



CITY OF MOUNTAIN VIEW

MEMORANDUM

Finance and Administrative Services Department

DATE: December 10, 2019

TO: Honorable City Council

FROM: Rafaela O. Duran, Principal Financial Analyst
Suzanne Niederhofer, Assistant Finance and Administrative
Services Director
Jesse Takahashi, Finance and Administrative Services Director

VIA: Daniel H. Rich, City Manager

SUBJECT: Analysis of Fiscal Year 2018-19 Audited Financial Results for the
General Operating Fund and General Fund Available Balance

PURPOSE

To provide an analysis of Fiscal Year 2018-19 audited financial results for the General Operating Fund (GOF) and General Fund available balance (including one-time revenues and expenditure savings).

BACKGROUND

Final audited numbers have been used for the purposes of this report. Some amounts will not match the Comprehensive Annual Financial Report (CAFR) as certain revenue and expenditure reclassifications have been made for financial statement purposes. In addition, the CAFR groups all General Fund revenues and expenditures together, including reserves. The City defines "operating" as the recurring revenues and expenditures supporting ongoing City services. These classification differences do not affect the evaluation of the GOF's financial position. For purposes of this analysis, one-time General Fund revenues and expenditures have been reclassified to conform to the City's definition of operating and are presented separately.

ANALYSIS

Fiscal Year 2018-19 GOF Audited Financial Results

The GOF accounts for recurring unrestricted revenues and general operating expenditures. It is a subset of, and distinguished from, the General Fund, which accounts for total unrestricted revenues and total General Fund expenditures, including reserves and nonrecurring revenues and expenditures in nonoperating accounts.

The Fiscal Year 2017-18 audited and Fiscal Year 2018-19 Adopted Budget, Adjusted Budget, and audited results for the GOF are as follows (dollars in thousands):

	2017-18 <u>Audited</u>	2018-19 Adopted <u>Budget</u>	2018-19 Adjusted <u>Budget</u> ⁽¹⁾	2018-19 <u>Audited</u>	Variance of Audited to Adjusted
Revenues	\$136,377	\$137,682	\$140,387	\$146,010	\$5,623
Expenditures ⁽²⁾	(121,682)	(133,939)	(141,743)	(137,279)	4,464
Rebudgets ⁽³⁾	<u>429</u>	<u>-0-</u>	<u>2,255</u>	<u>(962)</u>	<u>(3,217)</u>
Operating Balance	\$ <u>15,124</u>	\$ <u>3,743</u>	\$ <u>899</u>	\$ <u>7,769</u>	\$ <u>6,870</u>

- (1) The Adjusted Budget includes the Adopted Budget and encumbrance carryovers from prior fiscal years, increases for reimbursed expenditures, grants and donations, and any budget adjustments approved during the fiscal year.
- (2) Expenditures for Fiscal Year 2017-18 include \$4.0 million toward the CalPERS liability, \$2.0 million toward the City’s other post-employment benefits (OPEB) liability, and \$2.0 million toward the Strategic Property Acquisition Reserve (SPAR). Expenditures for Fiscal Year 2018-19 include \$6.5 million transfer to the General Non-Operating Fund for the new Sustainability CIP, \$4.0 million toward the CalPERS liability, \$2.0 million transfer to the Capital Improvement Reserve, \$2.0 million transfer to the Transportation Reserve, \$1.0 million transfer to the General Fund Reserve, and \$1.0 million towards the OPEB liability. Amounts are net of Adopted Budget savings of \$2.3 million for both Fiscal Years 2017-18 and 2018-19.
- (3) Rebudgets include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

The Fiscal Year 2018-19 total audited revenues are \$5.6 million (4.0 percent) above the Adjusted Budget, \$8.3 million (6.0 percent) above the Adopted Budget, and \$9.6 million (7.1 percent) higher than the Fiscal Year 2017-18 total audited revenues. The Fiscal Year 2018-19 total audited expenditures are \$4.5 million (3.1 percent) below the Adjusted

Budget, \$3.3 million (2.5 percent) above the Adopted Budget, and \$15.6 million (12.8 percent) higher than the Fiscal Year 2017-18 total audited expenditures.

