expenditures	(30,874)	(34,902)	**(33,055)**	1,847
Operating Balance	12,639	8,611	**11,126**	2,515
Development Impact Fees[(1)]	-0-	-0-	**477**	477
CalPERS Contribution	(201)	(201)	**(201)**	-0-
Transfer to Comp Absences	(42)	(42)	**(42)**	-0-
Retirees' Health UAAL	(195)	(195)	**(195)**	-0-
Capital Projects	(13,518)	(14,618)	**(14,618)**	-0-
Excess (Deficiency) of Revenues	(1,317)	(6,445)	**(3,453)**	2,992
Beginning Balance	37,680	37,680	**37,680**	-0-
Reserve	(5,200)	(5,200)	**(5,200)**	-0-
Landfill Reserve	(7,000)	(7,000)	**(7,000)**	-0-
Sea Level Rise Reserve	(3,000)	(3,000)	**(3,000)**	-0-
Dev Impact Fee Reserve	(3,848)	(3,848)	**(4,325)**	(477)
Ending Balance	$17,315	$12,187	**$14,702**	$2,515

(1) Includes interest earned on the balance.

Operating revenues, primarily property taxes, for the current fiscal year are estimated at $44.2 million, $668,000 (1.5 percent) higher than budget. Property Taxes revenue is in line with budget. Subsequent to adoption of the budget, the County provided the July 1, 2018 tax roll information for the Shoreline Community indicating a net 2.5 percent decrease compared to the July 1, 2017 tax roll.

Operating expenditures for the current fiscal year are estimated at $33.1 million, $1.8 million (5.3 percent) lower than budget. Included in operating expenditures are $10.2 million for the combined annual interagency payments to the school districts and the County, $5.3 million for debt service, and $4.5 million for the issuance and establishment of a reserve for new debt. During the current fiscal year, $63.8 million of debt was issued to fund various transportation projects in the North Bayshore Area.

These projects will be identified in the Capital Improvement Program (CIP) for Fiscal Year 2019-20.

It is estimated that operating revenues will exceed operating expenditures by $11.1 million, which will fund the CalPERS contribution of $201,000, the transfer of $42,000 to fund the Compensated Absences Fund, $195,000 toward the Retirees' Health UAAL, and $8.2 million of Capital Projects. An additional $6.4 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 $15.2 million for the General Reserve, the Landfill Reserve, and the Sea Level Rise Reserve, and $4.3 million for the Development Impact Fee Reserve, the fund is estimated with a $14.7 million ending balance.

ENTERPRISE UTILITY FUNDS

The City's three enterprise utility funds 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):

	2018-19 Adopted Budget	2018-19 Adjusted Budget	**2018-19 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$36,406	$36,406	**$37,199**	$ 793
Expenditures	(32,729)	(35,772)	**(32,444)**	3,328
Operating Balance	3,677	634	**4,755**	4,121
Capacity/Development Impact Fees	-0-	-0-	**1,620**	1,620
CalPERS Contribution	(387)	(387)	**(387)**	-0-
Retirees' Health UAAL	(200)	(200)	**(200)**	-0-
Capital Projects from Fees	(3,640)	(3,640)	**(3,640)**	-0-
Capital Projects	(3,038)	(3,038)	**(3,038)**	-0-
Excess (Deficiency) of Revenues	(3,588)	(6,631)	**(890)**	5,741
Beginning Balance	32,178	32,178	**32,178**	-0-
Capacity/Dev Impact Fees Reserves	(5,052)	(5,052)	**(6,672)**	(1,620)
Water Transfer Reserve	(5,000)	(5,000)	**(5,000)**	-0-
Reserves	(11,042)	(11,042)	**(11,042)**	-0-
Ending Balance	$ 7,496	$ 4,453	**$ 8,574**	$4,121

