COUNCIL REPORT

CITY OF MOUNTAIN VIEW

DATE: February 10, 2015

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Fiscal Year 2014-15 Midyear Budget Status Report and Fiscal Year 2015-16 Preliminary General Operating Fund Forecast**

RECOMMENDATION

1. Acknowledge and file the Fiscal Year 2014-15 Midyear Budget Status Report, the Fiscal Year 2015-16 Preliminary General Operating Fund forecast, and the six-month status of the Fiscal Year 2014-15 Performance/Workload Measures (Attachment 1 to the Council report).

2. Appropriate and transfer the remaining balance from the Fiscal Year 2013-14 Carryover of $528,000 from the General Non-Operating Fund to the Capital Improvement Reserve. (Five votes required)

3. Adopt a Resolution Amending the City of Mountain View Master Fee Schedule, to be read in title only, further reading waived (Attachment 2 to the Council report), related to a new fee for the Center for the Performing Arts.

BACKGROUND

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 2014-15 Performance/Workload Measures is also attached to this report (see Attachment 1).

Economic reports and indicators (e.g., unemployment, manufacturing, lending, office vacancy, and foreclosure statistics) portray that, overall, the economic recovery continues, particularly in this geographic area. Employment is growing in Mountain View. Development activity for residential and commercial property located within the City limits also continues to be strong, although Santa Clara County (County) has made progress on and continues to process the backlog of assessment value appeals submitted by property owners.

I. EXECUTIVE SUMMARY

FISCAL YEAR 2014-15 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 midway through the fiscal year and certain assumptions regarding revenues and expenditures for the remainder of the fiscal year.

General Operating Fund

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

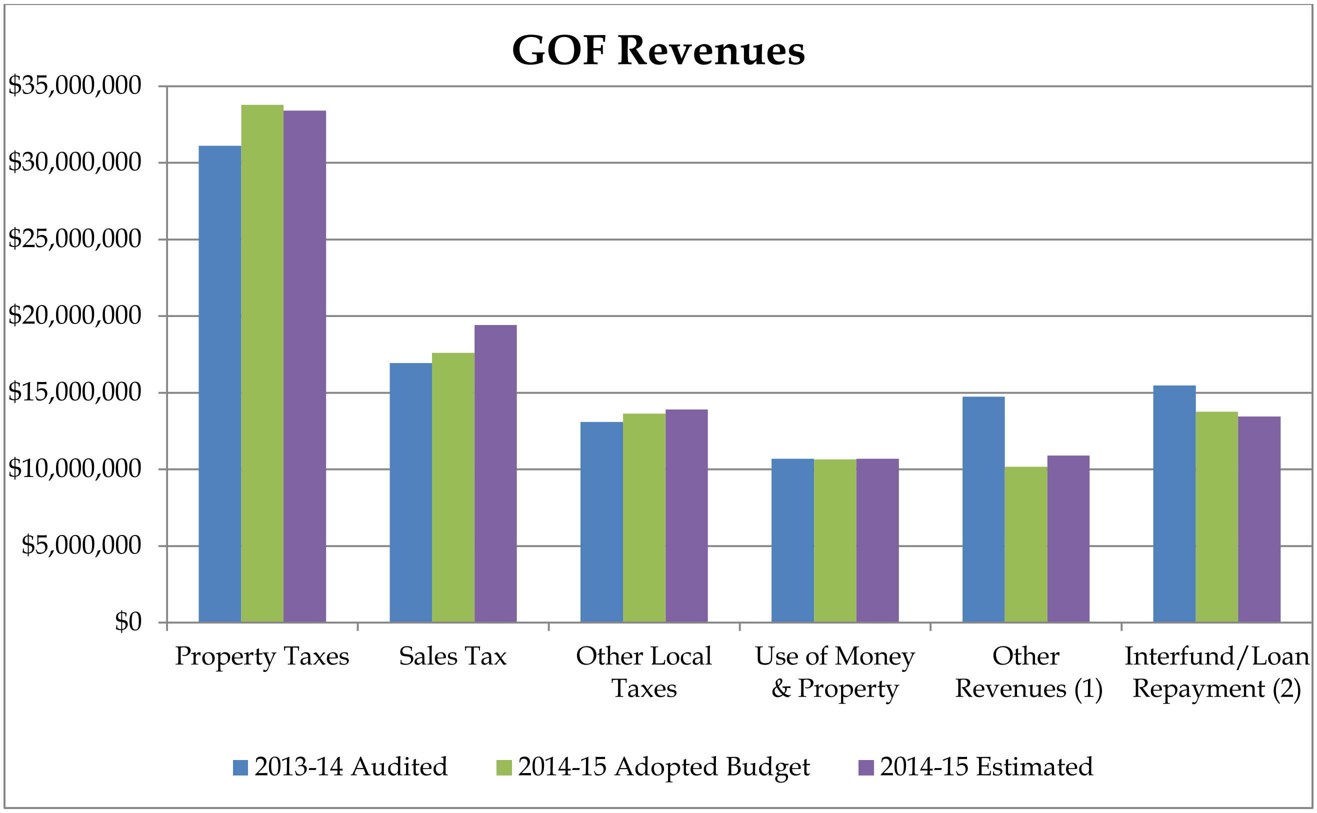
	2014-15 Adopted Budget	2014-15 Adjusted Budget[1]	**2014-15 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 99,644	100,105	**101,779**	1,674
Expenditures	(96,978)	(98,941)	**(97,460)**	1,481
Operating Balance	2,666	1,164	**4,319**	3,155
Contribution to OPEB	(1,000)	(1,000)	**(1,000)**	-0-
Rebudgets[2]	-0-	1,657	**-0-**	(1,657)
Ending Balance	$ 1,666	1,821	**3,319**	1,498

(1) The Adjusted Budget includes the Adopted Budget; any encumbrance and grant/donation carryovers from the prior fiscal year; increases for reimbursed expenditures, grants, and donations; and any budget changes approved to date by Council for the current fiscal year.
(2) Rebudgets for encumbrances and grant/donation carryovers from the prior fiscal year.

Although there are variances in all categories, revenues are currently estimated at $101.8 million, $1.7 million (1.7 percent), and $2.1 million (2.1 percent) higher than the Adjusted and Adopted Budgets, respectively. Including projected budget savings, expenditures for the current fiscal year are estimated at $97.5 million, $1.5 million (1.5 percent) less than the Adjusted Budget and $482,000 (0.5 percent) greater than the Adopted Budget.

