COUNCIL REPORT

DATE: February 28, 2023

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Fiscal Year 2022-23 Midyear Budget Status Report and Adjustments and Fiscal Year 2023-24 Preliminary General Operating Fund Forecast**

RECOMMENDATION

1. Receive and file the Fiscal Year 2022-23 Midyear Budget Status Report and the Fiscal Year 2023-24 Preliminary General Operating Fund Forecast.

2. Adopt a Resolution of the City Council of the City of Mountain View Appropriating and Transferring Certain Funds for Specified Purposes to Conform the Budgeted Amounts to Actual Expenditures that are Anticipated to Occur During Fiscal Year 2022-23, to be read in title only, further reading waived (Attachment 1 to the Council report). (Five votes required)

3. Authorize expenditures by the Finance and Administrative Services Department in an amount not to exceed $200,000 for outside sales tax audit consulting services performed by Hinderliter de Llamas & Associates for Fiscal Years 2022-23 and 2023-24.

4. 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 2022-23, to be read in title only, further reading waived (Attachment 2 to the Council report).

OVERVIEW

The City Council approved the Fiscal Year 2022-23 Adopted Budget on June 28, 2022. The Midyear Budget Status Report is an important tool in the City's monitoring of its finances, including the progress of the City's economic recovery. It also provides an opportunity for the City Manager and staff to update the City Council on the major financial factors affecting the City's current fiscal year budget. This report provides an update of the City's budgetary position at the midway point in the fiscal year as well as a preliminary General Operating Fund (GOF) forecast for the upcoming fiscal year.

At midyear, the Fiscal Year 2022-23 estimated GOF revenue is $176.1 million, which is $12.2 million (7.5%) higher than budgeted. Including estimated budget savings, operating expenditures are estimated at $156.3 million, $2.2 million (1.4%) below the Adopted Budget and $5.2 million (3.2%) below the Adjusted Budget.

The GOF is currently estimated to end the fiscal year with a balance of $7.2 million, after the $1.6 million transfer to the General Fund Reserve as included in the Adopted Budget and $11.0 million in proposed transfers that are recommended as part of this report, which are as follows:

- $4.0 million to the Capital Improvement Reserve;
- $3.0 million to the Strategic Property Acquisition Reserve;
- $2.0 million to the General Non-Operating Fund (GNOF) for payment to CalPERS to pay down the City's pension liabilities;
- $1.0 million to the Budget Contingency Reserve for the Public Safety Building; and
- $1.0 million to the Liability Insurance Fund.

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 of the Shoreline Golf Links/Michaels at Shoreline Restaurant are slightly below budget, and expenditures are trending to be fully spent. While Shoreline Golf Links is doing well, Michaels at Shoreline Restaurant continues to be significantly impacted by the pandemic. Shoreline Regional Park Community (SRPC) revenues are trending higher than budget, primarily due to higher property tax revenue, while operating expenditures are trending below budget. For the Wastewater and Solid Waste Funds, revenues are currently trending slightly higher than or at budget, and Water revenues are trending below budget. Expenditures for all three funds are currently trending below budget.

The preliminary Fiscal Year 2023-24 GOF Forecast projects revenues to be $15.7 million (9.6%) and $3.5 million (2.0%) higher than the current fiscal year Adopted Budget and Estimated, respectively. There is anticipated revenue growth from increasing property tax revenue (from changes in ownership, new development, and a 2.0% California Consumer Price Index (CCPI)), Consumer Price Index increases on the City's leases, and interest earnings revenue. Although revenues from Sales Tax and Transient Occupancy Tax are estimated higher for the current fiscal year, they are projected at essentially the same for Fiscal Year 2023-24. All other revenues are projected to be either flat or show a slight increase. The projected revenues are sufficient to meet currently projected baseline expenditures, resulting in a preliminary projected balance of

$9.9 million. **Importantly, this balance does not reflect any ongoing expenditure recommendations for Fiscal Year 2023-24 that are currently under consideration as part of the budget development process.**

The major components to this staff report include the following:

I. Economic Update

An economic update on Federal, State, and local trends provides context to the Fiscal Year 2022-23 Midyear Budget Status Report and Fiscal Year 2023-24 Preliminary GOF Forecast.

II. Fiscal Year 2022-23 Midyear Budget Status Summary

This portion of the Council report includes an update on estimated Fiscal Year 2022-23 operating results based on current revenue and expenditure trends for the first six months of the fiscal year.

III. Recommended Midyear Budget Amendments

This portion of the Council report includes proposed midyear budget amendments, including position-related amendments, for Fiscal Year 2022-23.

IV. Fiscal Year 2023-24 Preliminary General Operating Fund Forecast

This section discusses the General Operating Fund's estimated revenues and expenditures for Fiscal Year 2023-24 based on limited data and financial assumptions with information available at this time.

V. Fiscal Year 2021-22 General Fund Remaining Balance

This section displays the updated remaining unallocated balance at June 30, 2022 of the General Operating Fund.

BACKGROUND AND ANALYSIS

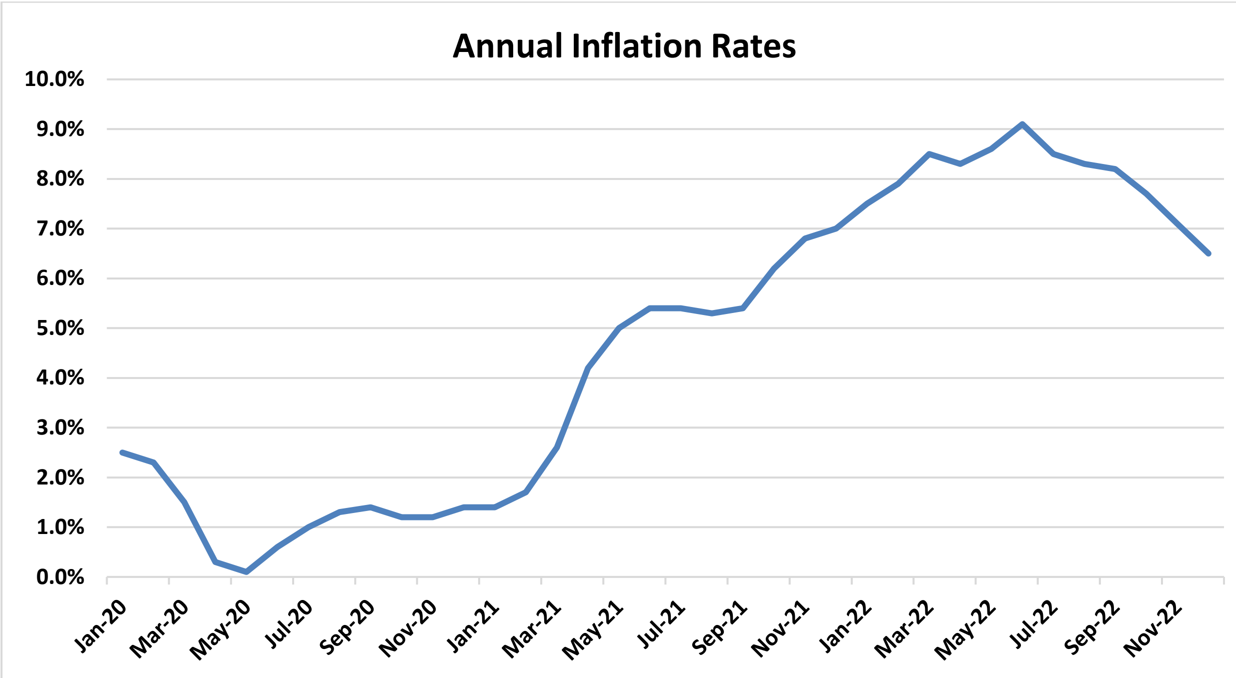
I. ECONOMIC UPDATE

The economic conditions discussed below help inform the Fiscal Year 2022-23 Midyear Budget Status Report and Fiscal Year 2023-24 Preliminary GOF Forecast.

National

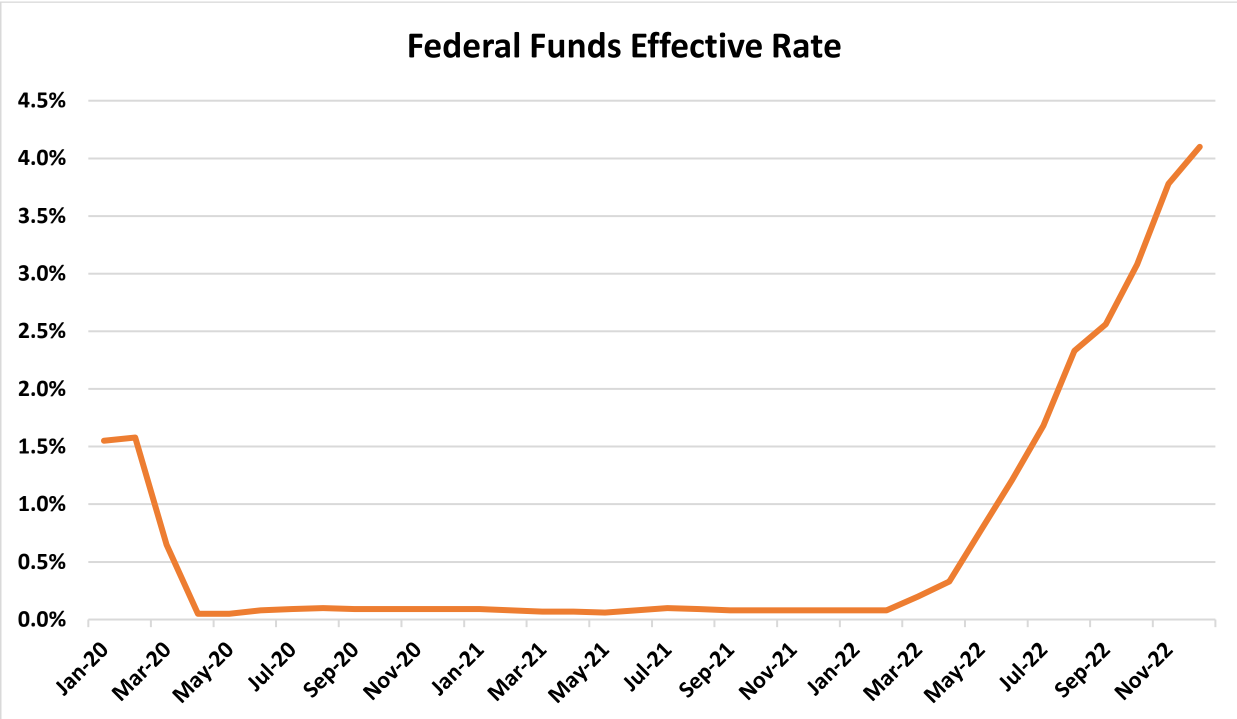
As the national economy continues to recover from the COVID-19 pandemic, inflation has been the primary focus of the Federal Reserve, who controls the three tools of monetary policy—open market conditions, the discount rate, and reserve requirements. The U.S. economy has not seen inflation rates this high since the early 1980s, over 40 years ago. The high level of inflation can be attributed to a "perfect storm" situation—initial government spending at the beginning of the pandemic, including stimulus checks, coupled with low interest rates, helped increase demand. At the same time, many companies reduced output in anticipation of slowing demand, creating a low supply of goods. Domestic and international factories halted production altogether due to COVID-19 infections, further leading to a lack of supply. As soon as restrictions were lifted, demand for goods and services increased rapidly, resulting in strong demand but a lack of supply—creating inflation. Inflation only got worse after companies were faced with a labor shortage, adding upward pressure to labor costs as businesses compete for workers and increase wages to close the labor gap. As a result of increased labor costs and consumers being flush with cash, businesses increased prices, only adding to the inflation issue.