A 1.0 percent increase for the average cost of water and meter rates, and a 22.0 percent increase for the recycled water rate were adopted for Fiscal Year 2018-19. Operating revenues are estimated at $37.2 million, $793,000 (2.2 percent) higher than budget. For Fiscal Year 2017-18, water usage year over year through November was approximately 5 percent higher. For Fiscal Year 2018-19, water usage year-over-year through November is again trending higher, by approximately 4.0 percent. 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 now benefiting from the increased water usage. 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 $32.4 million, $3.3 million (9.3 percent) below budget, primarily as a result of a prior-year accrual for the minimum water purchase payment of $3.0 million and savings in operations. The City has a required minimum water purchase and the Fiscal Year 2017-18 budget included full funding of the minimum purchase requirement; however, because the minimum payment was not billed until July 2018, 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 (EPA) was approaching their individual water supply guarantee (ISG) with the SFPUC, which precluded approval of large development projects in EPA. The City of Mountain View is not anticipated to reach its ISG through 2040. Therefore, staff worked with EPA to transfer 1.0 million gallons of the City's ISG to EPA 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 $2.6 million is currently estimated for Fiscal Year 2018-19.

The estimated operating balance is $4.8 million, which is sufficient to fund the CalPERS contribution of $387,000, Retirees' Health UAAL of $200,000, and the current fiscal year's $3.0 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 2018 total $1.4 million and interest is estimated at $112,000. Various development impact fees have been adopted by the City Council, and for Fiscal Year 2018-19, no revenue has been received through November 2018 but interest is estimated at $119,000. 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 $3.6 million in additional capital projects. The Water Fund is estimated to have an $8.6 million ending balance and $22.7 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):

	2018-19 Adopted Budget	2018-19 Adjusted Budget	**2018-19 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$23,826	$23,826	**$23,797**	$ (29)
Expenditures	(18,389)	(20,643)	**(18,280)**	2,363
Operating Balance	5,437	3,183	**5,517**	2,334
Capacity/Development Impact Fees	-0-	-0-	**587**	587
CalPERS Contribution	(222)	(222)	**(222)**	-0-
Retirees' Health UAAL	(50)	(50)	**(50)**	-0-
Capital Projects from Fees	(6,500)	(6,500)	**(6,500)**	-0-
Capital Projects	(2,409)	(2,409)	**(2,409)**	-0-
Excess (Deficiency) of Revenues	(3,744)	(5,998)	**(3,077)**	2,921
Beginning Balance	23,066	23,066	**23,066**	-0-
Capacity/Dev Impact Fees Reserves	(1,469)	(1,469)	**(2,056)**	(587)
Treatment Plant Reserve	(6,354)	(6,354)	**(6,773)**	(419)
Reserves	(6,765)	(6,765)	**(6,765)**	-0-
Ending Balance	$ 4,734	$ 2,480	**$ 4,395**	$1,915

An 8.0 percent overall rate increase was adopted for Fiscal Year 2018-19, including a 4.0 percent rate increase for operations, a 2.0 percent rate increase for future Treatment Plant capital costs, and 2.0 percent for unanticipated Treatment Plant costs in Fiscal

Year 2015-16. 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 2018-19 is the fifth year.

Unforeseen Treatment Plant costs in Fiscal Year 2015-16 caused the fund to be in a distressed financial condition. To fully fund the impact of the increases in Treatment Plant costs, the rate increase for Fiscal Year 2016-17 would have needed to be 26.0 percent. The City Council approved staff's recommendation to spread the increase needed to stabilize the financial position of this fund over three years (6.0 percent in each of Fiscal Years 2016-17, 2017-18, and 2018-19) and utilize half of the rate stabilization reserve for Fiscal Years 2016-17 and 2017-18 to balance the fund. Only a 2.0 percent increase was needed in the Fiscal Year 2018-19 (the third and final year) and the rate stabilization reserve has been restored to the policy level.