A summary of revenues and expenditures is as follows:

General Operating Fund Revenues

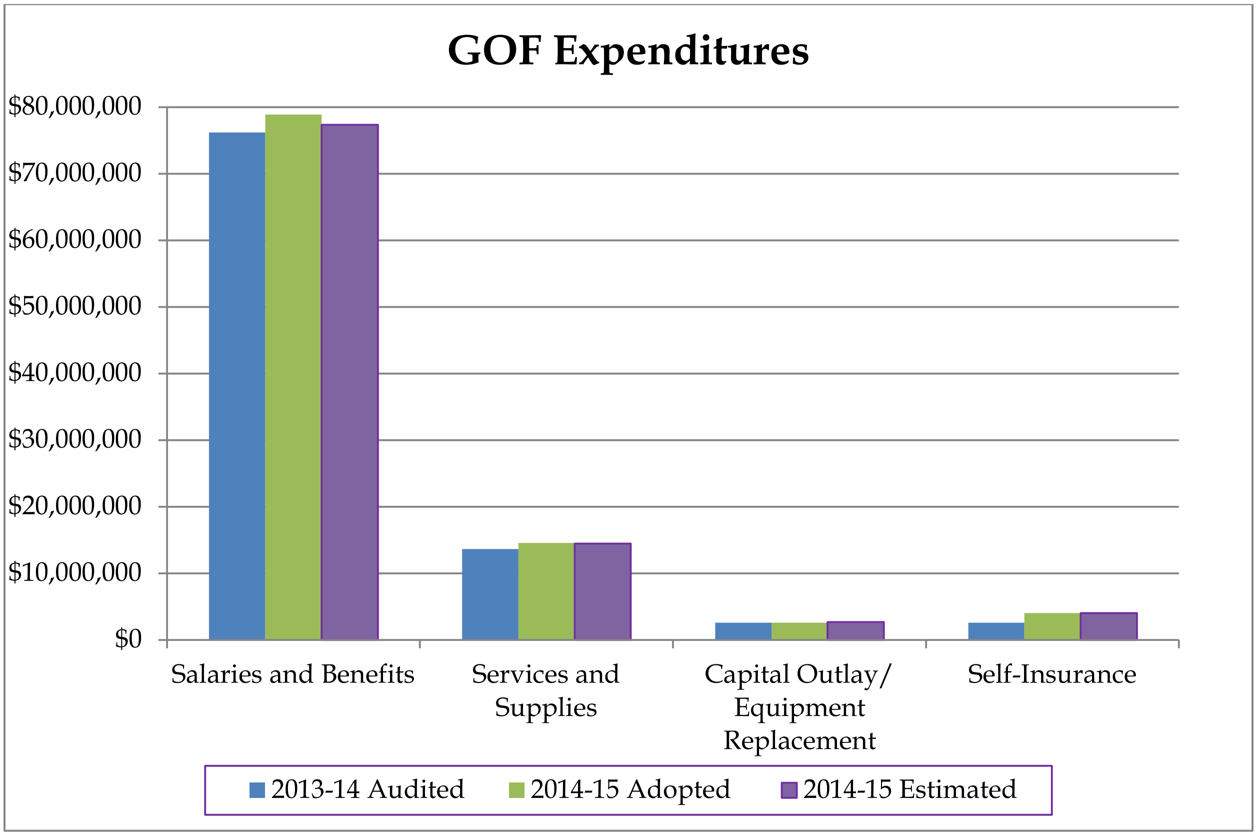


(1) Includes: Licenses, Permits, and Fees/Fines and Forfeitures; Intergovernmental; Charges for Services; and Miscellaneous Revenues.

(2) Includes: Interfund Revenues and Transfers, and Loan Repayments.

Property Taxes and Interfund Revenues and Transfers are estimated slightly lower than budget. All other major categories are estimated at or higher than budget.

General Operating Fund Expenditures



The expenditure savings compared to the Adjusted Budget are comprised primarily of $1.7 million in Salaries and Benefits and $1.8 million in Services and Supplies. The Adopted Budget assumed fiscal year-end expenditure savings of $2.0 million; however, estimated expenditure savings compared to the Adopted Budget are $482,000 short of that assumption.

Other Funds

Development Services revenues are estimated to exceed budget and expenditures are estimated below budget for a total gain of $2.8 million. Shoreline Golf Links revenues are estimated at $2.5 million, $227,000 lower than budget, and expenditures are estimated at $2.3 million, $134,000 lower than budget, resulting in an operating balance of $137,000, $93,000 less than the operating balance in the Adopted Budget. The wind down and dissolution for the former Mountain View Revitalization Authority was approved and effective as of June 30, 2014. The final reconciliation has been submitted to the California Department of Finance (DOF) and the final dissolution approval by the DOF is pending. For the Shoreline Regional Park Community Fund, revenues are currently trending higher than budget and expenditures are trending lower than budget. For the Water Fund, revenues and expenditures are trending below budget, mainly due to water conservation efforts. For the Wastewater and Solid Waste Funds, revenues are trending above budget and expenditures are trending below budget as explained later in this report.

FISCAL YEAR 2015-16 PRELIMINARY GENERAL OPERATING FUND FORECAST

The Silicon Valley area continues to drive the State's economic and employment growth and the businesses located in the City are contributing to that growth. Mountain View companies are hiring and development activity continues at a strong pace and, overall, property values are increasing. A summary of the *preliminary* projection for Fiscal Year 2015-16 follows (dollars in thousands):

	2014-15 Adopted Budget	2014-15 Estimated	**2015-16 Preliminary Forecast**	Variance of 2015-16 Forecast to 2014-15 Adopted
Revenues	$ 99,644	101,779	**103,101**	3,457
Expenditures	(96,978)	(97,460)	**(100,404)**	(3,426)
Operating Balance	2,666	4,319	**2,697**	31
Contribution to OPEB	(1,000)	(1,000)	**(1,000)**	-0-
Ending Balance	$ 1,666	3,319	**1,697**	31

General Operating Fund revenues are projected to increase $3.5 million (3.5 percent) from the current fiscal year Adopted Budget. While the Fiscal Year 2015-16 budget has not been fully developed and the preliminary projection does not include all recommendations, expenditures are projected at $100.4 million, an increase of $3.4 million (3.5 percent) compared to the current fiscal year Adopted Budget, primarily related to salary and benefit cost increases (including $2.0 million of projected budget savings). The Operating Balance is $2.7 million and, after a $1.0 million transfer to the OPEB Trust as previously approved by Council, the ending available balance is projected at a positive $1.7 million. This available balance is $1.2 million higher than previously projected for Fiscal Year 2015-16 from the Forecast prepared last spring. However, this preliminary forecast does not include changes for potential discretionary and nondiscretionary cost increases submitted by departments and currently under review. Staff will return to Council with an updated projection and recommendations with the Narrative Budget Report in late April.