On top of the supply and demand imbalance and the increase in labor costs, the Ukraine-Russia conflict made the inflation outbreak even worse. Around the outset of the conflict, oil prices soared more than 80% from the year prior, according to the U.S. Energy Information Administration. Russia and Ukraine's dominance as a global food supplier caused other commodity prices to soar, including wheat and corn. As oil prices surged, so did other consumer products, especially the goods that are directly impacted by oil prices, which are everything from aspirin to computers. As shown in the chart below, annual inflation hit a peak of 9.1% in June 2022 and has declined to 6.5% in December 2022.



Source: U.S. Labor Department

In response to the high inflation rates experienced in the national economy, the Federal Open Market Committee (FOMC) has raised the Federal funds rate eight times in a row since March 2022 in an effort to slow down inflation. The FOMC has raised interest rates by 4.25% in 2022 alone, the most in a single year since the 1980s. These increases have helped curb inflation, but more increases are on the horizon to reduce inflation to the desired rate of 2%. The Federal funds rate for the prior three years is shown below.



Source: Board of Governors of the Federal Reserve System (U.S.)

Another national issue that could negatively impact the economy is the nation's debt limit being reached on January 19, 2023 and what the fallout could be if the ceiling is not increased or suspended by the time the Treasury runs out of cash (X-date), which is estimated to be sometime in June 2023. Each day the nation inches closer to the X-date, the higher the possibility of default by the United States.

Since a default has never occurred, it is unclear what exactly would happen, but economists and Wall Street analysts warn that such a scenario would be economically devastating and could plunge the entire world into a financial crisis. The last time the U.S. hit its debt ceiling was in 2011, and it rattled the financial markets, sunk stock prices, and took a toll on retirement savings. Mortgage rates rose by 0.7% to 0.8% for two months after the 2011 crisis passed, and only declined slowly thereafter. It was also the first time that the Federal government saw its credit rating downgraded. Although the U.S. avoided defaulting, the economy took months to recover. As the X-date is still more than three months away, there is hope that a deal will be reached to raise the debt limit or even suspend the limit.

State

In January 2023, Governor Gavin Newsom released his Fiscal Year 2023-24 Proposed Budget, which projects a $22.5 billion shortfall. Because the State Constitution requires the budget to be balanced, the Governor has proposed a combination of solutions to address the budget shortfall, including delays or reductions in previously planned spending and cost shifts, but not the use of the State's substantial reserves, which are projected to total $35.6 billion as of June 30, 2024.

However, even with the shortfall, the administration expects job and wage growth to continue in 2023, albeit at a slower pace than 2022, with *no recession currently being projected*. The State's unemployment rate is expected to rise slightly to 4.5% in 2023 and 5.1% in 2024, up from 4.4% in 2022. Average wages are expected to increase by 3.4% in 2023 and 3.0% in 2024, up from 0.5% in 2022. However, after accounting for inflation, average wages are expected to decline by 1.9% in 2023 and 0.6% in 2024, following a 7.2% decline in 2022. The State's budget forecast projects that inflation will begin to decrease in 2023, from 7.7% in 2022 to 5.3% in 2023 and down to 3.6% in 2024. The State's Proposed Budget highlights a risk to the economic outlook: additional interest rate hikes by the Federal Reserve which could push the nation into a recession. Alternatively, factors that could lead to stronger economic growth than projected include faster-than-expected easing of inflation and resolution of the Russian invasion of Ukraine.

According to the Legislative Analyst's Office (LAO) of the State of California, the Governor's emphasis on spending solutions, rather than the use of reserves to address the budget problem, is prudent. Given the downside risk to revenues posed by the current heightened risk of recession, the LAO recommends that this approach be maintained.

The LAO believes there is a higher probability for revenues to come in lower than the administration's projections for Fiscal Years 2022-23 and 2023-24 and recommends the Legislature plan for a larger budget gap. In response to the larger-than-expected budget gap, the LAO recommends the Legislature should identify more spending reductions, including reductions to one-time and temporary spending.

As the administration plans for deficits of $9.0 billion each in Fiscal Years 2024-25 and 2025-26 and a deficit of $4.0 billion in Fiscal Year 2026-27, City Finance staff will be monitoring the State's financial condition and potential impacts on local revenues.

Local

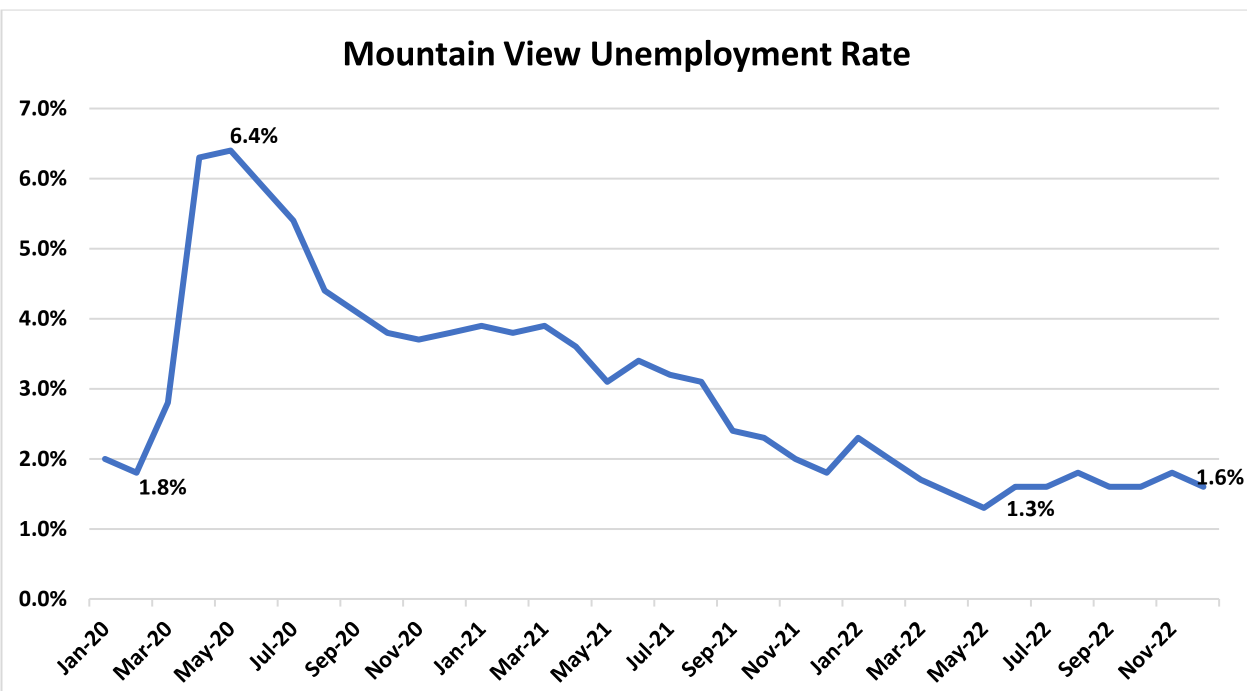
The local economy continues to experience a rebound from the COVID-19 pandemic, primarily due to higher-than-expected revenues, specifically transient occupancy taxes, sales tax, and use of money and property (investment and rental income).

The City is currently experiencing a large increase in transient occupancy tax (TOT) revenue from hotel stays. TOT revenue is expected to increase from $4.4 million in Fiscal Year 2021-22 to $9.7 million in Fiscal Year 2022-23, an increase of 117.7%. The addition of two new hotels and overall increases in occupancy rates and daily room rates have led to the large increase in TOT revenue. It is anticipated that business travel will not experience any additional growth in the coming year; therefore, TOT revenue is projected to remain flat for Fiscal Year 2023-24.

As inflation has caused an increase in consumer prices, the City's sales tax revenue has benefited. An increase in demand, coupled with an increase in prices, has resulted in an increase in higher-than-expected new automobile sales and an increase in taxable sales at fuel/service stations, restaurants, and hotels.

An increase in interest rates has helped the City achieve higher-than-expected investment income on the City's investment portfolio during Fiscal Year 2022-23. As interest rates are expected to stay elevated for the foreseeable future, investment income should continue to exceed budget.

One of the most discouraging initial economic impacts of the pandemic was unemployment. After reaching a low of 1.8% in February 2020, the City's unemployment rate leapt to a high of 6.4% in May 2020. However, since that time, unemployment has slowly decreased down to a low of 1.3% and currently sits at 1.6%, which is considered full employment, and aligns with unemployment rates experienced in 2018, 2019, and early 2020. While the unemployment rate is currently extremely low, it is not expected to stay at this level as several corporate layoffs in the area have recently been announced.



Source: Bureau of Labor Statistics

According to the U.S. Bureau of Labor Statistics (BLS), the average annual spending on housing (rent and mortgage) in the San Francisco area is 41.9%, significantly higher than the national average of 34.3%. Of the 22 major metropolitan areas cited in the BLS data, this average annual spending percentage is the **highest**, ranking No. 1, with Honolulu and Miami ranked No. 2 and No. 3 respectively. According to Zillow, the average home value in Mountain View is $1.7 million, down 1.5% from a year ago. The average monthly rent for a one-bedroom apartment in Mountain View is currently $2,816, according to statistics tracked by the City.

The above statistics demonstrate the high cost of living in the Bay Area and, more specifically, Mountain View. While the City benefits financially from revenues gained through property taxes and real property conveyance taxes, the high cost of living also translates into a more expensive labor market, higher costs for goods and services purchased by the City, and a rising demand for investment in community service programs, such as those designed to prevent displacement and support the unhoused members of our community.

II. FISCAL YEAR 2022-23 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 2022-23 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):

	2021-22 Audited	2022-23 Adopted Budget	2022-23 Adjusted	**2022-23 Estimated**	Variance of 2022-23 Estimated to 2022-23 Adjusted
Revenues	$163,376	$163,836	$163,891	**$176,059**	$12,168
Expenditures[1]	(145,825)	(158,480)	(161,420)	**(156,257)**	5,163
Rebudgets[2]	13	-0-	3,084	**-0-**	(3,084)
Operating Balance	17,564	5,356	5,555	**19,802**	14,247
GNOF	(17,564)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	-0-	(1,600)	(1,600)	**(1,600)**	-0-
Transfer to Capital Improvement Reserve[3]	-0-	-0-	-0-	**(4,000)**	(4,000)
Transfer to SPAR[3]	-0-	-0-	-0-	**(3,000)**	(3,000)
Transfer to Budget Contingency Reserve[3]	-0-	-0-	-0-	**(1,000)**	(1,000)
Transfer to Liability Ins Fund[3]	-0-	-0-	-0-	**(1,000)**	(1,000)
Transfer to GNOF[3]	-0-	-0-	-0-	**(2,000)**	(2,000)
Ending Balance	$ -0-	$ 3,756	$ 3,955	**$ 7,202**	$ 3,247

[1] Adopted and Adjusted Budgets include $6.0 million in projected budget savings.