Operating revenues are estimated at $23.8 million, slightly less than budget. Estimated operating expenditures of $18.3 million are trending $2.4 million (11.4 percent) below budget. This is primarily due to a $419,000 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 were $419,000 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 the expenditures will be included in the reconciliation for Fiscal Year 2018-19. The estimated operating balance of $5.5 million will fund the CalPERS contribution of $222,000, Retirees' Health UAAL of $50,000, and $2.4 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 2018 total $325,000 and interest is estimated at $204,000. Various Development Impact fees have been adopted by the City Council, and through November 2018, $29,000 has been received 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. Capacity and Development Impact Fees received in prior fiscal years are sufficient to fund the $6.5 million 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 $10.1 million proceeds will fund scheduled capital projects in Fiscal Year 2019-20. 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 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 $4.4 million ending balance and $15.6 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, the $2.2 million Treatment Plant credit for Fiscal Years 2016-17 and 2017-18, 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):

	2018-19 Adopted Budget	2018-19 Adjusted Budget	**2018-19 Estimated**	Variance of Estimated to Adjusted Budget
City Revenues	$14,040	$14,040	**$15,529**	$1,489
Recology Revenues[1]	15,655	15,655	**16,819**	1,164
Total Revenues	29,695	29,695	**32,348**	2,653
City Expenditures	(13,338)	(13,883)	**(13,199)**	684
Recology Payments[1]	(15,655)	(15,655)	**(16,819)**	(1,164)
Total Expenditures	(28,993)	(29,538)	**(30,018)**	(480)
Operating Balance (Deficit)	702	157	**2,330**	2,173
CalPERS Contribution	(159)	(159)	**(159)**	-0-
Capital Projects	(594)	(594)	**(594)**	-0-
Excess (Deficiency) of Revenues	(51)	(596)	**1,577**	2,173
Beginning Balance	11,306	11,306	**11,306**	-0-
Res for Future Fac Equip	(880)	(880)	**(880)**	-0-
Reserves	(3,335)	(3,335)	**(3,335)**	-0-
Ending Balance	$ 7,040	$ 6,495	**$ 8,668**	$2,173

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

For Fiscal Year 2018-19, a 5.0 percent rate increase was adopted for carts, incorporating the new residential food scraps program, and there was no increase adopted for all other services.

The City's Solid Waste Fund operating revenues are estimated at $15.5 million, $1.5 million (10.6 percent) higher than budgeted, primarily related to increased debris box revenue. City operating expenditures are estimated at $13.2 million, $684,000 (4.9 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 2017-18, the City owes $387,000 which will be charged in the current fiscal year and appropriation is being requested with this report.

The estimated operating balance of $2.3 million will fund the CalPERS contribution of $159,000 and $594,000 for capital projects. The fund is estimated with a $8.7 million ending balance and reserves of $4.2 million.

OTHER RECOMMENDATIONS AND INFORMATION

Additional Fiscal Year 2018-19 GOF Allocations

Staff is recommending additional allocations of $1.0 million contribution toward the City's OPEB liability for Retirees' Health and $2.0 million transfer to SPAR.

Additional SMaRT Station Funding

As noted above, each year, 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 2017-18, the City owes $387,000, which will be charged in the current fiscal year. Approximately $216,000 is due to a higher operating share as a result of Mountain View's trash tons delivered to SMaRT being higher than projected due to higher construction and demolition tons. Revenues were also higher last fiscal year due to construction-related debris boxes. The remaining approximately $171,000 is due to the food scraps program, which incurred higher processing costs than anticipated for a variety of reasons. The current fiscal year is continuing to see these trends, and it is likely the City will owe a balance for the Fiscal Year 2018-19 reconciliation as the above factors were not included in the current fiscal year budget. The Fiscal Year 2019-20 SMaRT budget will incorporate these trends.

Environmental Sustainability EV Chargers Grant

On December 4, 2018, City Council directed staff to undertake several action items in response to recommendations of the Environmental Sustainability Task Force 2 (ESTF2) with a goal of reducing the Community's Green House Gas (GHG) emissions. Specifically, City Council approved $250,000 to evaluate opportunities to expand EV charging at City-owned sites downtown and analyze available grants and incentives to partially offset the costs. Staff will incorporate these new sites into the Annual New Energy Conservation Measures (CIP 19-25) and apply for the grant(s).

Environmental Sustainability Task Force Community Shuttle Study

On December 4, 2018, City Council authorized $100,000 for staff to investigate opportunities to expand the Mountain View Community Shuttle to reduce GHG emissions and provide convenient transportation options for the community. The Comprehensive Modal Plan (CIP 19-63) effort will be expanded to examine the services offered by the Mountain View Community Shuttle, the Transportation Management Association's (TMA's) MVgo shuttle, and VTA to identify gaps in service areas and service levels and explore opportunities to fill those gaps.