FISCAL YEAR 2013-14 GENERAL FUND REMAINING BALANCE

Section IV details the Fiscal Year 2013-14 General Fund remaining balance of $528,000 and the recommended allocation of these funds to the Capital Improvement Reserve per Council policy.

FISCAL YEAR 2014-15 MIDYEAR PERFORMANCE WORKLOAD/MEASURES UPDATE

Section V provides an update of performance/workload measures by department, including the Fiscal Year 2013-14 actual results as well as the annual target and midyear (six-month) status for Fiscal Year 2014-15.

OTHER RECOMMENDATIONS AND INFORMATION

Center for the Performing Arts—Proposed New Fee

With the installation of the MainStage projector in October 2010, the Center for the Performing Arts (CPA) has received steady requests from clients and other City departments for a mounted video projector in the SecondStage space. Given the high rate of projector rental activity in MainStage and the recent completion of the Tension Grid Project in SecondStage, a high-quality, low-cost LED projector was purchased at the end of Fiscal Year 2013-14. The projector will be mounted from the tension grid, eliminating the need to use valuable seating locations; the projector is also versatile in that it can be run from a variety of locations within the space.

The CPA continues to work toward meeting the needs of its clients while striving to recover costs. Therefore, a new fee of $50.00 per use for the SecondStage video projector rental is proposed, is estimated to generate $800 to $1,200 the first year, and will help offset equipment costs. See Fee Resolution—Attachment 2.

II. FISCAL YEAR 2014-15 MIDYEAR BUDGET STATUS

This section of the report includes a discussion of Fiscal Year 2014-15 revenue and expenditure estimates compared to budget for major funds.

GENERAL OPERATING FUND

Revenues

A comparison of midyear estimated revenues compared to budget for the General Operating Fund follows (dollars in thousands):

	2014-15 Adopted Budget	2014-15 Adjusted Budget	**2014-15 Estimated**	Variance of Estimated to Adjusted Budget
Property Taxes	$33,782	33,782	**33,414**	(368)
Sales Tax	17,608	17,608	**19,414**	1,806
Other Local Taxes	13,643	13,643	**13,905**	262
Use of Money and Property	10,663	10,663	**10,686**	23
Licenses, Permits, and Fees/Fines and Forfeitures	5,434	5,434	**5,342**	(92)
Intergovernmental	560	564	**756**	192
Charges for Services	2,541	2,919	**2,935**	16
Miscellaneous Revenues	1,641	1,643	**1,878**	235
Interfund Revenues and Transfers	13,772	13,849	**13,449**	(400)
Total Operating Revenues	$99,644	100,105	**101,779**	1,674

Most revenue categories are trending favorably compared to budget. A detail discussion of major revenue categories follows.

Property Taxes for the General Operating Fund are estimated at $33.4 million, $368,000 (1.1 percent) below budget. The Fiscal Year 2014-15 Adopted Budget included projected growth in both secured and unsecured General Fund assessed values (AV) compared to the July 1, 2013 tax roll. The growth was based on a positive 2.0 percent

California Consumer Price Index (CCPI) applied to the majority of properties, plus increased value related to changes in ownership and new development. The County continues to process appeals and refunds and the estimated revenue takes into consideration anticipated additional refunds by the end of the current fiscal year. Although the growth in property taxes is healthy, estimated at 7.4 percent over the prior fiscal year, it is slightly lower than projected for the Adopted Budget.

Sales Tax revenue is currently estimated at $19.4 million, $1.8 million (10.3 percent) higher than budget. Overall, Sales Tax has grown compared to budget and the prior fiscal year actual.

Other Local Taxes is estimated at $13.9 million in total, $262,000 (1.9 percent) higher than budget. Transient Occupancy Tax (TOT) is estimated to be $420,000 (7.1 percent) higher than budget and 13.5 percent higher than the prior fiscal year actual. TOT revenue has recovered since the recession and this growth trend is estimated to continue for the remainder of the current fiscal year. Overall, Utility Users Tax (UUT) revenue is estimated at $158,000 (2.1 percent) below budget, primarily as UUT received fiscal year to date for telecommunications is slightly lower than anticipated in the Adopted Budget. UUT generated from energy use is estimated to be higher than both the current fiscal year budget and the prior fiscal year actual.

Use of Money and Property is comprised of Investment Earnings and Rents and Leases and is estimated at $10.7 million, essentially on target with budget. Investment Earnings is estimated to be $23,000 (1.8 percent) higher than budget as the average portfolio yield for the current fiscal year is not as low as projected in the budget. Although interest rates have increased slightly from the lowest point since the recession, they continue to be significantly lower than the 5.0 percent rate available prior to the recession. Rents and Leases, which include the City's long-term ground leases and leases for a variety of City properties, provide a steady income stream with annual contractual increases. This revenue, which is currently estimated to be on target with budget, contributes $9.4 million (9.3 percent) of total GOF revenues.

Licenses, Permits, and Fees/Fines and Forfeitures is estimated at $92,000 (1.7 percent) below budget and $329,000 (5.8 percent) lower than the prior fiscal year actuals, after taking into consideration the consolidation of the Development Services Fund for the Fiscal Year 2014-15 Adopted Budget. Contributing to the decrease in this revenue category is a reduction in vehicle and traffic citations resulting from temporarily vacant positions.

Intergovernmental revenue is estimated at $192,000 (34.0 percent) higher than Adjusted Budget, primarily the result of a multi-year retroactive mandate reimbursement payment received.

Charges for Services is generated by fees assessed for Recreation and other types of services and is estimated as budgeted. The estimate is $142,000 (5.1 percent) higher than the prior fiscal year actual, after taking into consideration the consolidation of the Development Services Fund for the Fiscal Year 2014-15 Adopted Budget.

Miscellaneous Revenues is estimated to be $235,000 (14.3 percent) higher than the Adjusted Budget resulting from grants, donations, and expense reimbursements received that were not budgeted. The estimate is $553,000 (22.7 percent) lower than the prior fiscal year actual (after taking into consideration the consolidation of the Development Services Fund for the Fiscal Year 2014-15 Adopted Budget), due to a greater amount of grant, donation, and expense reimbursements received in the prior fiscal year than estimated for the current fiscal year.