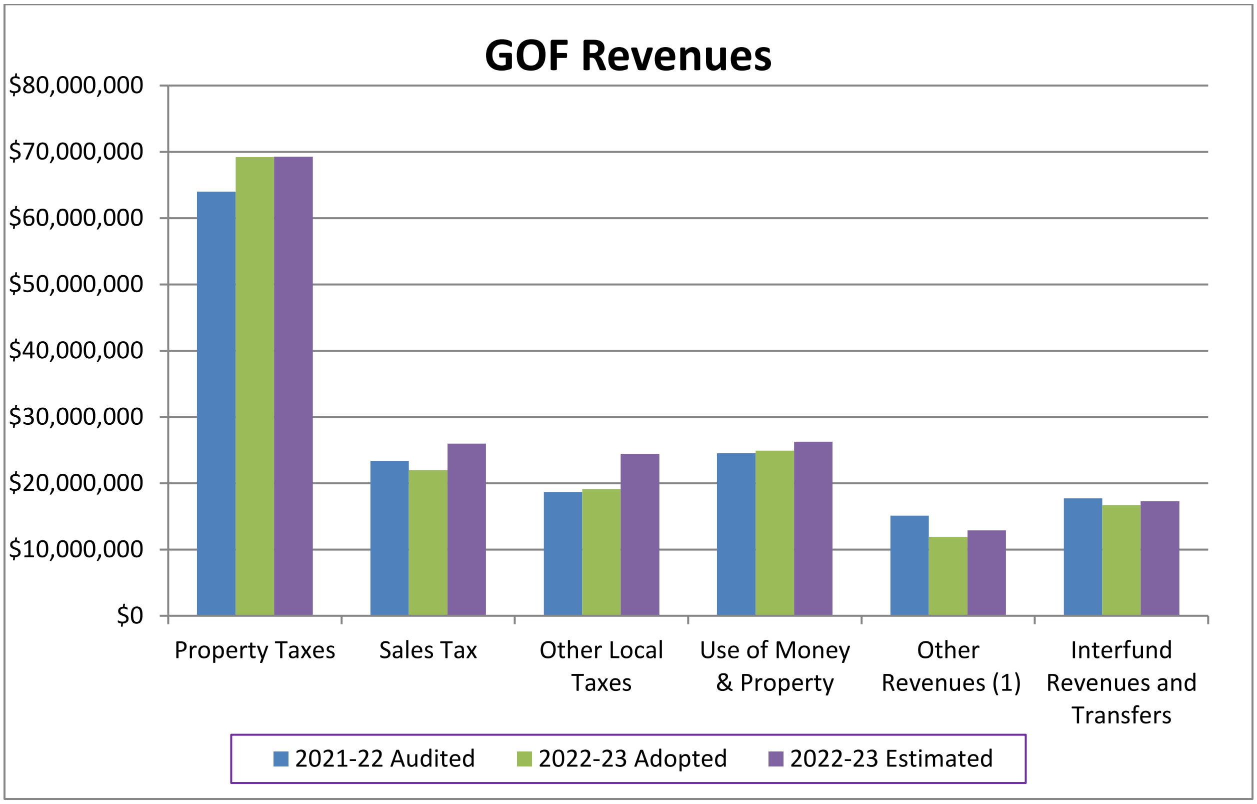
[2] Rebudgets include grant and donation carryovers from the prior fiscal year and changes in encumbrances and assets and liabilities for audited results.

[3] Staff recommendations pending approval from the City Council.

General Operating Fund

Revenues

The chart below is a comparison of the Fiscal Year 2021-22 Audited and Fiscal Year 2022-23 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 trending higher than budget. A detailed discussion of major revenue categories is as follows:

Property Tax revenue is estimated at $69.2 million, essentially the same as budget. The Fiscal Year 2022-23 Adopted Budget included projected growth based on a positive 2.0% CCPI applied to a majority of properties plus increased values related to changes in ownership and new development. It also included projected assessment reductions from appeals. The information provided by the Santa Clara County Assessor after the beginning of the current fiscal year indicates the total actual July 1, 2022 General Fund Assessed Value (AV) increased a net 10.1% compared to the July 1, 2021 AV, reflecting growth in secured AV and a decline in unsecured AV. However, the County incorrectly allocated $487.3 million to the Shoreline Regional Park Community last year instead of to the General Fund, hence the actual growth is 8.5%. Overall, AV in the City increased a net 9.3%.

Sales Tax revenue is currently estimated at $26.0 million, $4.0 million (18.2%) higher than budget, primarily due to strength in new automobile sales, fuel/service stations, and restaurants and hotels as the economy continued to recover and from high inflation. The estimate includes $733,000 in additional sales tax the City received for Q2 2022, which was not included at 2021-22 fiscal year-end. After adjusting to exclude the unanticipated additional taxes, the adjusted current estimate is $25.2 million, $3.3 million (14.8%) higher than budget.

Other Local Taxes

Transient Occupancy Tax (TOT) revenue is estimated to be $9.7 million, $5.3 million (122.5%) higher than budget for Fiscal Year 2022-23. TOT quarterly payments have recovered back to prepandemic levels beginning Q2 2022. The estimate includes $1.1 million in additional TOT, which was not included at 2021-22 fiscal year-end. After adjusting to exclude the unanticipated additional taxes, the adjusted current estimate is about $8.6 million, or $4.2 million (97.4%) higher than budget. City's current TOT rate is 10.0%—1% of TOT is about $855,000 revenue. The current TOT rate was last modified in June 1991, increasing from 8.0% to 10.0%.

Utility Users Tax (UUT) revenue is estimated to be $199,000 (2.3%) higher than budget. UUT generated from telecommunications services had 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 common 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 Silicon Valley Clean Energy (SVCE) and smaller energy providers, offset by lower-than-projected revenue from PG&E.

Business License revenue is estimated to be $193,000 (3.1%) 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 budget update.

Use of Money and Property revenue is comprised of Investment Earnings and Rents and Leases and is estimated at $26.3 million, $1.4 million (5.5%) higher than budget. Investment Earnings revenue is estimated $1.2 million (48.0%) higher than budget. After overseeing a long period of low interest rates, the Federal Reserve, through the Federal Open Market Committee (FOMC), increased the benchmark interest rate seven times from the benchmark target of 0.25% to 0.5% to a benchmark target of 4.25% to 4.5%, resulting in increased yields on investment securities available for the City to purchase. Rents and Leases revenue is estimated to be essentially the same as budget.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is estimated at $6.5 million, essentially the same as budget.

Intergovernmental revenue is estimated at $711,000, essentially the same as budget.

Charges for Services revenue is generated by fees assessed for Recreation and other types of services and is estimated at $2.9 million, essentially the same as budget.

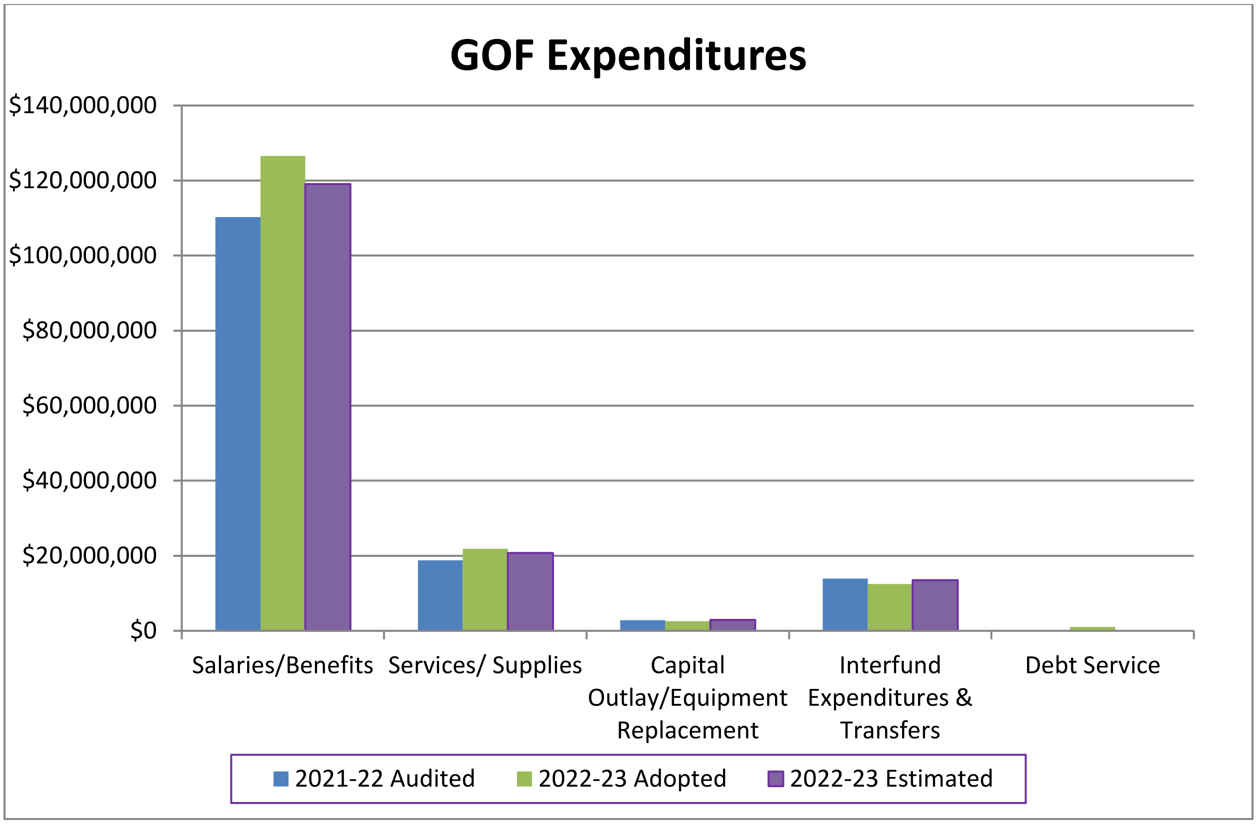
Miscellaneous Revenues are estimated at $2.8 million, $934,000 (49.4%) and $879,000 (45.2%) higher than the Adopted and Adjusted Budget, respectively. Included in the estimate is $178,000 in reimbursements for Fire mutual-aid overtime, including administration, which have not been received but are expected to be received during this fiscal year. There are other 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 $17.3 million, $603,000 (3.6%) higher than budget, due to CIP overhead trending higher.

Expenditures

Budget savings are expected each fiscal year and are included in the Adopted Budget. Including the projected budget savings, total estimated expenditures are $2.2 million (1.4%) and $5.2 million (3.2%) favorable variance compared to the Adopted and Adjusted Budget, respectively.

The chart below is a comparison of the Fiscal Year 2021-22 Audited and Fiscal Year 2022-23 Adopted and Estimated for GOF expenditures.



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

Salaries and Benefits expenditures are estimated at $119.1 million, $7.3 million (5.8%) below adjusted budget. This is the result of vacant positions and personnel turnover during the first half of the fiscal year. For regular (nonhourly) positions, there are currently 89 vacancies and 35 active recruitments to fill 56 current and anticipated vacancies. Although some savings are expected annually and included in the Adopted Budget, it is not possible to precisely predict the level and impact of vacancies. While the number of current total vacancies is similar to the prior year, the City saw a significant increase in separations and retirements in the last three months of 2021. The City is monitoring labor market studies indicating high levels of workforce stress nationwide due to the pandemic and “the Great Resignation” as workers seek job or career changes or even decide to leave the workforce.

Services and Supplies expenditures are estimated at $20.8 million, $1.0 million (4.8%) and $3.9 million (15.7%) below the Adopted and Adjusted Budget, respectively. Savings are expected annually, and this is comparable to prior fiscal years.

Capital Outlay/Equipment Replacement expenditures are estimated at $2.9 million, $291,000 higher than the Adopted Budget, but equal to the Adjusted Budget, and include $2.4 million of annual funding for equipment replacement and $521,000 currently estimated for new capital purchases.

Interfund Expenditures and Transfers are estimated at $13.5 million, $987,000 higher than budgeted. This is primarily due to higher than expected TOT revenue from the Ameswell hotel which continues to be transferred to the Budget Contingency Reserve to be set-aside and dedicated to the Public Safety Building until such time as it is needed for debt service.

Debt Service—There is no debt service payment estimated in Fiscal Year 2022-23. However, the Hope Street project developer recently secured and closed on a construction loan in December 2022, but the issuance of a building permit is not expected to occur for another 18-plus months. It is estimated that debt service due by the City will not be payable for at least another two years.