II. FISCAL YEAR 2019-20 PRELIMINARY GOF FORECAST

This section of the report will focus on the preliminary Fiscal Year 2019-20 GOF forecast. This forecast is based on limited data and many assumptions are being made at this time. Importantly, departmental budget requests have not yet been reviewed and are thus not included in the estimates provided here. An updated forecast will be incorporated into the Narrative Budget, scheduled for the April 30, 2019 City Council meeting.

The *preliminary* projection for Fiscal Year 2019-20 follows (dollars in thousands):

	2017-18 Audited	2018-19 Adopted Budget	2018-19 Estimated	**2019-20 Preliminary Forecast**	Variance of 2019-20 Forecast to 2018-19 Adopted
Revenues	$136,377	$137,682	$142,344	**$146,906**	$9,224
Expenditures[1]	(113,682)	(124,939)	(122,626)	**(132,788)**	(7,849)
Rebudgets[2]	429	-0-	-0-	**-0-**	-0-
Operating Balance	23,124	12,743	19,718	**14,118**	1,375
Transfer to GNOF	(15,124)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	-0-	(1,000)	(1,000)	**-0-**	1,000
Transfer to Trans Res	-0-	(2,000)	(2,000)	**(2,000)**	-0-
Transfer to Cap Imp Res	-0-	(2,000)	(2,000)	**(4,000)**	(2,000)
CalPERS Contribution	(4,000)	(4,000)	(4,000)	**(4,000)**	-0-
OPEB Contribution	(2,000)	-0-	(1,000)[3]	**-0-**	-0-
Transfer to SPAR	(2,000)	-0-	(2,000)[3]	**(1,000)**	(1,000)
Ending Balance	$ -0-	$ 3,743	$ 7,718	**$ 3,118**	$ (625)

(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) Staff recommendation with this Midyear Report.

The preliminary forecast projects total GOF revenues of $146.9 million, an increase of $9.2 million (6.7 percent) and $4.6 million (3.2 percent) compared to the current fiscal year Adopted Budget and Estimated, respectively.

Baseline expenditures are anticipated to increase $7.8 million (6.3 percent) to $132.8 million compared to the current fiscal year Adopted. For Fiscal Year 2019-20, there is a preliminary positive operating balance of $14.1 million before budget recommendations, reduced to $6.1 million after the previously recommended contribution to CalPERS and transfers to the Transportation Reserve and Capital Improvement Reserve. Staff further recommends preliminarily allocating an additional $2.0 million to CalPERS and $1.0 million to SPAR resulting in a net balance of $3.1 million. Recommendations for this balance will be made with the Narrative Budget Report in April. This forecast does not include any Fiscal Year 2019-20 recommendations requested by departments through the budget process. Any recommended expenditure changes will be included with the Narrative Budget Report.

The Narrative Budget Report will also include the five-year forecast. This forecast will continue to include a slowdown in the economy for two years beginning in Fiscal Year 2020-21. While the forecast years will likely show slight improvement from the forecast presented with the Fiscal Year 2018-19 Adopted Budget, revenues are still projected to decline with the economic slowdown while expenditures continue to rise, eliminating the current surpluses.

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):

	2017-18 Audited	2018-19 Adopted Budget	2018-19 Estimated	**2019-20 Preliminary Forecast**	Variance of 2019-20 Forecast to 2018-19 Adopted
Property Taxes	$ 49,419	$52,909	$52,890	**$56,605**	$3,696
Sales Tax	20,713	20,026	22,272	**21,084**	1,058
Other Local Taxes	15,444	15,989	14,960	**18,838**	2,849
Use of Money and Property	19,659	21,613	21,911	**22,672**	1,059
Licenses, Permits, and Fees/Fines and Forfeitures	6,161	5,925	6,236	**6,238**	313
Intergovernmental	817	624	724	**521**	(103)
Charges for Service	3,208	2,772	2,759	**2,783**	11
Miscellaneous Revenues	4,616	1,749	3,929	**1,800**	51
Interfund Revenues and Transfers	16,340	16,075	16,663	**16,365**	290
Total Operating Revenues	$136,377	$137,682	$142,344	**$146,906**	$9,224

A brief explanation of the assumptions and changes for Fiscal Year 2019-20 follows:

Property Taxes revenue is projected at $56.6 million, an increase of $3.7 million compared to both the current fiscal year Adopted and Estimated. Compared to the July 1, 2018 tax roll, the Fiscal Year 2019-20 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 2017 to October 2018).