Interfund Revenues and Transfers are estimated to be $400,000 (2.9 percent) below Adjusted Budget as the transfer from the Earned Lease Revenue Reserve has been reduced from $750,000 to $350,000. The $30.0 million of prepaid rent was received from Google Inc. for the Charleston East site in 2008, when the portfolio yield was above 4.5 percent. Due to the recession, the Federal Open Market Committee (FOMC) has reduced and maintained the current low interest rate environment and the actual investment yields have been significantly lower than the average annual 3.5 percent previously projected. In order to preserve the principal amount of prepaid rent, as approved by Council, staff recommends the transfer be reduced to $350,000 annually, starting in Fiscal Year 2014-15, which approximates the current actual 1.25 percent portfolio yield, until interest rates rise again.

Expenditures

A comparison of midyear estimated expenditures to budget for the General Operating Fund follows (dollars in thousands):

	2014-15 Adopted Budget	2014-15 Adjusted Budget	**2014-15 Estimated**	Variance of Estimated to Adjusted Budget
Salaries and Benefits	$78,856	79,033	**77,323**	1,710
Supplies and Services	14,531	16,224	**14,453**	1,771
Capital Outlay/ Equipment Replacement	2,589	2,682	**2,682**	-0-
Self-Insurance	3,002	3,002	**3,002**	-0-
Estimated Budget Savings	(2,000)	(2,000)	**Included**	(2,000)
Total Operating Expenditures	$96,978	98,941	**97,460**	1,481

Salaries and Benefits is estimated at $77.3 million, $1.7 million (2.2 percent) below the Adjusted Budget, the result of vacant positions and some personnel turnover during the first half of the fiscal year.

Services and Supplies expenditures appear to be trending at $14.5 million, $1.8 million (10.9 percent) less than the Adjusted Budget.

Capital Outlay/Equipment Replacement is estimated at $2.7 million and includes $2.3 million of annual funding for equipment replacement and $403,000 is currently estimated for new capital purchases.

Self-Insurance is estimated as budgeted at $3.0 million.

In total, estimated expenditures indicate a $1.5 million favorable variance compared to the Adjusted Budget, but are estimated $482,000 more than the Adopted Budget. Expenditure savings are estimated lower than projected for the Adopted Budget, as savings from services and supplies has steadily declined over the past four years due to departments absorbing more annual increases into their existing budgets. Savings from salaries and benefits has also declined due to more positions being filled.

The ending balance is estimated at $3.3 million, exceeding the $1.7 million Adopted ending balance. However, as mentioned above, the expenditures savings is currently estimated $482,000 lower than the $2.0 million included in the Adopted Budget.

Expenditures by Department

All departments appear to be trending under budget for the current fiscal year. The variance detailed below does 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 General Operating Fund department expenditures follows (dollars in thousands):

	2014-15 Adopted Budget	2014-15 Adjusted Budget	2014-15 Estimated	Variance of Estimated to Adjusted Budget	Percent Savings of Adjusted Budget
City Council	$ 315	315	248	67	21.3
City Clerk	587	588	581	7	1.2
City Attorney	1,622	1,762	1,704	58	3.3
City Manager	3,113	3,214	2,997	217	6.8
Information Technology	3,220	3,244	2,986	258	8.0
Finance and Administrative Services	5,139	5,446	4,852	594	10.9
Community Development	1,303	1,927	1,563	364	18.9
Public Works	7,982	8,065	7,788	277	3.4
Community Services	13,625	13,756	13,071	685	5.0
Library Services	5,057	5,291	5,006	285	5.4
Fire	19,906	19,989	19,536	453	2.3
Police	31,815	32,050	31,838	212	0.7
Nondepartmental[1]	5,294	5,294	5,290	4	0.1
Projected Budget Savings	(2,000)	(2,000)	Included	(2,000)	0.0
Total Operating Expenditures	$96,978	98,941	97,460	1,481	1.5

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

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 provides 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 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):

	2014-15 Adopted Budget	2014-15 Adjusted Budget	**2014-15 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 9,356	9,356	**11,404**	2,048
Expenditures	(9,446)	(10,575)	**(9,867)**	708
Operating Balance/(Deficit)	(90)	(1,219)	**1,537**	2,756
Transfer to General Non-Operating	(1,521)	(1,521)	**(1,521)**	-0-
Transfer to Reserve for Future CIP	(350)	(350)	**(350)**	-0-
Transfer to Compensated Absences	(62)	(62)	**(62)**	-0-
Retirees' Health UAAL	(590)	(590)	**(590)**	-0-
Capital Projects	(618)	(618)	**(618)**	-0-
Excess/(Deficiency) of Revenues	(3,231)	(4,360)	**(1,604)**	2,756
Beginning Balance	15,140	15,140	**15,140**	-0-
Ending Balance	$11,909	10,780	**13,536**	2,756

Midway through the current fiscal year, estimated operating revenues of $11.4 million are trending $2.0 million (21.9 percent) higher than budget, as the level of development activity continues to be very strong. Estimated operating expenditures of $9.9 million are $708,000 (6.7 percent) below the Adjusted Budget, reflecting salary and benefit savings from vacant positions. It is estimated that operating revenues will exceed operating expenditures by $1.5 million. After total transfers of $3.1 million, including $1.9 million in reimbursement for prior year expenses, $62,000 to fund Compensated Absences, $590,000 toward the Retirees' Health Unfunded Actuarial Accrued Liability (UAAL), and $618,000 for Capital Projects, there will be an estimated balance of $13.5 million.

SHORELINE GOLF LINKS

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 generally open 364 days per year. Paid rounds of golf played in Fiscal Year 2013-14 totaled a record 73,859. The City contracts with Touchstone Golf (Touchstone) to manage and operate the Pro Shop and to maintain the course. Prior to contracting with Touchstone, Shoreline Golf Links had annual operating deficits over a five-year period totaling $2.1 million.

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

	2014-15 Adopted Budget	2014-15 Adjusted Budget	**2014-15 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 2,696	2,696	**2,469**	(227)
Expenditures	(2,466)	(2,466)	**(2,332)**	134
Operating Balance	230	230	**137**	(93)
Transfer to Compensated Absence	(3)	(3)	**(3)**	-0-
Transfer to the General Fund	(225)	(225)	**(134)**	91
Excess (Deficiency) of Revenues	2	2	**0**	(2)
Beginning Balance	5	5	**5**	-0-
Ending Balance	$ 7	7	**5**	(2)

Based on financial information midway through the fiscal year, activity at the course is estimated to generate $2.5 million in revenues, $227,000 (8.4 percent) below budget, primarily related to lower green fee revenue. Due to the fleet replacement completed late last fiscal year, Golf Car rental revenue is estimated higher than budget and the prior fiscal year. The majority of the improvements last fiscal year were to improve/replace the turf damaged from the usage of 100 percent recycled water and to refurbish the bunkers along the greens. Course conditions continue to improve by refurbishing of the fairway bunkers, replacing/refurbishing the turf where needed, and making improvements to the driving range and course signage. It is anticipated these improvements will generate additional activity and related revenue, but this is not included in the current fiscal year estimate. In total, revenues for the current fiscal year are estimated to be $75,000 (2.9 percent) lower than the prior fiscal year actuals. Although total rounds of golf are higher, the average rate per round is lower due to higher membership and tournament rounds.