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 $423,000 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 Fire Department is estimating outstanding reimbursements to be approximately $358,000 for overtime costs and $164,000 for administration and vehicle reimbursement. Historically, these reimbursements have typically been received by fiscal year-end. The Fire Department will continue managing its 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):

	2022-23 Adopted Budget	2022-23 Adjusted Budget	**2022-23 Estimated**	Variance of Estimated to Adjusted Budget	Percent Savings of Adjusted Budget
City Council	$ 445	$ 445	**$ 355**	$ 90	20.2
City Clerk	1,034	1,034	**974**	60	5.8
City Attorney	2,771	2,842	**2,375**	467	16.4
City Manager	4,994	5,352	**4,424**	928	17.3
Human Resources	3,087	3,166	**2,904**	262	8.3
Information Technology	7,421	7,766	**6,046**	1,720	22.1
Finance and Admin. Services	7,878	8,148	**6,704**	1,444	17.7
Community Development	2,097	2,204	**1,681**	523	23.7
Public Works	13,085	13,487	**12,714**	773	5.7
Community Services	20,108	20,455	**17,835**	2,620	12.8
Library	7,497	7,919	**6,686**	1,233	15.6
Fire	30,045	30,314	**30,737**	(423)	(1.4)
Police	47,683	47,954	**46,500**	1,454	3.0
Nondepartmental[1]	16,335	16,334	**16,322**	12	0.1
Projected Budget Savings	(6,000)	(6,000)	**Included**	(6,000)	100.0
Total Operating Expenditures	$158,480	$161,420	**$156,257**	$5,163	3.2

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

General Operating Fund Summary

In summary, revenues are currently estimated at $176.1 million, $12.2 million higher than both the Adopted (7.5%) and Adjusted Budgets (7.4%). Including projected budget savings, operating expenditures for the current fiscal year are estimated at $156.3 million, $2.2 million (1.4%) below the Adopted Budget and $5.2 million (3.2%) below the Adjusted Budget. The operating balance is currently estimated to be $7.2 million after staff recommendations.

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):

	2022-23 Adopted Budget	2022-23 Adjusted Budget	**2022-23 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$14,072	$15,237	**$13,496**	($1,741)
Expenditures	(19,287)	(22,800)	**(18,237)**	4,563
Operating Balance (Deficit)	(5,215)	(7,563)	**(4,741)**	2,822
Land Use Documents	600	600	**755**	155
CalPERS Contribution	(177)	(177)	**(177)**	-0-
Transfer to Comp Absences	(223)	(223)	**(223)**	-0-
Capital Projects	(515)	(515)	**(515)**	-0-
Excess (Deficiency) of Revenues	(5,530)	(7,878)	**(4,901)**	2,977
Beginning Balance	22,972	22,972	**22,972**	-0-
Land Use Document Reserve	(10,197)	(10,197)	**(10,353)**	(156)
Ending Balance	$ 7,245	$ 4,897	**$ 7,718**	$2,821

The level of development revenue is approximately as budgeted for the current fiscal year with the exception of Building Permits, which are under budget; operating revenues of $13.5 million are estimated to be $1.7 million (11.4%) below budget with Building Permit revenue estimated $1.2 million (19.7%) below budget. The variance is due to the timing of some of the larger projects that might not be ready until later in the fiscal year. Several large projects are anticipated for permit issuance totaling up to $2.9 million in revenue, which are not included in the current year estimate. Estimated operating expenditures of $18.2 million are $4.6 million (20.0%) below the Adjusted Budget, reflecting savings in personnel costs due to vacancies and savings in supplies and contractual services.

Operating expenditures are estimated to exceed operating revenue by $4.7 million. This is primarily due to the timing of when revenues are received relative to when services are provided. Several large projects are anticipated for permit issuance which may have a significant positive impact on the operating balance. Revenue from the Land Use Document Fee is currently estimated to be $155,000 (25.8%) higher than budget. There is also a CalPERS contribution of $177,000, a transfer of $223,000 to fund Compensated Absences, and $515,000 for Capital Projects. The ending balance is estimated at $7.7 million.

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. Shoreline Golf Links 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. On December 7, 2021, Council approved a five year extension for Touchstone to operate Shoreline Golf Links and Michaels Restaurant.

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

	2022-23 Adopted Budget	2022-23 Adjusted Budget	**2022-23 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$4,405	$4,405	**$4,311**	($94)
Expenditures	(3,981)	(3,996)	**(3,993)**	3
Operating Balance	424	409	**318**	(91)
Transfer to GOF	(150)	(150)	**(150)**	-0-
Excess (Deficiency) of Revenues	274	259	**168**	(91)
Beginning Balance	146	146	**146**	-0-
Ending Balance	$ 420	$ 405	**$ 314**	($91)

Paid rounds of golf played in Fiscal Year 2021-22 totaled 82,223, a 3.6% increase from the prior fiscal year and an all-time high since this statistic began being tracked in Fiscal Year 2013-14. Based on financial information midway through the fiscal year, activity at Shoreline Golf Links is estimated to generate $3.1 million in revenues, $70,000 (2.3%) higher than budget. Restaurant revenues are estimated at $1.2 million, $164,000 (11.7%) below budget but $492,000 higher than the prior year. The restaurant has seen significant growth in revenues since the impacts of the COVID-19 pandemic in Fiscal Year 2019-20 and partial closure for renovations in Fiscal Year 2021-22.

In total, golf expenditures for the current fiscal year are estimated at $2.7 million, in line with the adjusted budget. Restaurant expenditures are estimated at $1.3 million, also in line with the adjusted budget. With both the golf course and restaurant at full operation, the operating budget is expected to be fully spent.

The fund is trending to finish the fiscal year with an operational balance of $318,000; Shoreline Golf Links is trending with a positive balance of $404,000 while Michaels at Shoreline Restaurant is trending at a loss of $86,000. For Fiscal Year 2021-22, there was a transfer of $150,000 to the General Operating Fund, and the fund ended the fiscal year with a balance of $146,000. For the current fiscal year, an operating transfer to the General Operating Fund of $150,000 was included. With the prior fiscal year balance of $146,000 and estimated operating balance for the current fiscal year of $318,000, staff is estimating a transfer to the General Operating Fund of $150,000 as planned and will monitor the fund to increase the transfer to GOF, if possible, at year-end.

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):

	2022-23 Adopted Budget	2022-23 Adjusted Budget	**2022-23 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$58,693	$58,693	**$63,950**	$5,257
Expenditures	(35,307)	(35,587)	**(33,788)**	1,799
Operating Balance	23,386	23,106	**30,162**	7,056
Development Impact Fees[1]	-0-	-0-	**479**	479
Bond Proceeds Interest	-0-	-0-	**124**	124
CalPERS Contribution	(71)	(71)	**(71)**	-0-
Transfer to Comp Absences	(140)	(140)	**(140)**	-0-
Capital Projects	(13,367)	(18,752)	**(18,752)**	-0-
Excess (Deficiency) of Revenues	9,808	4,143	**11,802**	7,659
Beginning Balance	77,537	77,537	**77,537**	-0-
Reserve	(5,400)	(5,400)	**(5,400)**	-0-
Reserve for Bond Proceeds	(12)	(12)	**(136)**	(124)
Site Contamination Reserve	(5,000)	(5,000)	**(5,000)**	-0-
Landfill Reserve	(11,000)	(11,000)	**(11,000)**	-0-
Sea Level Rise Reserve	(15,000)	(15,000)	**(15,000)**	-0-
Dev. Impact Fee Reserve	(14,741)	(14,356)	**(14,835)**	(479)
Ending Balance	$36,192	$30,912	**$37,968**	$7,056

[1] Includes interest earned on the balance.

Operating revenues, primarily property taxes, for the current fiscal year are estimated at $64.0 million, $5.3 million (9.0%) higher than budget. Property Tax revenue is trending higher than budget as, subsequent to adoption of the budget, the County provided the July 1, 2022 tax roll information for the Shoreline Community. After adjusting the assessment roll to remove a secured property tax bill that was incorrectly allocated to the Shoreline Community last year, the actual net increase is about 14.1%. It is important to note that Assessed Value in the Shoreline Community can be significantly impacted by economic conditions. The City estimated a 5.6% increase for Fiscal Year 2022-23, which corresponds to an approximate $4.4 million difference compared to the actual tax roll increase.

Operating expenditures for the current fiscal year are estimated at $33.8 million, $1.8 million (5.1%) below budget, primarily from refinancing a loan. Included in operating expenditures are

$14.2 million for the combined annual interagency payments to the school districts and the County and $4.9 million for debt service.

It is estimated that operating revenues will exceed operating expenditures by $30.2 million, which will fund the CalPERS contribution of $71,000, the transfer of $140,000 to fund the Compensated Absences Fund, and $18.4 million for Capital Projects. In addition, capital projects will be funded by an additional $385,000 from 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 $51.4 million for the General Reserve, the Landfill Reserve, the Sea Level Rise Reserve, bond proceeds (mainly from interest earnings), the Development Impact Fee Reserve, and the reserve for a potential site contamination liability, the fund is estimated with a $38.0 million ending balance.

A 2021 Shoreline Sea Level Rise Study Update was presented to the City Council on June 22, 2021. The current cost estimate for identified sea level rise projects is $122.0 million. Staff is developing a feasibility analysis in order to prioritize the projects for funding, scheduling, and implementation. It is anticipated additional reserves will be needed to provide for increased mitigation over what 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% of water customers within the City limits while California Water Service (a private company) provides potable water service to the remaining 4.0% 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%). Potable water is also purchased from the Santa Clara Valley Water District (Valley Water) (11.0%) and City well production (1.0%). 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):

	2022-23 Adopted Budget	2022-23 Adjusted Budget	**2022-23 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$39,422	$39,422	**$37,493**	($1,929)
Expenditures[1]	(38,713)	(42,021)	**(37,708)**	4,313
Operating Balance	709	(2,599)	**(215)**	2,384
Capacity/Development Impact Fees	-0-	-0-	**2,143**	2,143
CalPERS Contribution	(117)	(117)	**(117)**	-0-
Capital Projects from Fees	(5,318)	(5,318)	**(5,318)**	-0-
Capital Projects	(10,127)	(10,127)	**(10,127)**	-0-
Excess (Deficiency) of Revenues	(14,853)	(18,161)	**(13,634)**	4,527
Beginning Balance	44,186	44,186	**44,186**	-0-
Capacity/Dev Impact Fees Reserves	(4,905)	(4,905)	**(7,048)**	(2,143)
Water Transfer Reserve	(5,000)	(5,000)	**(5,000)**	-0-
Reserves	(12,612)	(12,612)	**(12,612)**	-0-
Ending Balance	$ 6,816	$ 3,508	**$ 5,892**	$2,384

[1] Adjusted Budget excludes encumbrance carryover for the water purchase.

A 12.0% increase for the average cost of water and meter rates, and a 5.0% increase for recycled water rates effective July 1, 2022 were adopted for Fiscal Year 2022-23. Operating revenues are estimated at $37.5 million, $1.9 million (4.9%) lower than budget. Water usage year-over-year through November is trending approximately 6.0% lower as a result of conservation efforts due to the drought. Recycled water sales are trending 30% higher comparing usage through November in the current fiscal year to last fiscal year.

Operating expenditures are estimated at $37.7 million, $4.3 million (10.3%) below budget, primarily as a result of savings in operations.

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 its 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.