- AV increases resulting from changes in ownership which occurred from January 1, 2018 through October 31, 2018 (information currently available).

- Increased AV related to new development anticipated to be included in the July 1, 2019 tax roll.

- Anticipated AV decreases resulting from the resolution of appeals.

Staff will continue to collect data from Santa Clara County 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 $21.1 million for Fiscal Year 2019-20, based on actual sales tax activity for the first half of the current fiscal year, not including the $1.3 million received for the prior fiscal year, plus estimates for the remaining two 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 $1.1 million compared to the current fiscal year Adopted Budget and a decline of $1.2 million compared to the current fiscal year Estimated. The current year estimate includes a one-time correction of $1.3 million received in the current fiscal year for the prior fiscal year related to issues with the CDTFA's new software system. Based on recent Sales Tax performance, growth for next fiscal year is projected to be essentially flat compared to the current fiscal year Estimated, net of the one-time correction.

Other Local Taxes revenue is projected at $18.8 million, $2.8 million (17.8 percent) and $3.9 million (25.9 percent) higher than the current fiscal year Adopted and Estimated, respectively. TOT revenue is estimated to increase $1.5 million and $1.9 million from the current fiscal year Adopted and Estimated, respectively, due to two new hotels opening. The Hyatt Centric and Shashi Hotels are expected to open July 2019. The Fiscal Year 2019-20 projection includes the new Business License structure as approved by voters. The new structure will be phased in over three years with the first phase effective January 2020 and is projected $2.0 million higher than the current fiscal year budget. City Council initially 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 2018-19 UUT revenue is projected at essentially the same as the current fiscal year Estimated, which is $562,000 (6.7 percent) lower than Adopted.

Use of Money and Property revenue is projected to increase by $1.1 million (4.9 percent) and $761,000 (3.5 percent) compared to the current fiscal year Adopted and Estimated, respectively. It is not certain if the FOMC will continue to increase the benchmark interest rate. During January 2019, the yield curve has been flat and at times somewhat inverted. However, the City's return will continue to see increases while the maturing investments are reinvested in securities with higher yields. The current yield on a five-year Treasury is higher than the yield on securities maturing through June 30, 2020. Lease revenues are projected with inflators as stipulated in the lease, averaging a 2.3 percent increase.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is projected to be $313,000 (5.3 percent) higher than the current fiscal year Adopted Budget and at essentially the same level as the current fiscal year Estimated, reflecting general inflationary increases.

Intergovernmental revenue is projected to be $103,000 (16.5 percent) lower than the current fiscal year Adopted and $203,000 (28.0 percent) below the current fiscal year Estimated. The current fiscal year Estimated includes one quarterly reimbursement for the Regional Auto Theft Task Force for the quarter ending June 30, 2018, and there are no reimbursements projected for Fiscal Year 2019-20 as no Police Officer is currently assigned for the program due to position vacancies. The projected budget does not include any mandated reimbursement funding or intergovernmental grants as the amounts are variable, and there is no Public Safety Realignment funding projected for Fiscal Year 2019-20 as the amount of funding is unknown.

Charges for Services revenue is projected essentially the same as the current fiscal year Adopted and 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 $51,000 (2.9 percent) higher than the current fiscal year Adopted and $2.1 million (54.2 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 $16.4 million, $290,000 (1.8 percent) higher than the current fiscal year Adopted and $298,000 (1.8 percent) lower than the current fiscal year Estimated due to transfers from the General Fund Reserve approved by the City Council during Fiscal Year 2018-19.