Expenditures of $2.3 million are currently estimated at $134,000 (5.4 percent) lower than budget. Last fiscal year, water costs were higher than anticipated in the budget as a result of the dry weather conditions and the need to use more potable water to establish the new turf. For the current fiscal year, the blend has been approximately 50 percent potable and 50 percent recycled, which has reduced the cost of water. After funding the $3,000 transfer to the Compensated Absences Fund, there is an estimated available balance of $134,000 to be transferred to the GOF. This is $91,000 less than the Adopted Budget and will be reviewed again with the Narrative Budget Report.

The City and Touchstone continue to improve the course and operations with projects such as the multi-year bunker renovations and the online reservation system. Staff continues to work with Touchstone and meets quarterly to review the financial status of the course.

SUCCESSOR AGENCY TO THE REVITALIZATION AUTHORITY FUND

As of January 31, 2012, under the Dissolution Act, all California redevelopment agencies were dissolved and ceased to exist as a public entity. The City has elected to serve as the Successor Agency to the Revitalization Authority (Successor Agency) and to also retain the housing assets and functions. The Successor Agency is responsible for winding down the affairs of the former Revitalization Authority (Authority). An Oversight Board consisting of seven members was established as required by the legislation. The Oversight Board is responsible for reviewing and approving all Recognized Obligation Payment Schedules (ROPS) which include the enforceable obligations of the Authority for each six-month period. The ROPS is reviewed by the County and submitted to the State Department of Finance (DOF) for final approval.

The comprehensive wind down and Dissolution Plan was approved and effective as of June 30, 2014. The Dissolution Plan included calling the outstanding 2003 Certificates of Participation (COPs) and waiving the reinstatement of the outstanding loans by the City and Shoreline Community, in exchange for credit toward the Bryant Street and Franklin Street properties owned by the Successor Agency.

In addition, a Compensation Agreement for the allocation of any revenues resulting from the parking structures to the taxing entities has been approved by the City and all the taxing entities. The final reconciliation and ROPS has been submitted and is pending final approval by the DOF.

SHORELINE REGIONAL PARK COMMUNITY (SHORELINE COMMUNITY) FUND

The Shoreline Community was created by legislation in 1969 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.

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

	2014-15 Adopted Budget	2014-15 Adjusted Budget	**2014-15 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 29,405	29,405	**29,817**	412
Expenditures	(26,538)	(27,252)	**(26,990)**	262
Operating Balance	2,867	2,153	**2,827**	674
Transfer to Compensated Absences	(121)	(121)	**(121)**	-0-
Retirees' Health UAAL	(403)	(403)	**(403)**	-0-
Capital Projects	(3,011)	(3,101)	**(3,101)**	-0-
Excess/(Deficiency) of Revenues	(668)	(1,472)	**(798)**	674
Beginning Balance	51,298	51,298	**51,295**	(3)
Reserve	(4,900)	(4,900)	**(4,900)**	-0-
Landfill Reserve	(3,000)	(3,000)	**(3,000)**	-0-
Ending Balance	$ 42,730	41,926	**42,597**	671

Operating revenues, primarily property taxes, for the 2014-15 fiscal year are estimated at $29.8 million, $412,000 (1.4 percent) higher than budget. The Adopted Budget assumed a net 10.8 percent AV decline taking into consideration projected reductions for assessment appeals. Subsequent to adopting the budget, the County provided the summary July 1, 2014 tax roll information that indicated a net AV increase of 4.7 percent compared to the prior fiscal year tax roll. There are a significant number of appeals still pending from prior years and the County will adjust the Shoreline Community's revenue as each appeal is processed.

Operating expenditures for Fiscal Year 2014-15 are estimated at $27.0 million, $262,000 (1.0 percent) lower than budget as a result of savings from operations. Included in operating expenditures is the $1.9 million payment on the General Fund loan and $6.3 million of debt service. The combined annual interagency payment to the school districts and the County is estimated at $7.9 million for Fiscal Year 2014-15.

It is estimated that operating revenues will exceed operating expenditures by $2.8 million that will partially fund the transfers of $121,000 to the Compensated Absences Fund, $403,000 toward the Retirees' Health UAAL, and $3.1 million of capital projects. After reserving $7.9 million for the General Reserve and the Landfill Corrective Action Reserve, the fund is estimated with a $42.6 million ending balance, essentially as budgeted.

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. In a July 2006 California Supreme Court decision (*Bighorn*), the Court ruled that 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 130, of the California Constitution. Proposition 218 (as now interpreted) requires governmental agencies that charge for utility services to conduct a majority protest hearing prior to adopting any changes to utility rates. A notice must be mailed no later than 45 days prior to the public hearing, include the proposed rate adjustment, the calculation methodology, and describe the process for submitting a protest vote to the rate adjustment. The City has complied with Proposition 218 and will be reviewing the revenues and expenditures for each of the utility funds and returning to Council with rate recommendations in the Narrative Budget Report in late April.

WATER FUND

The Water Enterprise Fund is a utility fund accounting for the revenues and expenditures associated with the provision of retail water service to Mountain View residents and businesses. The City provides water service to approximately 96.0 percent of water customers within the City limits while California Water Service (a private company) provides service to the remaining 4.0 percent of water customers in a few previously unincorporated neighborhoods. Water for the City's system is obtained primarily from the San Francisco Public Utilities Commission (SFPUC) regional Hetch Hetchy water system (85.0 percent). Water is also purchased from the Santa Clara Valley Water District (SCVWD) (11.0 percent) and well production (4.0 percent). The primary costs associated with water service are the purchase of water, staffing to operate and maintain the system, ongoing maintenance, and major 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 an adequate reserve.