The estimated operating balance is a deficit of $215,000. The fund has sufficient balance to cover the deficit and to fund the $117,000 CalPERS contribution, proportionate to the General Fund's share, and the current fiscal year's $10.1 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 January 2023 total $1.7 million, and interest is estimated at $218,000. Various development impact fees have been adopted by the City Council, and for Fiscal Year 2022-23, no revenue has been received through January 2023, but interest is estimated at $197,000. 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 $5.3 million in additional capital projects for Fiscal Year 2022-23. The Water Fund is estimated to have an ending balance of $5.9 million and $24.7 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):

	2022-23 Adopted Budget	2022-23 Adjusted Budget	**2022-23 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$29,283	$29,283	**$30,003**	$ 720
Expenditures	(27,281)	(29,691)	**(21,323)**	8,368
Operating Balance	2,002	(408)	**8,680**	9,088
Loan Proceeds & Interest	-0-	-0-	**34**	34
Capacity/Development Impact Fees	-0-	-0-	**4,912**	4,912
CalPERS Contribution	(71)	(71)	**(71)**	-0-
Capital Projects from Fees	(2,519)	(2,519)	**(2,519)**	-0-
Capital Projects	(2,708)	(2,708)	**(2,708)**	-0-
Excess (Deficiency) of Revenues	(3,296)	(5,706)	**8,328**	14,034
Beginning Balance	39,245	39,245	**39,245**	-0-
Capacity/Dev. Impact Fees Reserves	(7,801)	(7,801)	**(12,713)**	(4,912)
Treatment Plant Reserve	(12,360)	(12,360)	**(16,398)**	(4,038)
Reserve for Loan Proceeds	(244)	(244)	**(277)**	(33)
Reserves	(9,070)	(9,070)	**(9,070)**	-0-
Ending Balance	$ 6,474	$ 4,064	**$ 9,115**	$5,051

An 8.0% overall rate increase was adopted for Fiscal Year 2022-23 effective July 1, 2022, including a 6.0% rate increase for operations and a 2.0% rate increase for future Treatment Plant capital costs. As previously outlined, future capital expenditures are forecasted for the Treatment Plant as the facility began operations in 1972 and is in need of major renovations. A cumulative rate increase of 20.0% is projected, and the City Council approved a gradual phase-in of 2.0% annually for 10 years to fund these long-term capital costs, of which Fiscal Year 2022-23 is the ninth year.

Operating revenues are estimated at $30.0 million, $720,000 (2.5%) higher than budget, due to anticipated higher permit fee revenue and interest earnings. Estimated operating expenditures of $21.3 million are trending $8.4 million (28.2%) below budget. This is due to prior-year credits of $1.2 million from the Treatment Plant as part of the end-of-year payment reconciliation, deferral of planned debt payments for capital projects of $503,000, and savings in operations.

Each fall, an annual reconciliation of the prior fiscal year's actual treatment costs (based on volume) is performed by the Treatment Plant, and an adjustment is provided to each member agency. The City's share of audited expenditures of the Treatment Plant for last fiscal year was $1.1 million less than budgeted, resulting in a credit that is applied toward the current fiscal year's treatment costs. The credit from the Treatment Plant is related to obligations encumbered but not spent and, therefore, is being reserved in anticipation of the expenditures being included in the reconciliation for Fiscal Year 2022-23. The estimated operating balance of $8.7 million includes $4.3 million collected for future Treatment Plant Capital Costs, as stated above, and will fund the $71,000 CalPERS contribution, proportionate to the General Fund's share, and $2.7 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 January 2023 total $4.4 million, and interest is estimated at $228,000. Various Development Impact fees have been adopted by the City Council, and for Fiscal Year 2022-23, $201,000 has been received through January 2023, and interest is estimated at $44,000. 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 $2.5 million in additional capital projects for Fiscal Year 2022-23.

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% 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 $9.1 million and $38.5 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, $4.0 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, recyclables, and compost. 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):

	2022-23 Adopted Budget	2022-23 Adjusted Budget	**2022-23 Estimated**	Variance of Estimated to Adjusted Budget
City Revenues	$15,301	$15,301	**$15,829**	$ 528
Recology Revenues[(1)]	20,327	20,327	**18,922**	(1,405)
Total Revenues	35,628	35,628	**34,751**	(877)
City Expenditures	(17,743)	(21,030)	**(14,756)**	6,274
Recology Payments[1]	(20,327)	(20,327)	**(18,922)**	1,405
Total Expenditures	(38,070)	(41,357)	**(33,678)**	7,679
Operating Balance (Deficit)	(2,442)	(5,729)	**1,073**	6,802
CalPERS Contribution	(50)	(50)	**(50)**	-0-
Capital Projects	(318)	(318)	**(318)**	-0-
Excess (Deficiency) of Revenues	(2,810)	(6,097)	**705**	6,802
Beginning Balance	17,937	17,937	**17,937**	-0-
Reserve for Future Facility Equipment	(2,640)	(2,640)	**(2,640)**	-0-
Reserves	(4,436)	(4,436)	**(4,436)**	-0-
Ending Balance	$ 8,051	$ 4,764	**$11,566**	$6,802

[1] Neither revenues nor expenditures are adopted for Recology.

For Fiscal Year 2022-23, a 6.0% rate increase effective July 1, 2022 was adopted. The City's Solid Waste Fund operating revenues are estimated at $15.8 million, slightly above budget. City operating expenditures are estimated at $14.8 million, $6.2 million (29.8%) below budget, as a result of savings in lower compost service charges, operational savings, and a prior-year credit received as part of the year-end payment reconciliation with the SMaRT® Station. The SMaRT® Station performs an annual reconciliation of the prior fiscal year's costs, and an adjustment is provided to each member agency. The City received a refund of $573,000 for Fiscal Year 2021-22, which is credited against current year charges. Notably, the City Expenditures in the adjusted budget include the budget to cover prior years' purchase orders (POs). Staff is in the process of closing those POs, so the adjusted budget for the City expenditures could be reduced.

There is an estimated operating balance of $1.1 million, which is sufficient to cover the $50,000 CalPERS contribution, proportionate to the General Fund's share, and $318,000 for Capital Projects. The fund is estimated with an ending balance of $11.6 million and reserves of $7.1 million. The balance will be needed to smooth future rate adjustments needed for the new Recology Agreement and changes to the SMaRT® Station Agreement.

III. RECOMMENDED MIDYEAR BUDGET ADJUSTMENTS

The midyear budget review provides an opportunity for the City to adjust the budget to recognize unanticipated revenues and costs and to propose expenditures to address high-priority community and operational needs. Any such proposed adjustments are made in the context of assessing the resources needed to provide high-quality services to the public and the fiscal capacity to fund this level of resources. Each department continuously reviews its programs and operations as well as changing conditions and emerging community needs. In addition, special studies may be conducted to assess a program area and recommend changes to increase effectiveness or efficiency, with a focus on continuous improvement. Notably, several adjustments are recommended toward advancing the Interim Castro Street Pedestrian Mall and downtown vitality as we progress into the next fiscal year.

The following sections briefly describe the proposed midyear adjustments and recommendations are summarized in Attachment 1.

Increase appropriations for vehicle purchases and upfitting: $347,500

Staff purchases and upfits replacement vehicles each year to keep the City's fleet in good working order. Due to high inflation, vehicle and equipment costs have increased up to 36.0% per vehicle over what was budgeted for Fiscal Year 2022-23. There is enough funding in the Equipment Replacement Fund balance to cover $197,300 for the higher costs for the vehicle and equipment acquisitions. Additionally, $150,200 will be reappropriated from last fiscal year to pay for the tools and equipment to upfit five vehicles that were replaced this fiscal year.

Increase appropriations for Community Workforce Agreement consultant support: $125,000

Developing a Community Workforce Agreement (CWA) is a Council Strategic Priority in the Fiscal Years 2021-22 and 2022-23 Work Plan. Council had previously approved a $75,000 budget for consultant assistance to develop the CWA. Staff has reviewed CWAs from a variety of California agencies and conducted interviews with staff from other agencies who have more recently executed CWAs. As a result of this process, staff has determined that more extensive specialized consultant assistance will be needed than originally estimated for outreach, analysis, and legal support. Staff recommends an additional $125,000 for a total budget of $200,000.

Increase appropriations for the Safe Routes to School program: $90,000

Last year, the Public Works Transportation Team launched an expanded Safe Routes to School Program (SRTS), which included extensive in-school trainings and other activities delivered by a consultant and City staff. In addition to continuing the program in the 2023-24 school year, staff recommends increasing the consultant's scope of work to assist teachers by developing a SRTS curriculum that is consistent with State standards and providing Transportation Safety Training for Teachers. The consultant scope will also include data collection and program evaluation. Planning and scheduling for the next school year begins in March 2023 and continues through the summer. This funding will provide for additional consultant scope and for additional hourly staff support to develop the planned program.

Increase appropriations for utility billing credit card payment processing costs: $70,000

The Finance and Administrative Services Department recommends increased funding for utility bill online payment processing costs. The City uses Paymentus, an online payment system, which allows residents and businesses to make payments for their utility accounts online. The processing fees for Fiscal Year 2022-23 have increased by 24.0% compared to the same time frame last fiscal year. The main portion of this increase is related to Alternative Payment Methods (APMs) and Commercial Cards transactions, for which the City gets charged a 2.75% transaction fee. Examples of APMs are Paypal, Venmo, and Amazon Pay. In addition, the City's utility rates increased 6.0% to 12.0% in Fiscal Year 2022-23, resulting in higher utility balances to be paid by credit card—thus, higher credit card fees. The current budget for utility bill online payment processing is $295,000, which results in a shortfall of $70,000. Staff is requesting an appropriation of $70,000 from the Water Fund to cover the shortage.

Increase appropriations for fuel purchases: $60,000

Over the last three years, the wholesale price the City pays for diesel and unleaded fuel have increased by 66% and 25%, respectively. A midyear budget increase of $60,000 is necessary to pay for the projected increase in fuel cost for Fiscal Year 2022-23.

Increase appropriations for a financial advisor for the Public Safety Building Funding Analysis: $40,000

Staff recommends $40,000 to hire a financial advisor to review the financing options for the Public Safety Building.

Increase appropriations for City Council Appointee evaluations, Celebration of Service events, and temporary staffing costs: $28,000

Additional funding is necessary to cover unanticipated expenditures associated with the City Clerk's portion of the City Council's appointee evaluation process in the amount of $12,000, holding a COVID-safe Celebration of Service to boards, commissions, and committees in the amount of $5,000, and temporary staffing costs during recruitment to fill the vacated Administrative Assistant position in the amount of $28,000.

Increase appropriations for the Castle Farms lease: $15,000

It is expected that construction will begin on Downtown Parking Lots 4, 8, and 12 in the next year, reducing the inventory of available parking for downtown until the Lot 4 construction is completed and a new parking structure is built on Lot 5. Staff recommends leasing a parking lot that has 44 spaces at the corner of View Street and Villa Street for use as downtown parking while this construction is occurring. It is anticipated that the lease would be effective as of April 1, 2023, and an appropriation of $15,000 is requested for the lease payments for this fiscal year.

Increase a 0.75 FTE Librarian I/II position to 1.0 FTE (Cost can be absorbed within budget this fiscal year)

It is recommended to increase a 0.75 FTE Librarian I/II position to 1.0 FTE. This modification will provide an additional 10.0 hours per week of staffing for the Youth and Outreach Division. The additional 10.0 hours will help the Library maintain adequate staffing levels to support core services to youth clients and the community during open hours. In addition, converting the 0.75 FTE Librarian I/II position to 1.0 FTE will also support employee retention. The additional funds needed for the remainder of the fiscal year, estimated at $14,700, can be absorbed by the department's salary savings.