The City continues to experience strong revenue growth resulting from the continued robust local economy during the recently completed fiscal year. It is unknown how long this economic cycle will last, and the City continues to practice fiscal restraint in budgeting. It is fortunate the City continues to be generating significant operating balances as it provides an opportunity to add critical positions, both ongoing and limited-period, address some infrastructure needs, fund sustainability efforts, and contribute to the City’s priorities, including unfunded liabilities for retirees’ health and CalPERS pensions.

A discussion of variances by revenue and expenditure categories follows.

Revenues

The Fiscal Year 2017-18 Audited and Fiscal Year 2018-19 Adopted Budget, Adjusted Budget, and audited results for GOF revenues are as follows (dollars in thousands):

	<u>2017-18 Audited</u>	<u>2018-19 Adopted Budget</u>	<u>2018-19 Adjusted Budget</u>	<u>2018-19 Audited</u>	<u>Variance of Audited to Adjusted</u>
Operating Revenues:					
Property Taxes	\$ 49,419	\$ 52,909	\$ 52,909	\$ 51,451	\$(1,458)
Sales Tax	20,713	20,026	20,026	24,390	4,364
Other Local Taxes	15,444	15,989	15,989	15,131	(858)
Use of Money and Property	19,659	21,613	21,613	22,316	703
Licenses, Permits and Franchise Fees/ Fines and Forfeitures	6,161	5,925	6,269	6,448	179
Intergovernmental	817	624	627	728	101
Charges for Services	3,208	2,772	2,772	2,963	191
Miscellaneous Revenues	4,616	1,749	3,714	4,817	1,103
Interfund Revenue and Transfers	<u>16,340</u>	<u>16,075</u>	<u>16,468</u>	<u>17,766</u>	<u>1,298</u>
 Total Operating Revenues	 <u>\$136,377</u>	 <u>\$137,682</u>	 <u>\$140,387</u>	 <u>\$146,010</u>	 <u>\$ 5,623</u>

A summary of revenues by category follows:

- The July 1, 2018 City (GOF) property tax roll included growth for both secured and unsecured assessed values (AV) (including recaptured Proposition 8 value and roll reductions from resolved appeals), resulting in a 6.2 percent increase compared to the prior year tax roll. Property tax revenues totaling \$51.5 million are \$1.5 million (2.8 percent) below budget and \$2.0 million (4.1 percent) higher than the Fiscal Year 2017-18 audited. The variance between budget and actuals is primarily the result of an incorrect revaluation included on the July 1, 2017 tax roll and subsequently corrected for Fiscal Year 2018-19. The City was not aware of this error until after the Fiscal Year 2018-19 budget was adopted.
- Sales tax revenues are \$4.4 million (21.8 percent) above budget and \$3.7 million (17.8 percent) higher than the Fiscal Year 2017-18 audited, primarily as a result of the implementation of a new system in the spring of 2018 by the California Department of Tax and Fee Administration (CDTFA) which resulted in the delay of sales tax remittances to agencies. Approximately \$1.6 million received in Fiscal Year 2018-19 has been identified as late payment for Fiscal Year 2017-18. After adjusting for the late payments, Fiscal Year 2018-19 sales tax is \$22.8 million, \$541,000 (2.4 percent) higher than the Fiscal Year 2017-18 sales tax of \$22.3 million. The \$541,000 net increase is primarily the result of a prior year audit/one-time adjustment and an increase in the allocation from the County pool.
- Other Local Taxes are \$858,000 (5.4 percent) below budget and \$313,000 (2.0 percent) lower than the Fiscal Year 2017-18 audited. Transient Occupancy Tax revenues are \$308,000 (4.2 percent) below budget and approximately the same compared to the 2017-18 audited. Utility Users Tax revenues are \$529,000 (6.3 percent) below budget and \$286,000 (3.5 percent) lower than 2017-18 audited, primarily as a result of lower telecommunications revenue.
- Use of Money and Property revenues, including both Investment Earnings and Rents and Leases, are \$703,000 (3.3 percent) above budget and \$2.7 million (13.5 percent) higher than the Fiscal Year 2017-18 audited. Investment Earnings are \$485,000 (20.3 percent) and \$832,000 (40.8 percent) higher than budget and Fiscal Year 2017-18 audited, respectively. The Federal Open Market Committee increased the benchmark interest rate a total of 225 basis points from December 2015 to December 2018. This has significantly improved the City's interest earnings. Rents and Leases revenues are \$218,000 (1.1 percent) above budget, primarily due to the contractual increase for the Shoreline Amphitheatre. Rents and Leases revenues are \$1.8 million (10.4 percent) higher than the Fiscal Year