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

	2014-15 Adopted Budget	2014-15 Adjusted Budget	**2014-15 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 28,487	28,487	**26,302**	(2,185)
Expenditures	(25,785)	(25,865)	**(24,367)**	1,498
Operating Balance	2,702	2,622	**1,935**	(687)
Capital Projects	(2,881)	(2,881)	**(2,881)**	-0-
Excess (Deficiency) of Revenues	(179)	(259)	**(946)**	(687)
Beginning Balance	18,011	18,011	**18,011**	-0-
Reserves	(8,541)	(8,541)	(8,541)	-0-
Ending Balance	$ 9,291	9,211	**8,524**	(687)

An overall 7.0 percent rate increase was adopted for Fiscal Year 2014-15. Operating revenues are estimated at $26.3 million, $2.2 million (7.7 percent) lower than budget. Water usage is 16.0 percent lower comparing usage through November in the current fiscal year to last fiscal year. This can be attributed to water conservation efforts due to the current drought. Recycled water sales are trending higher comparing usage through November in the current fiscal year to last fiscal year, mainly due to the Shoreline Golf Links using more potable water last fiscal year to reduce salinity of recycled water used on the course turf and an increasing number of irrigation accounts receiving recycled water.

Operating expenditures are estimated at $24.4 million, $1.5 million (5.8 percent) below budget, primarily as a result of less water purchased due to less usage but reflecting 90.0 percent of the required City's minimum water purchase as allowed by contract with the SFPUC due to their voluntary 10.0 percent conservation request. There are also savings in operations. The estimated operating balance of $1.9 million will partially fund the current fiscal year's $2.9 million for capital projects. The fund is estimated with an $8.5 million ending balance and $8.5 million in reserves.

WASTEWATER FUND

The Wastewater Enterprise Fund is a utility fund that accounts for the costs and revenues associated with the collection, transportation, and treatment of wastewater generated by all residents and businesses in the City. 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 (PARWQCP), 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):

	2014-15 Adopted Budget	2014-15 Adjusted Budget	**2014-15 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 15,942	15,942	**16,113**	171
Expenditures	(14,460)	(14,851)	**(14,172)**	679
Operating Balance	1,482	1,091	**1,941**	850
Capital Projects	(2,417)	(2,417)	**(2,417)**	-0-
Excess (Deficiency) of Revenues	(935)	(1,326)	**(476)**	850
Beginning Balance	12,922	12,922	**12,922**	-0-
Reserves	(6,307)	(6,307)	**(6,307)**	-0-
Ending Balance	$ 5,680	5,289	**6,139**	850

An overall 4.0 percent rate increase was adopted for Fiscal Year 2014-15. This includes a 2.0 percent rate increase for operations and a 2.0 percent rate increase for future PARWQCP capital costs. As outlined in the Fiscal Year 2014-15 Narrative Budget Report, the PARWQCP is forecasting significant capital renovations at the treatment plant and has projected costs to increase approximately $1.5 million annually beginning Fiscal Year 2018-19 and reaching a projected peak of $3.6 million annually in Fiscal Year 2026-27. A cumulative rate increase of 20.0 percent is projected to be needed to achieve the $3.6 million projected annual cost. Staff recommended and Council approved a gradual phase-in of 2.0 percent annually for the next 10 years to fund these long-term capital costs.

Operating revenues are estimated at $16.1 million, approximately $171,000 (1.1 percent) higher than budget. Estimated operating expenditures of $14.2 million are trending $679,000 (4.6 percent) below budget as a result of savings in operations. Each fall, an annual reconciliation of the prior fiscal year's actual treatment costs (based on volume) is performed by the PARWQCP, and an adjustment is provided to each member agency. The City's share of actual expenditures of the treatment plant for last fiscal year were higher than budgeted, resulting in an additional charge of $259,000 that is included in the current fiscal year's treatment costs. The estimated operating balance of $1.9 million will partially fund the current fiscal year's $2.4 million for capital projects. The fund is estimated with a $6.1 million ending balance and $6.3 million in reserves, which includes the additional 2.0 percent rate for future PARWQCP capital expenditures.

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 (in which 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):

	2014-15 Adopted Budget	2014-15 Adjusted Budget	**2014-15 Estimated**	Variance of Estimated to Adjusted Budget
City Revenues	$ 12,096	12,096	**12,359**	263
Recology Revenues[1]	13,680	13,680	**13,755**	75
Total Revenues	25,776	25,776	**26,114**	338
City Expenditures	(11,891)	(12,353)	**(11,694)**	659
Recology Payments[1]	(13,680)	(13,680)	**(13,755)**	(75)
Total Expenditures	(25,571)	(26,033)	**(25,449)**	584
Operating Balance (Deficit)	205	(257)	**665**	922
Capital Projects	(295)	(295)	**(295)**	-0-
Excess (Deficiency) of Revenues	(90)	(552)	**370**	922
Beginning Balance	5,187	5,187	**5,187**	-0-
Reserves	(2,973)	(2,973)	**(2,973)**	-0-
Ending Balance	$ 2,124	1,662	**2,584**	922

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

Fiscal Year 2014-15 is the second year of the new trash and recycling collection services agreement with Recology. This agreement expanded diversion services primarily to bin customers, increased convenience for cart customers through additional curbside collections, and expanded drop-off services at the Mountain View Recycling Center. An overall average rate increase of 2.0 percent was adopted for Fiscal Year 2014-15, which included a 3.0 percent increase for cart, debris box, and compactor rates and a 1.0 percent increase for bin rates.

The City's Solid Waste Fund operating revenues are estimated at $12.4 million, $263,000 (2.2 percent) higher than budgeted. City operating expenditures are estimated at $11.7 million, $659,000 (5.3 percent) below Adjusted Budget, as a result of savings in operations and lower SMaRT Station costs due for 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 2013-14 the City received $174,000 credit that has been applied to the current fiscal year's payments.

Operating revenues are estimated higher than operating expenditures by $665,000. After funding the current fiscal year's $295,000 for capital projects, there is an estimated ending balance of $2.6 million and reserves of $3.0 million.

A Cost of Service Study was started in Fiscal Year 2011-12 to review the rate structure and potential realignment of rates to reflect the cost of collection and disposal. Due to the timing of the implementation of new services negotiated in the new agreement with Recology, the completion of the Cost of Service Study was postponed until after a full year of new service levels have been completed. Staff is currently reviewing the Cost of Service Study and will be bringing forth rate recommendations in April. It is expected that residential rates will need to increase. The revenues generated for trash and recycling services are based on trash services, and as diversion opportunities increase, consumers will continue to reduce service levels for trash, resulting in lower total revenues. However, the cost to pick up and haul both recycling and trash remains and increases with inflation. In addition, rates are charged based on volume while disposal costs are based on weight.

III. FISCAL YEAR 2015-16 PRELIMINARY GENERAL OPERATING FUND FORECAST

This section of the report will focus on the Fiscal Year 2015-16 GOF preliminary forecast. This forecast is based on limited data and many assumptions are being made at this time. An updated forecast will be incorporated into the Narrative Budget in late April.