Reclassify 0.50 FTE Senior Civil Engineer to 1.0 FTE Senior Project Manager (Cost can be absorbed within budget this fiscal year)

A half-time Senior Civil Engineer position was recently vacated due to a retirement. This position was responsible for providing project management for various parks projects. The number of planned parks projects, including new parks and park renovations, has been and is expected to continue to increase in the five-year Capital Improvement Program. A full-time position is required to keep up with the workload. Staff recommends converting the position to a Senior Project Manager to increase the pool of qualified candidates. The additional funds needed for the remainder of the fiscal year, estimated at $47,200, can be absorbed by the department's salary savings.

Increase 0.50 FTE Website Coordinator position to 1.0 FTE (Limited Period) (Cost can be absorbed within budget this fiscal year)

This position manages the design and development of a new City website and intranet, which will increase public and employee access to critical City information. Due to the breadth of the site redesigns, a full-time position is needed for assisting all City departments with their content updates, assessing the usability and functionality of the sites, providing the subject matter expertise for beta-testing the sites, preparing for the launch, and providing monitoring and optimization following the launch. The launch of the City website is anticipated in Q2 2023. The intranet redesign project is anticipated to begin in Q3 2023. The additional funds needed for the remainder of the fiscal year, estimated at $74,100, can be absorbed by the department's salary savings.

Castro Pedestrian Mall Midyear Budget Requests

Add 2.0 FTE Parks Maintenance Worker I/II positions to support downtown vitality/ Castro Pedestrian Mall: $84,600

Two Parks Maintenance Worker I/II positions are recommended to support the service and programming levels for the Castro Pedestrian Mall and meet the increased expectations for aesthetics, cleanliness, and general maintenance. These new positions will also provide weekend service, which is currently provided by existing staff using overtime.

Increase appropriations for pressure washing, cleaning supplies, and new banners, in support of downtown vitality/Castro Pedestrian Mall: $50,000

Staff recommends funding for the following activities to improve cleanliness and aesthetics: increased pressure washing for the Castro Street sidewalks for the 100 to 300 blocks, around the Civic Center, and on Castro Street from the 400 block to El Camino Real; rising cost of materials and supplies to maintain the new ambient lighting additional/replacement landscaping and cleaning supplies; and purchase of new banners and hardware for a total of 110 lampposts along Castro Street in downtown Mountain View.

Increase appropriations for weekly performances, in support of downtown vitality/Castro Pedestrian Mall: $13,000

Staff recommends $13,000 in additional part-time hours and nonpersonnel funds to provide programming in the Castro Pedestrian Mall, including recurring live entertainment from May to June 2023.

Add 1.0 FTE Analyst I/II position in the Property Management Section to support downtown vitality/Castro Pedestrian Mall: $54,300

Staff recommends adding a Real Property Analyst I/II position to help the Real Property Program Administrator with the increasing volume and scope of real property and right-of-way transactions and property management responsibilities, including managing the 30 to 50 new patio license agreements for the Castro Pedestrian Mall and sidewalk license agreements for other downtown locations.

Increase 0.75 FTE Business Development Specialist to 1.0 FTE to support the Castro Pedestrian Mall and Downtown Revitalization (Cost can be absorbed within budget this fiscal year)

Staff recommends converting a limited-period 0.75 FTE Business Development Specialist position into a regular, full-time 1.0 FTE focused on supporting, retaining, and attracting small businesses in the downtown along with implementation of the Pedestrian Mall. The department currently has salary savings to absorb the increase, approximately $20,400, for the remainder of the current fiscal year.

Authorize Expenditures Not to Exceed $200,000—GOF

The City has an existing agreement with Hinderliter de Llamas & Associates (HdL) that expires June 30, 2024 for outside sales tax consulting services. There are two parts to the services: (1) monthly base fee for sales tax and economic analysis; and (2) allocation audit and recovery, in which they are entitled to 15% of any sales tax revenue recovered. Staff recommends increasing expenditures in an amount not to exceed $200,000 for Fiscal Years 2022-23 and 2023-24. There would be sufficient available balance in the GOF as the audit payments to the consultant are tied to sales tax revenue recovered.

Salary Plan Changes

The currently vacant Environmental Sustainability Coordinator position has been reclassified to Sustainability Program Manager. The reclassification is within the City Manager's authority provided by the City Council on December 7, 2010; however, reflecting the reclassification on the salary plan requires Council adoption of a resolution (Attachment 2). Reclassifying the Environmental Sustainability Coordinator to Sustainability Program Manager is recommended. The estimated total compensation cost for the reclassification is $17,900 per year. The City Manager's Office has anticipated salary savings that can absorb this increase for the remainder of the current fiscal year. Ongoing impacts will be included in the Fiscal Year 2023-24 budget. The total increase in control point for this position presented in the Salary Plan (Exhibit A to Attachment 2) is estimated to be $10,512 in salary only.

IV. FISCAL YEAR 2023-24 PRELIMINARY GENERAL OPERATING FUND FORECAST

This section of the report focuses on the Fiscal Year 2023-24 Preliminary GOF Forecast. This forecast is based on limited data and financial assumptions made with information available at this time. An updated five-year forecast will be incorporated into the Recommended Budget, scheduled for the June 13, 2023 City Council meeting.

The **preliminary** projection for Fiscal Year 2023-24 follows (dollars in thousands):

	2021-22 Audited	2022-23 Adopted Budget	2022-23 Estimated	**2023-24 Preliminary Forecast**	Variance of 2023-24 Forecast to 2022-23 Adopted
Revenues	$163,376	$163,836	$176,059	**$179,517**	$15,681
Expenditures[1]	(145,825)	(158,480)	(156,257)	**(167,444)**	(8,964)
Rebudgets[2]	13	-0-	-0-	**-0-**	-0-
Operating Balance	17,564	5,356	19,802	**12,073**	6,717
Transfer to GNOF	(17,564)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	-0-	(1,600)	(1,600)	**(2,200)**	(600)
Transfer to Capital Improvement Reserve[3]	-0-	-0-	(4,000)	**-0-**	-0-
Transfer to SPAR[3]	-0-	-0-	(3,000)	**-0-**	-0-
Transfer to Budget Contingency Reserve[3]	-0-	-0-	(1,000)	**-0-**	-0-
Transfer to Liability Ins Fund[3]	-0-	-0-	(1,000)	**-0-**	-0-
Transfer to GNOF[3]	-0-	-0-	(2,000)	**-0-**	-0-
Ending Balance	$ -0-	$ 3,756	$ 7,202	**$ 9,873**[4]	$ 6,117

[1] Adopted Budget and Preliminary Forecast include $6.0 million and $5.5 million in estimated budget savings, respectively.
[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 recommendations pending approval from the City Council.
[4] The balance does not include any Fiscal Year 2023-24 ongoing budget requests.

The preliminary forecast projects total GOF revenues of $179.5 million, $15.7 million (9.6%) and $3.5 million (2.0%) higher than the current fiscal year Adopted Budget and Estimated, respectively.

Baseline expenditures are anticipated to increase $9.0 million (5.7%) to $167.4 million compared to the current fiscal year Adopted. For Fiscal Year 2023-24, there is a preliminary ending balance of approximately $9.9 million. Notably, this forecast includes the additional position requests discussed in the Recommended Midyear Adjustment section of this report. **However, at this time, the forecast does not include any Fiscal Year 2023-24 ongoing budget requests from departments as those are currently under evaluation as part of the budget development process.** All labor agreements expire June 30, 2024.

The full five-year forecast will be presented in the Fiscal Year 2023-24 Recommended Budget in June. 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 rates, 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.

Despite incorporating the most recent available data into the forecasting process, a considerable amount of volatility and uncertainty yet remains about the future of the economy for various reasons, including the Russia-Ukraine conflict, global supply chain disruptions, and the record inflation rate. Until such time as the volatility settles down and greater stability returns, the ability to more accurately forecast future revenues and expenditures will continue to be challenged.

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):

	2021-22 Audited	2022-23 Adopted Budget	2022-23 Estimated	**2023-24 Preliminary Forecast**	Variance of 2023-24 Forecast to 2022-23 Adopted
Property Taxes	$ 63,996	$ 69,232	$ 69,244	**$ 73,510**	$ 4,278
Sales Tax	23,376	21,960	25,950	**25,928**	3,968
Other Local Taxes	18,663	19,124	24,448	**22,575**	3,451
Use of Money and Property	24,530	24,893	26,256	**28,313**	3,420
Licenses, Permits, and Fees/Fines and Forfeitures	5,936	6,472	6,456	**6,585**	113
Intergovernmental	1,986	712	711	**734**	22
Charges for Service	3,037	2,857	2,871	**2,995**	138
Miscellaneous Revenues	4,133	1,892	2,826	**1,992**	100
Interfund Revenues and Transfers	17,719	16,694	17,297	**16,885**	191
Total Operating Revenues	$163,376	$163,836	$176,059	**$179,517**	$15,681

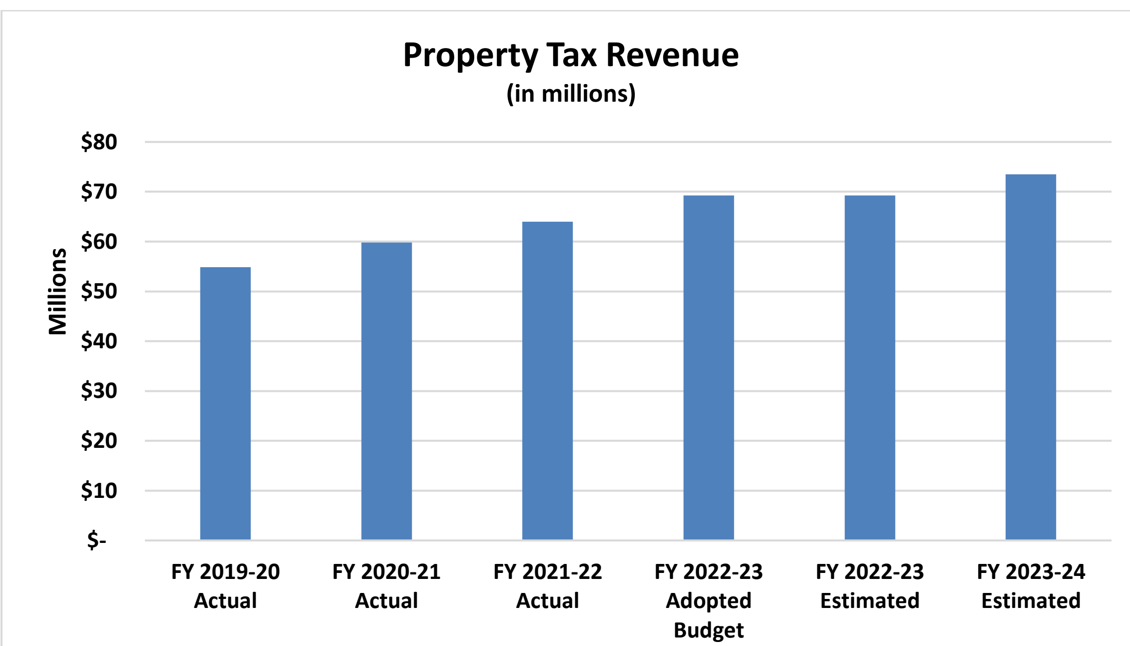
A brief explanation of the assumptions and changes for the preliminary Fiscal Year 2023-24 forecast follows:

Property Tax revenue is projected at $73.5 million (or 40.9% of total GOF revenue), an increase of $4.3 million compared to both the current fiscal year Adopted Budget and Estimated. Compared to the July 1, 2022 tax roll, the Fiscal Year 2023-24 AV of secured property-generating tax revenues for the GOF is projected with net growth, reflecting the following:

- A 2.0% increase in AV for most properties resulting from the annual CCPI inflation factor (October 2021 to October 2022);
- AV increases resulting from changes in ownership which occurred from January 1, 2022 through November 30, 2022 (information currently available);
- Increased AV related to new development anticipated to be included in the July 1, 2023 tax roll; and
- Anticipated AV decreases resulting from the resolution of current appeals and projected new appeals.