2017-18 audited, primarily as a result of the \$1.4 million revenue generated from the Ameswell development. Revenue generated from the Ameswell development is earmarked for debt service related to the Police/Fire Administration Building remodel and expansion estimated to begin in Fiscal Year 2022-23. Until that time, these revenues will be transferred to the Budget Contingency Reserve to be utilized for funding of limited-period items. In addition, the decennial revaluations of the Crittenden and Charleston East leases also contributed to the net increase in audited actuals.

- Licenses, Permits, and Franchise Fees/Fines and Forfeitures are \$179,000 (2.9 percent) above budget and \$287,000 (4.7 percent) higher than the Fiscal Year 2017-18 audited. License, Permits, and Franchise Fees are \$221,000 (4.2 percent) higher compared to the Fiscal Year 2017-18 audited, primarily as a result of higher Franchise Fees with the exception of Cable Franchise Fees. Fines and Forfeitures are \$66,000 (7.3 percent) higher than the Fiscal Year 2017-18 audited as a result of increased parking enforcement and the City's share of bails and fines.
- Intergovernmental Revenues are \$101,000 (16.1 percent) above budget and \$89,000 (10.9 percent) lower than the Fiscal Year 2017-18 audited. The variance to budget is primarily due to grants, reimbursements, and donations that are received but not budgeted; the variance to prior fiscal year audited is primarily due to Police Officer staffing shortages that have not allowed the City to assign an Officer to the Regional Auto Theft Task Force and, therefore, there is no reimbursement from the Santa Clara County Specialized Enforcement Team Task Force.
- Charges for Services are \$191,000 (6.9 percent) above budget and \$245,000 (7.6 percent) lower than the Fiscal Year 2017-18 audited. Revenues in this category are mainly derived from City Recreation programs and miscellaneous other services. The Fiscal Year 2018-19 revenues are higher than budget but lower than Fiscal Year 2017-18 audited, primarily due to lower registration fee revenue from youth classes and elementary camps, reduced facility use fees, and ticket service charge revenue at the Center for the Performing Arts.
- Miscellaneous Revenues are \$1.1 million (29.7 percent) above budget, primarily resulting from one-time reimbursements that are not included in the Adopted Budget due to annual fluctuations. The City budgets various donations and reimbursements only if they are ongoing in nature. A significant portion of the reimbursements were a result of a greater number of Shoreline Amphitheatre events and strike team services rendered for wildfires throughout the State. Compared to Fiscal Year 2017-18 audited, Miscellaneous Revenues are \$201,000

(4.4 percent) higher, primarily as a result of higher reimbursements received in Fiscal Year 2018-19 from strike team and Shoreline Amphitheatre events.

- Interfund Revenues and Transfers are \$1.3 million (7.9 percent) above budget, primarily as a result of higher Capital Improvement Projects (CIP) administrative overhead. The Fiscal Year 2018-19 revenues are \$1.4 million (8.7 percent) higher than Fiscal Year 2017-18 audited, also a result of higher CIP administrative overhead and transfers from the General Fund Reserve approved by City Council during Fiscal Year 2018-19.