The preliminary projection for Fiscal Year 2015-16 follows (dollars in thousands):

	2013-14 Audited	2014-15 Adopted Budget	2014-15 Estimated	**2015-16 Preliminary Forecast**	Variance of 2015-16 Forecast to 2014-15 Adopted
Revenues	$102,045	99,644	101,779	**103,101**	3,457
Expenditures	(94,933)	(96,978)	(97,460)	**(100,404)**	(3,426)
Rebudgets[1]	(321)	-0-	-0-	**-0-**	-0-
Operating Balance	6,791	2,666	4,319	**2,697**	31
Transfer to General Nonoperating Fund	(6,469)	-0-	-0-	**-0-**	-0-
Transfer to General Fund Reserve	(322)	-0-	-0-	**-0-**	-0-
Transfer to OPEB Trust	-0-	(1,000)	(1,000)	**(1,000)**	-0-
Ending Balance	$ -0-	1,666	3,319	**1,697**	31

[1] Rebudgets for changes in encumbrances and grant/donation carryovers to FY 2014-15.

The preliminary forecast projects total GOF revenues of $103.1 million, an increase of $3.5 million (3.5 percent) and $1.3 million (1.3 percent) compared to the current fiscal year Adopted Budget and Estimated, respectively. Expenditures are anticipated to increase $3.4 million (3.5 percent) to $100.4 million compared to the current fiscal year adopted. Projected budget savings of $2.0 million are included; however, the current fiscal year estimated savings is trending $482,000 lower. For Fiscal Year 2015-16, there is a preliminary positive operating balance of $2.7 million and $1.7 million after the contribution to the OPEB trust. However, this forecast does not include any additional recommendations requested through the budget process by departments for Fiscal Year

2015-16. Any recommended expenditure changes will be included with the Narrative Budget Report in late April.

A more detailed discussion of the projected General Operating Fund 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 General Operating Fund follows (dollars in thousands):

	2013-14 Audited[1]	2014-15 Adopted Budget	2014-15 Estimated	**2015-16 Preliminary Forecast**	Variance of 2015-16 Forecast to 2014-15 Adopted
Property Taxes	$ 31,120	33,782	33,414	**35,091**	1,309
Sales Tax	16,936	17,608	19,414	**19,355**	1,747
Other Local Taxes	13,089	13,643	13,905	**14,097**	454
Use of Money and Property	10,690	10,663	10,686	**10,840**	177
Licenses, Permits, and Fees/Fines and Forfeitures	5,670	5,434	5,342	**5,580**	146
Intergovernmental	679	560	756	**553**	(7)
Charges for Service	2,793	2,541	2,935	**2,542**	1
Miscellaneous Revenues	2,431	1,641	1,878	**1,659**	18
Interfund Revenues and Transfers	13,575	13,772	13,449	**13,384**	(388)
Total Operating Revenues	$96,983	99,644	101,779	**103,101**	3,457

(1) The revenues for FY 2013-14 have been reclassified to exclude Development Services Fund and the General Fund loan repayment to conform to the revenues Adopted for FY 2014-15 and projected for FY 2015-16.

A brief explanation of the assumptions and changes for Fiscal Year 2015-16 follows:

Property Taxes are projected at $35.1 million, an increase of $1.3 million compared to the Fiscal Year 2014-15 Adopted. Compared to the July 1, 2014 tax roll, the assessed value of secured property generating tax revenues for the General Operating Fund is projected to grow, reflecting the following:

- A 1.998 percent increase in AV for most properties resulting from the annual California Consumer Price Index inflation factor (October 2013 to October 2014).

- AV increases resulting from changes in ownership which occurred from January 1, 2014 through October 31, 2014 (information currently available).

- Increased AV related to new development anticipated to be included on the July 1, 2015 tax roll.

- Anticipated AV changes resulting from the resolution of appeals and restoration of Prop 8 adjustments.

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

Sales Tax is projected at $19.4 million for Fiscal Year 2015-16, based on actual sales tax activity for the first half of the current fiscal year, plus estimates for the remaining two quarters, adjusted for the following:

- State Board of Equalization (SBOE) one-time audit adjustments; and

- 2.5 percent growth on the level of current fiscal year sales tax estimated to be received from the remaining sales tax generators.

This results in $1.7 million growth compared to the current fiscal year Adopted Budget and an amount approximately the same as the current fiscal year estimate.

Other Local Taxes is projected to increase a net of $454,000 compared to the current fiscal year Adopted. TOT revenues received to date are performing better than budgeted for the current fiscal year, and this trend is expected to continue, though at a slower pace into Fiscal Year 2015-16. Fiscal Year 2015-16 UUT generated from telecommunications services is projected to decline 5.0 percent compared to the current fiscal year Estimated, reflecting a continuation of the decline in current fiscal year receipts. The UUT assessed on energy is projected to increase compared to both the current fiscal year Adopted and Estimated.

Use of Money and Property is projected to increase compared to both the current fiscal year Adopted ($177,000) and the current fiscal year Estimated ($154,000). Although investment earnings continue to be impacted by low interest rates, rates are slightly higher than the prior fiscal year. The Federal Reserve benchmark interest rates remain at a historic low. In a December 2014 press release, the FOMC stated that to support continued progress toward maximum employment and price stability, the FOMC reaffirmed its view that the current 0.0 percent to 0.25 percent target range for the Federal funds rate remains appropriate. Rents and Leases revenue is projected at essentially the same level as the Fiscal Year 2014-15 Estimated.

Licenses, Permits, and Fees/Fines and Forfeitures is projected to increase $146,000 (2.7 percent) and $238,000 (4.5 percent) compared to the current fiscal year Adopted and the current fiscal year Estimated, respectively. Franchise fees will be updated for the Narrative Budget based on both the annual franchise fees to be received in April and any recommended rate changes for trash and recycling services. Licenses and Permits are projected at essentially the same level as the current fiscal year Adopted and Estimated. Fines and Forfeitures are projected at the same level as the current fiscal year Adopted.

Intergovernmental is projected $7,000 (1.3 percent) and $203,000 (26.9 percent) below the current fiscal year Adopted Budget and Estimated, respectively. The projected budget assumes the City will not receive any mandate reimbursement funding or Federal grants.

Charges for Services is projected at essentially the same level as the current fiscal year Adopted Budget.

Miscellaneous Revenues is projected to remain essentially the same as the current fiscal year Adopted Budget, but decline $219,000 (11.7 percent) from the current fiscal year Estimated as some grants, donations, and reimbursements are not anticipated and, therefore, not budgeted.