All revenue sources and projections will be reviewed and revised as appropriate for the Fiscal Year 2019-20 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:

	2017-18 Audited	2018-19 Adopted Budget	2018-19 Estimated	**2019-20 Preliminary Forecast**	Variance of 2019-20 Forecast to 2018-19 Adopted
Salaries and Benefits:					
Salaries and All Pays	$ 59,483	$63,507	$62,582	**$66,465**	$2,958
Retirement	15,360	19,662	18,162	**21,454**	1,792
Health Benefits	8,527	10,705	8,957	**11,008**	303
All Other Benefits	6,254	6,943	6,487	**7,377**	434
	89,624	100,817	96,188	**106,304**	5,487
Services and Supplies	16,089	17,501	17,420	**18,089**	588
Capital Outlay/Equipment Replacement	3,184	3,276	3,373	**2,748**	(528)
Interfund Expenditures and Transfers	4,785	5,645	5,645	**7,947**	2,302
Budget Savings	Included	(2,300)	Included	**(2,300)**	-0-
Total Operating Expenditures	$113,682	$124,939	$122,626	**$132,788**	$7,849

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

Salaries and Benefits expenditures are projected with a $5.5 million (5.4 percent) increase over the current fiscal year Adopted. The projection includes a cost-of-living adjustment (COLA) for all employees as agreed upon and approved by the City Council and incorporates estimated steps and merits. Current labor contracts and agreements include a "reopener" on salary for Fiscal Year 2019-20 that has not yet been negotiated. The forecast also includes the minimum wage increase from $15.00 to $15.65 per hour effective January 2019. The cost for retirement benefits reflects the second year of the phased-in impact of the reduction of the discount rate from 7.375 percent to 7.25 percent (ultimately 7.0 percent). The rates are provided by CalPERS and result in a 9.1 percent increase in costs compared to the Fiscal Year 2018-19 Adopted Budget. Health benefit costs are projected with increases based on historical trends.

CalPERS Discount Rate Change

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 being phased in for local governments over three years beginning in Fiscal Year 2018-19, with the full impact reached in Year 7 (Fiscal Year 2024-25) due to the five-year ramp-up and ramp-down methodology previously adopted.

The lowering of the discount rate means the City, as well as other CalPERS agencies, will see increases in our normal costs and unfunded actuarial liabilities (UAL) annual payments. The City's CalPERS actuary report as of June 2016 (the first year of the seven-year period) included projected normal cost rate increases of 1.9 percent and 3.1 percent for miscellaneous and safety plans, respectively, to Fiscal Year 2024-25. This was similar to the previous preliminary estimates provided and projected the ultimate normal cost rate for the miscellaneous plan at 12.0 percent and for the safety plan at 21.4 percent in Fiscal Year 2024-25. The City's most recent CalPERS actuary report as of June 2017 shows minor improvement. It includes projected normal cost rate increases of 1.8 percent and 2.9 percent for miscellaneous and safety plans, respectively, to Fiscal Year 2024-25, and projects the ultimate normal cost rate for the miscellaneous plan at 11.9 percent and for the safety plan at 21.2 percent in Fiscal Year 2024-25.

Services and Supplies expenditures are currently projected to increase $588,000 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 2019-20 budget process. 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 to decrease $520,000 (18.8 percent) due to a net of inflation for replacement cost and some adjustments to quantity of items and life expectancy offset by no annual funding needed for certain pieces of equipment that have reached their life expectancy but are not recommended to be replaced yet as they are still operating well. This is a one-time drop 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 (40.8 percent) increase over the current fiscal year Adopted. Inflationary increases for liability insurance and the cost of the Retirees' Health UAAL amortization based on the actuarial valuation as of July 1, 2017 result in a net increase of $430,000. The transfer for "At-Risk" lease revenue is projected to increase $54,000 (3.9 percent) to $1.5 million. These funds 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 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 initially earmarked 80.0 percent of the increased tax for transportation and 10.0 percent for housing. Based on the projected $2.0 million to be received in January 2020 for the first year of the phased-in structure, the projection includes $1.6 million transferred to the Transportation Reserve and $195,000 transferred to the General Housing Fund, leaving an additional $195,000 in the GOF.

The Fiscal Year 2019-20 projection will be updated for the Narrative Budget Report in April, at which time budget recommendations will be presented to the City Council.