Expenditures

The Fiscal Year 2017-18 audited and Fiscal Year 2018-19 Adopted Budget, Adjusted Budget, and audited results for GOF expenditures are as follows (dollars in thousands):

	<u>2017-18 Audited</u>	<u>2018-19 Adopted Budget</u>	<u>2018-19 Adjusted Budget</u>	<u>2018-19 Audited</u>	<u>Variance of Audited to Adjusted</u>
Operating Expenditures:					
Salaries and Benefits:					
Salaries and All Pays	\$ 59,483	\$ 63,507	\$ 64,773	\$ 62,949	\$1,824
Retirement	15,360	19,662	19,662	16,723	2,939
Health Benefits	8,527	10,705	10,705	8,675	2,030
All Other Benefits	<u>6,254</u>	<u>6,943</u>	<u>6,943</u>	<u>6,547</u>	<u>396</u>
	89,624	100,817	102,083	94,894	7,189
Supplies and Services	16,089	17,501	20,920	17,128	3,792
Capital Outlay/ Equipment Replacement	3,184	3,276	3,395	3,086	309
Interfund Expenditures and Transfers	4,785	5,645	5,645	5,671	(26) ⁽¹⁾
Budget Savings Included	Included	(2,300)	(2,300)	Included	(2,300)
Transfer to GNOF	-0-	-0-	-0-	6,500 ⁽²⁾	(6,500)
Transfer to GF Reserve	-0-	1,000	1,000	1,000	-0-
Transfer to Trans Res	-0-	2,000	2,000	2,000	-0-
Transfer to Cap Imp Res	-0-	2,000	2,000	2,000	-0-
Transfer to SPAR	2,000	-0-	2,000	-0- ⁽²⁾	2,000
CalPERS Contribution	4,000	4,000	4,000	4,000	-0-
OPEB Contribution	<u>2,000</u>	<u>-0-</u>	<u>1,000</u>	<u>1,000</u>	<u>-0-</u>
Operating Expenditures	<u>\$121,682</u>	<u>\$133,939</u>	<u>\$141,743</u>	<u>\$137,279</u>	<u>\$4,464</u>

(1) The negative variance is due to property taxes received but not budgeted from the Ameswell development and subsequently transferred to the Budget Contingency Reserve as previously noted.

(2) The City Council approved using the \$2.0 million for SPAR and \$4.5 million from the unallocated balance from Fiscal Year 2018-19 to fund the Sustainability CIP.

A summary of expenditures by category follows:

- During Fiscal Year 2018-19, more positions were vacated than filled, resulting in an increase in the volume of recruitments, in part due to newly approved positions as well as approximately one-third of the vacancies being filled through promotions,

creating additional vacancies. Despite recruitment efforts, there were still many unfilled positions resulting in a \$7.2 million (7.0 percent) favorable variance in Salaries and Benefits compared to Adjusted and \$5.9 million (5.9 percent) compared to Adopted. This is higher savings than in prior fiscal years, which has averaged \$4.7 million per year over the last five fiscal years.

- Historically, every fiscal year, there are savings in Supplies and Services. For Fiscal Year 2018-19, there were savings of \$3.8 million (18.1 percent) compared to Adjusted and \$373,000 (2.1 percent) compared to Adopted. There are Supplies and Services encumbrances totaling \$1.8 million identified to be carried over into Fiscal Year 2019-20. Including these encumbrances, the variance to Adjusted Budget would be \$2.0 million or 9.6 percent.
- The GOF's \$2.8 million contribution to the Equipment Replacement Reserve occurred as budgeted. The remaining capital outlay has a favorable variance of \$309,000 (49.2 percent) compared to budget; \$216,000 of this has been encumbered to be expended in Fiscal Year 2019-20.

The budget savings of \$2.3 million takes into consideration the anticipated savings in expenditure accounts. The Fiscal Year 2018-19 audited amounts indicated in the table do not include a total of \$2.0 million of encumbrances outstanding as of the end of the fiscal year. In accordance with the City Charter, appropriations for lawful encumbrances remaining at the end of each fiscal year are reappropriated in the following fiscal year.