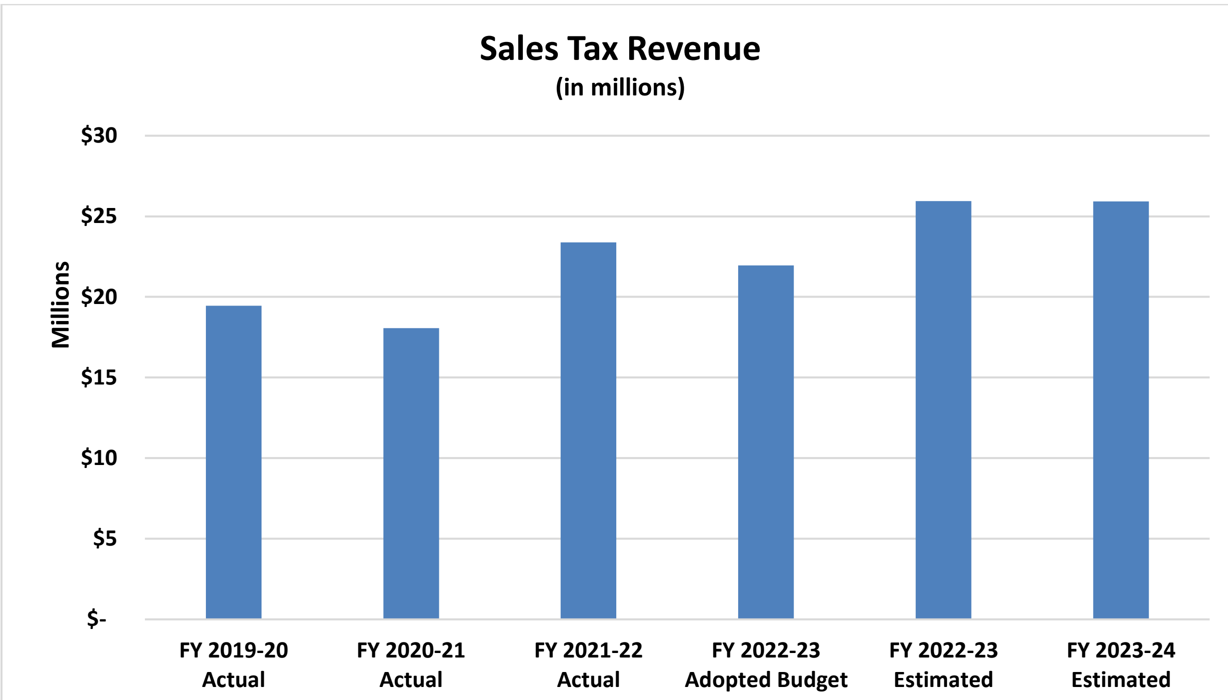
Staff will continue to collect data from the Santa Clara County Assessor and revise the property tax forecast with updated information pertaining to new development and appeal resolutions.

Recent and projected property tax revenue data is included below.



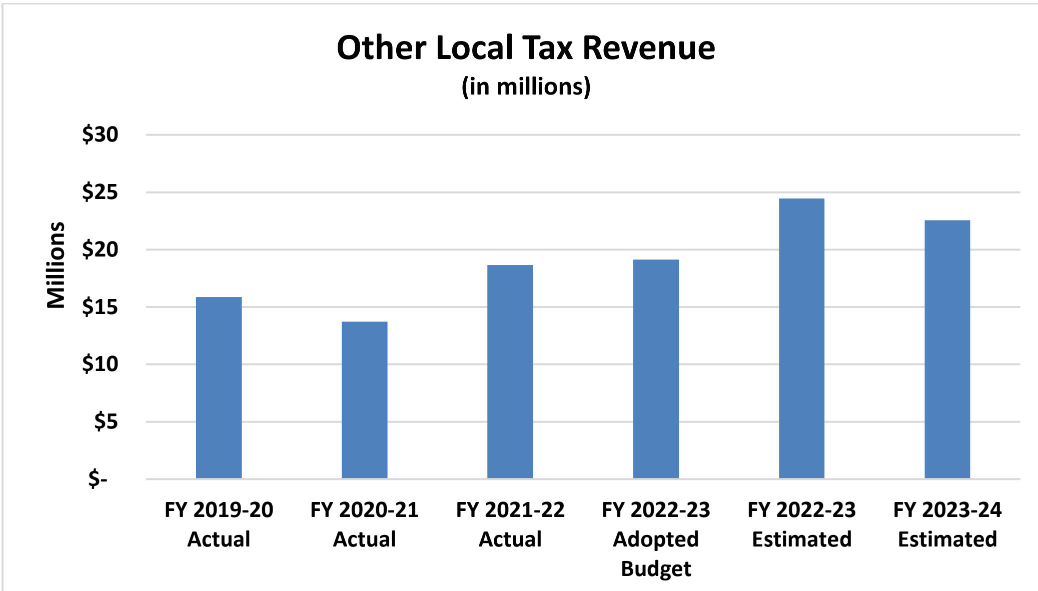
Sales Tax revenue is projected at $25.9 million (or 14.4% of total GOF revenue) for Fiscal Year 2023-24, $4.0 million higher than the current fiscal year Adopted Budget and essentially flat compared to the current fiscal year Estimated, as growth is expected to cool in 2023.

Recent and projected sales tax revenue data is included below.



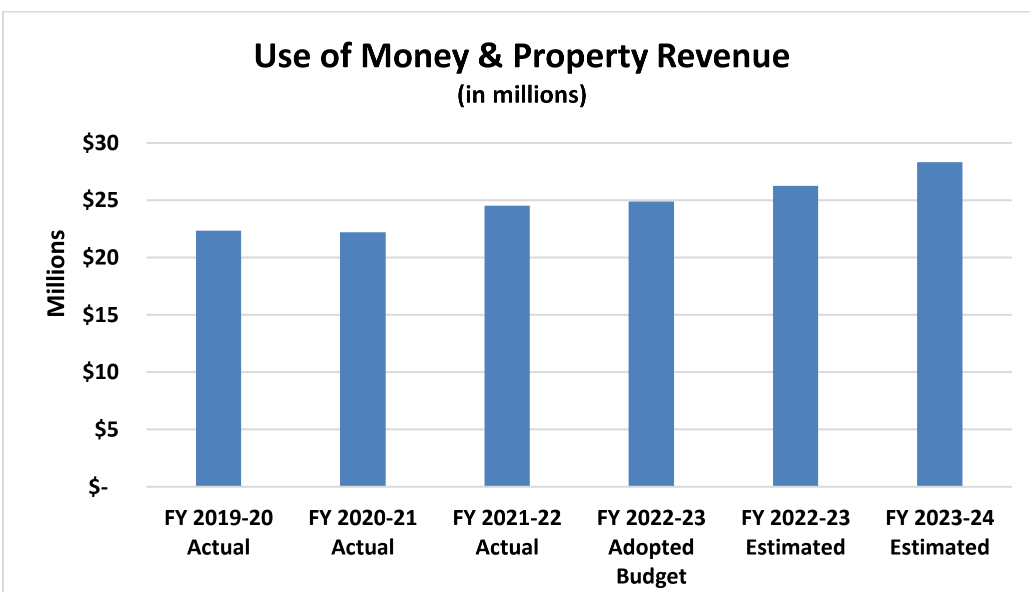
Other Local Taxes revenue is projected at $22.6 million (or 12.6% of total GOF revenue), $3.5 million (18.0%) higher than the current fiscal year Adopted Budget and $1.9 million (7.7%) below Estimated. The current fiscal year Estimated TOT revenue has recovered from the pandemic and is projected to be $4.2 million higher than the current fiscal year Adopted Budget and projected to be essentially the same as the current fiscal year Estimated (excluding the $1.1 million from Fiscal Year 2021-22). The Fiscal Year 2023-24 Business License Tax is projected to experience a 17.6% and 15.0% decline compared to the current fiscal year Adopted Budget and Estimated, respectively, which considers known and potential layoffs. The City Council earmarked 80.0% of the increased tax for transportation and 10.0% for housing; transfers are included and discussed in the Expenditure section below. Fiscal Year 2023-24 UUT revenue is projected $331,000 and $132,000 higher than the current fiscal year Adopted Budget and Estimated, respectively.

Recent and projected other local tax revenue data is included below.



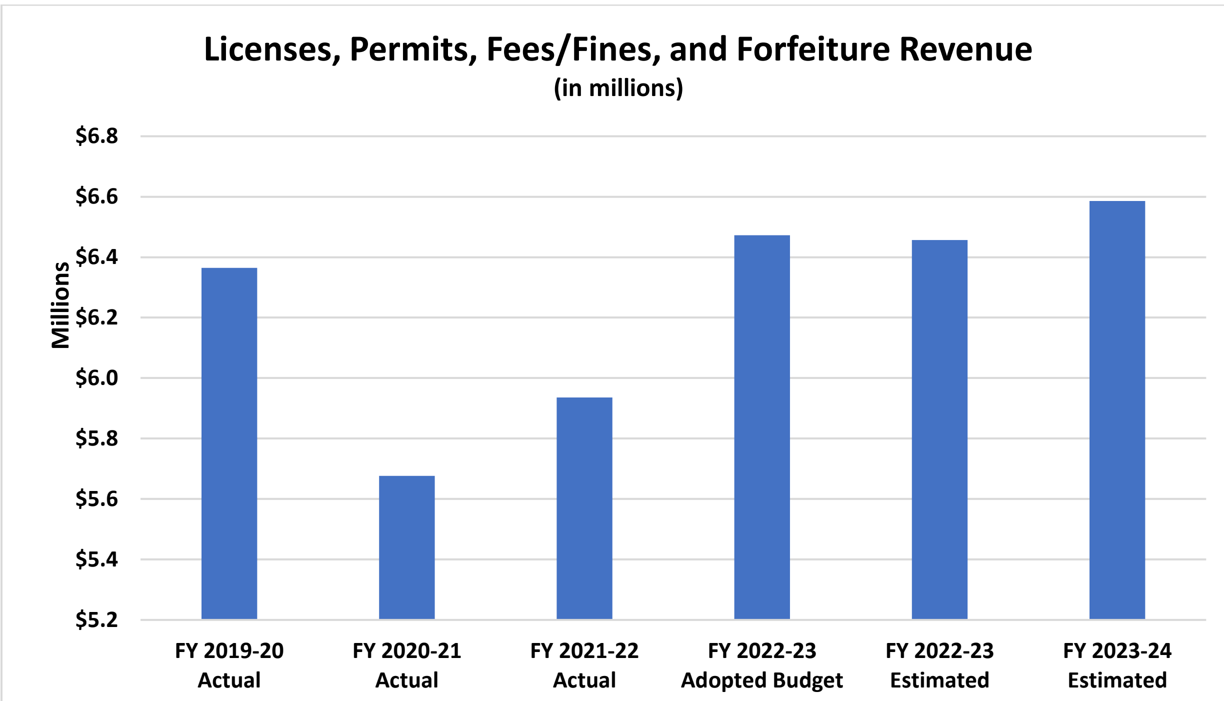
Use of Money and Property revenue is projected to be $28.3 million (or 15.8% of total GOF revenue), an increase of $3.4 million (13.7%) and $2.1 million (7.8%) compared to the current fiscal year Adopted Budget and Estimated, respectively. The increase is primarily from investment revenue due to the current market of high interest rates. Lease revenues are projected with inflators as stipulated in the leases or estimated with 4.0% increases.

Recent and projected use of money and property revenue data is included below.