III. FISCAL YEAR 2017-18 GENERAL FUND REMAINING BALANCE

As discussed in the Analysis of Fiscal Year 2017-18 Audited Financial Results for the GOF and General Fund Available Balance report, Attachment 1 to the Comprehensive Annual Financial Report on the November 27, 2018 Council Agenda, the City's General Fund ended the 2017-18 fiscal year with an unallocated balance of $5.8 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	$15,124
Remaining Available Balance from Fiscal Year 2016-17	2,027
One-Time Revenues and Expenditure Savings:	
Sale of Property	1,816
Reimbursements	952
Unspent Limited-Period Expenditures	701
Total Available for Allocation	20,620
Allocations in the Fiscal Year 2018-19 Adopted Budget:	
Limited-Period Expenditures and Capital Outlay	(4,893)
Capital Improvement Reserve	(3,000)
CalPERS	(2,000)
Transportation Reserve	(2,000)
General Fund Reserve	(1,800)
Compensated Absences Reserve	(1,100)
Total Allocated	(14,793)
Remaining Unallocated Balance	$ 5,827

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 2018-19 Budget has already allocated $2.0 million to the Capital Improvement Reserve from the GOF and $3.0 million from the Fiscal Year 2017-18 carryover. Staff is still reviewing potential priority funding needs, including support for Sustainability efforts and an updated Employee Housing Program, and will provide recommendations for the use of the remaining unallocated balance with the Narrative Budget Report in April.

IV. FISCAL YEAR 2018-19 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 2017-18 actual results as well as the annual target and midyear (six-month) status of each measure for the current fiscal year.

The final results for Fiscal Year 2018-19 will be reported in the Fiscal Year 2019-20 Adopted Budget.

FISCAL IMPACT

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

CONCLUSION

The midyear budget status of the Fiscal Year 2018-19 General Operating Fund estimates revenues at $142.3 million, $4.7 million (3.4 percent) and $3.7 million (2.7 percent) higher than the Adopted and Adjusted Budgets, respectively. Including estimated budget savings, operating expenditures are estimated at $122.6 million, $2.3 million (1.9 percent), and $5.3 million (4.1 percent) below the Adopted and Adjusted Budgets, respectively. After the budgeted contributions to CalPERS, and the transfers to the General Fund Reserve, Capital Improvement Reserve, and Transportation Reserve, the General Operating Fund is estimated with a $10.7 million ending balance. Staff is recommending an additional $1.0 million contribution to the City's OPEB liability for Retirees' Health and $2.0 million transfer to SPAR, resulting in a remaining balance of $7.7 million, which would be available to fund limited-period expenditures for Fiscal Year 2019-20, supplement or replenish reserves, provide funding for the CIP, or additional contributions to pay down unfunded liabilities.

Development Services Fund revenues are exceeding budget, expenditures are trending below budget, and development activity continues to be strong. 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 revenues are trending in line with budget, and expenditures are trending below budget. For the Water, Wastewater, and Solid Waste Funds, Water and Solid Waste revenues are currently trending higher than budget while Wastewater revenues are trending in line with budget. For all three funds, expenditures are currently trending lower than budget.

The preliminary Fiscal Year 2019-20 forecast for the General Operating Fund indicates revenues are growing. This is primarily the result of increasing property values, TOT revenues due to two new hotels opening, the new Business License structure first phase-in January 2020, and investment earnings. However, Sales Tax revenues are flat and are projected at essentially the same level as the current fiscal year Estimated (net of the CDTFA correction). The revenues are sufficient to meet currently projected expenditures, before additional recommendations, creating a preliminary projected $3.1 million ending available balance after the preliminary recommended contribution towards the unfunded CalPERS liability, and transfers to the Transportation Reserve, Capital Improvement Reserve, and SPAR. **Expenditure recommendations for Fiscal Year 2019-20 are not included in this preliminary projection, and staff will return to the City Council with recommendations as part of the Narrative Budget Report in April.**

ALTERNATIVES

1. Do not approve the recommended transfers and appropriations.

2. Provide other direction.

PUBLIC NOTICING—Agenda posting.

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Attachment: 1. Performance/Workload Measures