Expenditures by Department

A summary of the GOF audited expenditures compared to Adjusted Budget by department are as follows (dollars in thousands):

Department:	2018-19 Adjusted Budget	2018-19 Audited	Encumbrances	Variance of Audited Plus Encumbrances to Adjusted	% Savings from Adjusted Budget
City Council	\$ 452	\$ 302	\$ -0-	\$ 150	33.2%
City Clerk	714	671	-0-	43	6.0%
City Attorney	2,089	1,945	54	90	4.3%
City Manager	4,402	4,007	186	209	4.7%
Information Technology	5,106	4,678	91	337	6.6%
Finance and Administrative Services	7,357	5,976	419	962	13.1%
Community Development	2,495	1,798	293	404	16.2%
Public Works	10,760	9,872	365	523	4.9%
Community Services	17,471	14,921	224	2,326	13.3%
Library Services	6,497	5,614	1	882	13.6%
Fire	25,863	24,637	140	1,086	4.2%
Police	40,156	37,657	230	2,269	5.7%
Nondepartmental ⁽¹⁾	8,681	8,701	-0-	(20)	(0.2%)
Transfer to GNOF	-0-	6,500	-0-	(6,500)	N/A
Transfer to GF Res	1,000	1,000	-0-	-0-	0.0%
Transfer to Trans Res	2,000	2,000	-0-	-0-	0.0%
Transfer to Cap Imp Reserve	2,000	2,000	-0-	-0-	0.0%
Transfer to SPAR	2,000	-0-	-0-	2,000	100.0%
CalPERS Contribution	4,000	4,000	-0-	-0-	0.0%
OPEB Contribution	1,000	1,000	-0-	-0-	0.0%
Budget Savings	<u>(2,300)</u>	<u>Included</u>	<u>-0-</u>	<u>(2,300)</u>	100.0%
Total Operating Expenditures	<u>\$141,743</u>	<u>\$137,279</u>	<u>\$2,003</u>	<u>\$2,461</u>	1.7%

⁽¹⁾ Nondepartmental expenditures include Interfund Transfers for equipment replacement and Interfund Expenditures and Transfers.

All departments ended the 2018-19 fiscal year with expenditures below the Adjusted Budget.

Fiscal Year 2018-19 GOF Balance and One-Time Revenues and Expenditure Savings

As discussed earlier, the City’s GOF ended the 2018-19 fiscal year with a positive operating balance of \$7.8 million. The table below details the General Fund balance, including one-time revenues and expenditure savings, budgeted transfers, and limited-period expenditure allocations (dollars in thousands):

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

Including the GOF balance, the remaining balance available from prior fiscal years, one-time revenues, and expenditure savings, there is a total of \$19.5 million available for allocation.

Allocations in the Fiscal Year 2019-20 Adopted Budget include the funding of a new Sustainability CIP, new limited-period expenditures of \$4.4 million, \$3.0 million (up to \$3.0 million authorized) to the Capital Improvement Reserve for future projects, \$2.0 million to CalPERS, \$2.0 million to the Compensated Absences Reserve, and \$1.8 million to the General Fund Reserve. This results in a **remaining unallocated balance of \$6.3 million**. Staff will return to Council with a recommendation and seek direction for the use of these funds with the Midyear Budget Status Report in February 2020.

CONCLUSION

Total Fiscal Year 2018-19 GOF revenues are \$146.0 million, \$5.6 million (4.0 percent) above the Adjusted Budget and \$8.3 million (6.0 percent) higher than the Adopted Budget. Total Fiscal Year 2018-19 GOF expenditures are \$137.3 million, \$4.5 million (3.1 percent) below the Adjusted Budget and \$3.3 million (2.5 percent) below the Adopted Budget. This does not include the \$2.0 million in encumbrances outstanding at the end of Fiscal Year 2018-19. The GOF ended Fiscal Year 2018-19 with a positive operating balance of \$7.8 million, which provided funding for Fiscal Year 2019-20 limited-period expenditures and transfers to reserves and unfunded liabilities. The remaining unallocated balance is \$6.3 million.

An updated estimate of the City's financial position for Fiscal Year 2019-20 and preliminary projections for Fiscal Year 2020-21 will be presented to Council in February 2020 with the Midyear Budget Status Report. A five-year financial forecast will be presented to Council with the Narrative Budget Report in April 2020.

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