Licenses, Permits, and Fees/Fines and Forfeitures revenue is projected to be $6.6 million (or 3.7% of total GOF revenue), an increase of $113,000 (1.8%) and $129,000 (2.0%) compared to the current fiscal year Adopted Budget and Estimated, respectively.

Recent and projected licenses, permits, and fees/fines and forfeitures revenue data is included below.



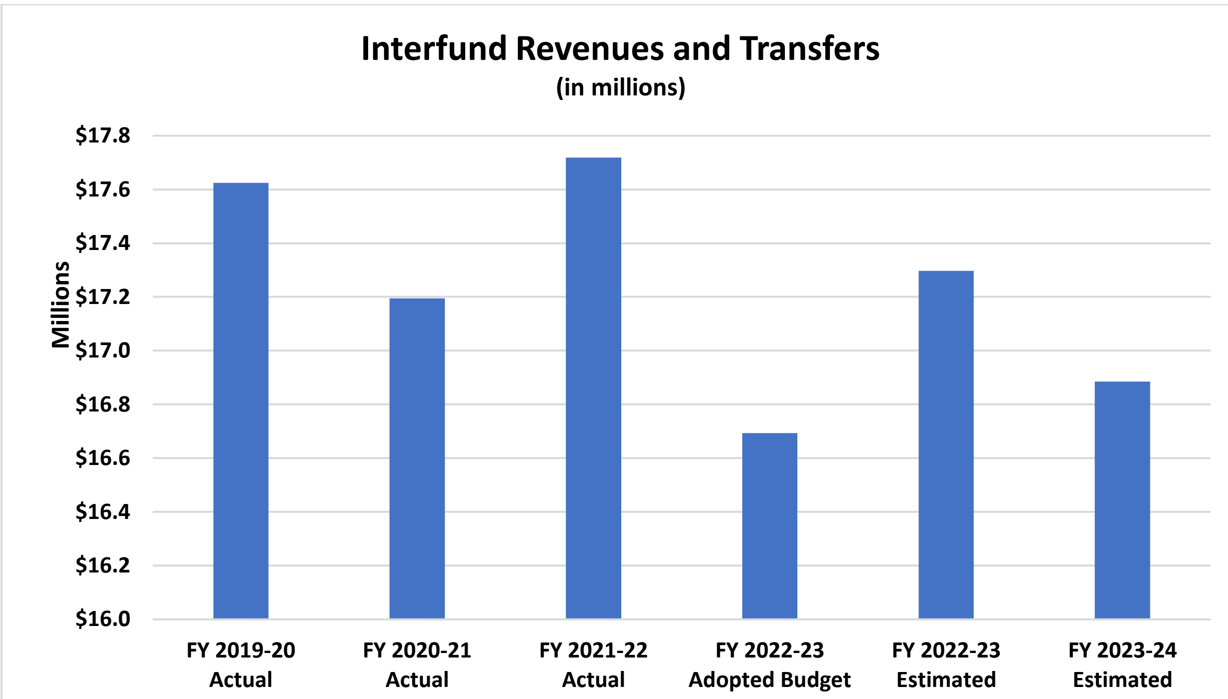
Intergovernmental revenue is projected to be $23,000 higher than the current fiscal year Adopted Budget and Estimated. The projected budget does not include any mandated reimbursement funding or intergovernmental grants and reimbursements as the amounts are variable.

Charges for Services revenue is projected to be $138,000 (4.8%) and $124,000 (4.3%) higher than the current fiscal year Adopted Budget and Estimated, respectively.

Miscellaneous Revenues are projected to be $100,000 (5.3%) higher than the current fiscal year Adopted Budget. The projection is $834,000 (29.5%) below the current fiscal year Estimated, primarily due to the $516,000 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 $16.9 million (or 9.4% of total GOF revenue), $191,000 higher than the current fiscal year Adopted Budget and $412,000 (2.4%) below the current fiscal year Estimated, primarily due to estimated higher-than-budgeted CIP overhead in the current fiscal year.

Recent and interfund and transfer revenue data is included below.



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 Fiscal Year 2023-24 departmental budget requests are currently under review and, thus, are not included in the Preliminary Forecast.**

	2021-22 Audited	2022-23 Adopted Budget	2022-23 Estimated	**2023-24 Preliminary Forecast**	Variance of 2022-23 Forecast to 2021-22 Adopted
Salaries and Benefits:					
Salaries and All Pays	$ 71,710	$ 78,364	$ 75,196	**$ 83,273**	$4,909
Retirement	22,257	28,126	27,146	**29,985**	1,859
Health Benefits	9,190	11,838	9,241	**12,293**	455
All Other Benefits	7,081	8,198	7,488	**8,523**	325
	110,238	126,526	119,071	**134,074**	7,548
Services and Supplies	18,784	21,830	20,784	**22,142**	312
Capital Outlay/Equipment Replacement	2,854	2,611	2,902	**3,869**	1,258
Interfund Expenditures and Transfers	13,949	12,512	13,500	**12,859**	347
Debt Service	-0-	1,000	-0-	**-0-**	(1,000)
Budget Savings	Included	(6,000)	Included	**(5,500)**	500
Total Operating Expenditures	$145,825	$158,479	$156,257	**$167,444**	$8,965

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

Salaries and Benefits expenditures are projected $7.5 million (6.0%) higher than the current fiscal year Adopted. The forecast includes a 4% cost of living adjustment for all employee groups as negotiated in the current labor agreements expiring June 30, 2024. The forecast also includes the position changes recommended in this midyear report. The cost for retirement benefits is projected to increase 6.6% and is based on the rates provided by CalPERS. Health benefit costs are projected with increases based on historical trends.

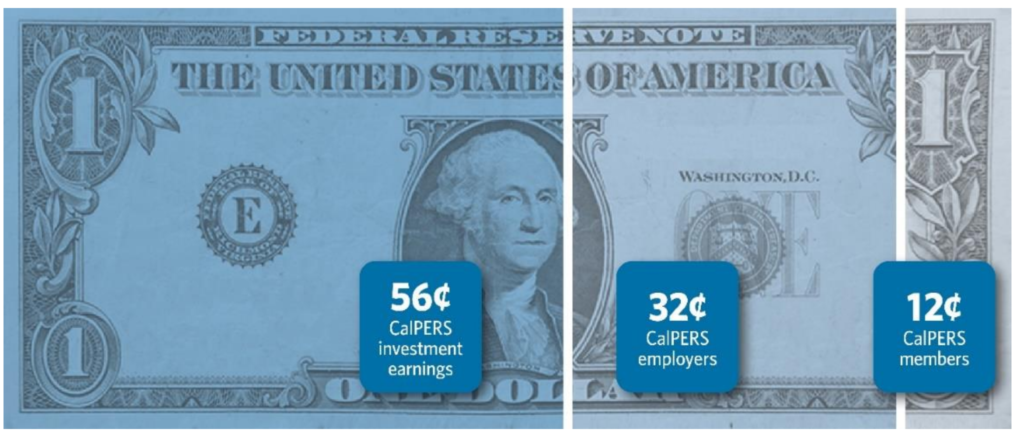
Rising employee-related costs, due primarily to escalating payments to fully fund benefits for already retired employees, are the most significant contributor to rising expenditures.

As shown below, pension benefits are funded by a combination of employer contributions, employee contributions, and investment earnings on those contributions.

Based on data over the past 20 years ending June 30, 2022, for every dollar CalPERS pays in pensions:

- 56 cents comes from investment earnings.
- 32 cents from employer contributions.
- 12 cents from employee contributions.

Essentially, 68 cents out of every public employee pension dollar is funded by CalPERS' investment earnings and employee contributions, with employers making up the difference. For the fiscal year ended June 30, 2022, CalPERS paid out nearly $29.1 billion in pension benefits.



When there is a gap between the assets available to fund benefits, and the assets needed to fund benefits, the City must make up the difference. In Fiscal Year 2022-23, about 19% of the City's General Fund goes toward paying for pension benefits.

The City's most recent actuarial report from CalPERS indicates that the City has an unfunded pension liability of $168.3 million as of June 30, 2021, down from $249.4 million a year prior, a decrease of 32.5%. This large decrease is primarily attributable to CalPERS realizing an investment return of over 21.0% in Fiscal Year 2020-21. As of June 30, 2021, the City's funded status was 79.6% for its Safety Plan and 84.3% for its Miscellaneous Plan, up from 70.3% and 73.1%, respectively. However, the unfunded liability amounts and funded status percentages do not take into consideration the approximate 7.0% loss that CalPERS investments experienced in Fiscal Year 2021-22. As a result, the unfunded liability amounts and funded status percentages are expected to return to June 30, 2020 levels when updated actuarial reports are released by CalPERS in July/August 2023.

Future estimated required contribution amounts will be presented in the Fiscal Year 2023-24 Recommended Budget. Staff will be working with a pension consultant to explore the up-front costs and interest savings that would result if the unfunded liability is paid off sooner than calculated by the CalPERS actuary.

Services and Supplies expenditures are currently projected to increase $312,000 over the current fiscal year Adopted Budget, related to projected increases for City utility costs. The forecast does not include the adjustments recommended in this midyear report. 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 $3.9 million, 48.2% higher than the current fiscal year Adopted, due to inflation for replacement cost and some adjustments to quantity of items and life expectancy.

Interfund Expenditures and Transfers are projected to increase $347,000 (2.8%) over the current fiscal year Adopted. This is mainly due to a $1.1 million increase in Ameswell revenue, which is transferred to the Budget Contingency Reserve offset by lower Business License Tax revenue, which decreases the transfers to the Transportation Reserve and General Housing Fund.

V. FISCAL YEAR 2021-22 GENERAL FUND REMAINING BALANCE

As discussed in the Analysis of Fiscal Year 2021-22 Audited Financial Results for the GOF and General Fund Available Balance report, which is Attachment 1 to the Annual Comprehensive Financial Report on the December 13, 2022 Council Agenda, the City's General Fund ended the 2021-22 fiscal year with an unallocated balance of $15.5 million. The table below details the General Fund balance, including one-time revenues and expenditure savings, budgeted transfers, limited-period expenditure allocations, and the midyear adjustments contained in this Council report (dollars in thousands):

GOF Balance from Fiscal Year 2021-22	$17,564
Remaining Available Balance from Prior Fiscal Years	5,012
Midyear Allocations Approved by City Council	(1,275)
One-Time Revenues and Expenditure Savings:	
Property Taxes—Excess ERAF	8,260
Unspent Limited-Period Expenditures	2,521
Miscellaneous Revenues	1,028
Child-Care Center Rent	201
Total Available for Allocation	33,311
Allocations in the Fiscal Year 2022-23 Adopted Budget:	
Limited-Period Expenditures	(3,755)
Compensated Absences Reserve	(4,020)
CIP Reserve	(3,000)
Strategic Property Acquisition Reserve	(3,000)
Development Services Fund	(2,000)
Public Safety Building Reserve	(1,000)
Sustainability Program	(1,000)
Total Allocated	(17,775)
Remaining Unallocated Balance at June 30, 2022	$15,536
Fiscal Year 2022-23 Midyear Council Actions	-0-
Recommendations in this Midyear Report from GNOF	(406)
Remaining Available Balance	$15,130

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 various funding needs in other areas, staff is still reviewing potential funding needs and will provide recommendations for the use of the remaining unallocated balance with the Recommended Budget in June.

FISCAL IMPACT

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

ALTERNATIVES

1. Do not approve the recommendations.

2. Provide other direction.

PUBLIC NOTICING—Agenda posting.

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Kimbra McCarthy
City Manager

EY-AT-GZ/2/CAM
541-02-28-23CR
202635

Attachments: 1. Resolution Approving Midyear Budget Requests
2. Resolution Amending the City's Regular Salary Plan