Interfund Revenues and Transfers are projected to decline compared to the current fiscal year Adopted. Reimbursements to the GOF remain at the same level and will be reviewed for the Narrative Budget Report after completion of the update to the City's cost allocation plan. Interfund Transfers include a $400,000 reduction in the transfer from the Earned Lease Revenue Reserve. The $30.0 million of prepaid rent was received in 2008, when the portfolio yield was above 4.5 percent. Due to the recession and actions of the FOMC, actual investment yields have been significantly lower than the 3.5 percent average initially projected. In order to preserve the principal amount of prepaid rent, as approved by Council, staff recommends the transfer be reduced to $350,000 annually, which approximates the current actual portfolio yield of 1.25 percent, until interest rates rise again.

Expenditures

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

	2013-14 Audited	2014-15 Adopted Budget	2014-15 Estimated	**2015-16 Preliminary Forecast**	Variance of 2015-16 Forecast to 2014-15 Adopted
Salaries and Benefits:					
Salaries and All Pays	$52,379	52,564	52,552	**54,113**	1,549
Retirement	11,219	12,297	12,297	**13,074**	777
Health Benefits	8,215	8,986	7,668	**9,315**	329
All Other Benefits	4,385	5,009	4,806	**5,147**	138
	76,198	78,856	77,323	**81,649**	2,793
Services and Supplies	13,608	14,531	14,453	**15,020**	489
Capital Outlay/Equipment Replacement	2,562	2,589	2,682	**2,844**	255
Self-Insurance	2,565	3,002	3,002	**2,891**	(111)
Budget Savings	Included	(2,000)	Included	**(2,000)**	-0-
Total Operating Expenditures	$94,933	96,978	97,460	**100,404**	3,426

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

Salaries and Benefits incorporates the cost-of-living adjustment (COLA) included in the Mountain View Firefighters Association MOU extension that goes through June 30, 2017. All other groups' MOUs and agreements expire June 30, 2015 and staff will be negotiating with employee groups. The cost for retirement benefits is projected with the rates provided by CalPERS and reflects an increase of 6.3 percent compared to the 2014-15 Adopted Budget. Medical costs are projected with an average 7.0 percent increase for Kaiser and a 10.0 percent increase for all other plans beginning January 2016. Dental is projected with a 2.0 percent increase beginning January 2016.

Services and Supplies is projected with a $489,000 increase over the Fiscal Year 2014-15 Adopted Budget, related to projected increases for each type of service or supply and a $100,000 increase for water costs due to a preliminary estimated increase from the SFPUC ranging from 17.7 to 31.4 percent. This forecast does not include any additional appropriations requested by departments through the Fiscal Year 2015-16 budget process. Any recommended increases will be included with the Narrative Budget Report in late April.

Capital Outlay/Equipment Replacement includes $344,000 for Capital Outlay. The annual equipment replacement funding amount is projected to increase due to inflation for replacement cost and some adjustments to quantity of items and life expectancy.

Self-Insurance is projected with a net decline, based on an inflationary increase for Liability insurance net of a decline in the cost of the Retirees' Health UAAL amortization based on the actuarial valuation updated as of July 1, 2013.

The Fiscal Year 2015-16 projection will be updated for the Narrative Budget Report in late April, at which time budget recommendations will be presented to Council.

IV. FISCAL YEAR 2013-14 GENERAL FUND REMAINING BALANCE

As discussed in the Analysis of Fiscal Year 2013-14 GOF Audited Financial Results report on the December 2, 2014 Council Agenda, the City's General Fund ended the 2013-14 fiscal year with an unallocated balance of $528,000. The table below details the General Fund balance, including one-time revenues and expenditures savings, budgeted transfers, and limited-period expenditure allocations (dollars in thousands):

General Operating Fund Balance	$6,791
Transfer to General Fund Reserve	(322)
One-Time Revenues and Expenditure Savings:	
UUT Settlement	108
Reimbursements	6
Unspent Limited-Period Expenditures	188
Reimbursement from Development Services Fund	1,521
Loan in Exchange for RDA Property	(1,150)
Total Available for Allocation	7,142
Less Allocations in the Fiscal Year 2014-15 Adopted Budget:	
Capital Improvement Reserve	(2,000)
Compensated Absences Reserve	(1,200)
OPEB Trust	(1,000)
PERS	(1,000)
Workers' Compensation Fund	(300)
New Limited-Period Expenditures and Capital Outlay	(1,114)
Total Allocated	(6,614)
Remaining Unallocated Balance	$ 528

Staff recommends transferring this remaining unallocated balance to the Capital Improvement Reserve, as is the priority set forth in Council Policy A-11.

V. FISCAL YEAR 2014-15 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 status of each measure as of midyear of the current fiscal year.

The final results for Fiscal Year 2014-15 will be reported in the Fiscal Year 2015-16 Adopted Budget.

FISCAL IMPACT

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

CONCLUSION

The midyear budget status of the Fiscal Year 2014-15 General Operating Fund estimates revenues at $101.8 million, $2.1 million and 2.1 percent higher than the Adopted Budget. Expenditures are estimated at $97.5 million, 1.5 percent below the Adjusted Budget and 0.5 percent more than the Adopted Budget. After the additional $1.0 million contribution to Retirees' Health, the General Operating Fund is estimated with a $3.3 million ending balance, which would be available to fund limited-period expenditures for Fiscal Year 2015-16, supplement reserves, provide funding for the CIP, or pay down unfunded liabilities.

Development activity continues to be strong and the Development Services Fund revenues are trending higher than budget. Shoreline Golf Links revenues and expenditures are trending below budget. Final dissolution of the Successor Agency is pending notification from the DOF. Revenues for the remaining funds are currently trending higher than budget and expenditures are currently trending lower than budget with the exception of Water Fund revenues which are being impacted by the water conservation efforts due to the drought.

The preliminary Fiscal Year 2015-16 forecast for the General Operating Fund indicates revenues are growing and are sufficient to meet projected expenditures, creating a preliminary $2.7 million projected operating balance and $1.7 million ending available balance. Expenditure recommendations for Fiscal Year 2015-16 are not included in this preliminary projection and staff will return to Council with recommendations as part of the Narrative Budget Report.

ALTERNATIVES

Utilize the $528,000 available balance from the General Non-Operating Fund for another purpose.

PUBLIC NOTICING—Agenda posting.

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Attachments:
1. Performance Measures/Workload Measures
2. Resolution Amending the City of Mountain View Master Fee Schedule