



## CITY OF MOUNTAIN VIEW

**MEMORANDUM**Finance and Administrative  
Services Department

**DATE:** November 27, 2018

**TO:** City Council

**FROM:** Rafaela Ocegüera Duran, Senior Financial Analyst  
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**VIA:** Daniel H. Rich, City Manager

**SUBJECT:** **Analysis of Fiscal Year 2017-18 Audited Financial Results for the  
General Operating Fund and General Fund Available Balance**

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**PURPOSE**

To provide an analysis of Fiscal Year 2017-18 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 2017-18 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 2016-17 audited and Fiscal Year 2017-18 Adopted Budget, Adjusted Budget, and audited results for the GOF are as follows (dollars in thousands):

	2016-17 <u>Audited</u>	2017-18 Adopted <u>Budget</u>	2017-18 Adjusted <u>Budget<sup>(1)</sup></u>	2017-18 <u>Audited</u>	Variance of Audited to Adjusted
Revenues	\$126,689	128,022	130,315	136,377	6,062
Expenditures <sup>(2)</sup>	(110,936)	(125,687)	(130,034)	(121,682)	8,352
Rebudgets <sup>(3)</sup>	<u>    (697)</u>	<u>      -0-</u>	<u>    2,260</u>	<u>      429</u>	<u>  (1,831)</u>
Operating Balance	<u>\$  15,056</u>	<u>    2,335</u>	<u>    2,541</u>	<u>   15,124</u>	<u>   12,583</u>

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- (1) The Adjusted Budget includes the Adopted Budget and increases for reimbursed expenditures, grants and donations, and any budget changes approved during the fiscal year.
- (2) Expenditures for Fiscal Year 2016-17 include \$2.0 million toward the CalPERS liability, \$2.0 million toward the OPEB liability, \$2.0 million toward the Strategic Property Acquisition Reserve (SPAR), and a \$500,000 transfer to the General Non-Operating Fund (GNOF). Expenditures for Fiscal Year 2017-18 include \$4.0 million toward the CalPERS liability, \$2.0 million toward the OPEB liability, and \$2.0 million toward the SPAR. Amounts are net of Adopted Budget savings of \$1.8 million for Fiscal Year 2016-17 and \$2.3 million for Fiscal Year 2017-18.
- (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 2017-18 total audited revenues are \$6.1 million (4.7 percent) above the Adjusted Budget, \$8.4 million (6.5 percent) above the Adopted Budget, and \$9.7 million (7.6 percent) higher than the Fiscal Year 2016-17 total audited revenues. The Fiscal Year 2017-18 total audited expenditures are \$8.4 million (6.4 percent) below the Adjusted Budget, \$4.0 million (3.2 percent) below the Adopted Budget, and \$10.7 million (9.7 percent) higher than the Fiscal Year 2016-17 total audited expenditures.

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

A discussion of variances by revenue and expenditure categories follows.

Revenues

The Fiscal Year 2016-17 audited and Fiscal Year 2017-18 Adopted Budget, Adjusted Budget, and audited results for GOF revenues are as follows (dollars in thousands):

	2016-17 <u>Audited</u>	2017-18 Adopted <u>Budget</u>	2017-18 Adjusted <u>Budget</u>	2017-18 <u>Audited</u>	Variance of Audited to Adjusted
Operating Revenues:					
Property Taxes	\$ 43,774	45,285	45,285	49,419	4,134
Sales Tax	21,828	21,194	21,194	20,713	(481)
Other Local Taxes	15,866	15,589	15,589	15,444	(145)
Use of Money and Property	16,896	19,833	19,833	19,659	(174)
Licenses, Permits & Franchise Fees/ Fines & Forfeitures	5,743	5,839	5,839	6,161	322
Intergovernmental	741	573	624	817	193
Charges for Services	2,840	2,632	2,632	3,208	576
Miscellaneous Revenues	3,611	1,603	3,514	4,616	1,102
Interfund Revenue and Transfers	<u>15,390</u>	<u>15,474</u>	<u>15,805</u>	<u>16,340</u>	<u>535</u>
 Total Operating Revenues	 <u>\$126,689</u>	 <u>128,022</u>	 <u>130,315</u>	 <u>136,377</u>	 <u>6,062</u>

A summary of revenues by category follows:

- The July 1, 2017 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 12.7 percent increase compared to

the prior year tax roll. Property tax revenues totaling \$49.4 million are \$4.1 million (9.1 percent) above budget and \$5.6 million (12.9 percent) higher than the Fiscal Year 2016-17 audited.

- Sales tax revenues are \$481,000 (2.3 percent) below budget and \$1.1 million (5.1 percent) lower than the Fiscal Year 2016-17 audited, primarily as a result of a continuing shift to more online transactions and a smaller share of the County pool allocation. Also, the California Department of Tax and Fee Administration (CDTFA), implemented a new system in the spring which has resulted in the delay of sales tax remittances to agencies.
- Other Local Taxes are essentially as budgeted and \$422,000 (2.7 percent) lower than the Fiscal Year 2016-17 audited. Transient Occupancy Tax revenues are \$103,000 (1.5 percent) above budget and approximately the same compared to the 2016-17 audited. Utility Users Tax revenues are \$234,000 (2.8 percent) below budget and \$437,000 (5.1 percent) lower than 2016-17 audited, primarily as a result of lower telecommunications revenue.
- Use of Money and Property revenues, including both Investment Earnings and Rents and Leases, are \$174,000 (0.9 percent) below budget and \$2.8 million (16.4 percent) higher than the Fiscal Year 2016-17 audited. Investment Earnings are \$261,000 (14.7 percent) and \$165,000 (8.8 percent) higher than budget and Fiscal Year 2016-17 audited, respectively. The Federal Open Market Committee increased the benchmark interest rate a total of 175 basis points from December 2015 to June 2018. Rents and Leases revenues are \$435,000 (2.4 percent) below budget, primarily due to the budget projecting the decennial revaluation for Charleston East based on a value per square foot and not including the cap as stated in the lease. Rents and Leases revenues are \$2.6 million (17.3 percent) higher than the Fiscal Year 2016-17 audited, primarily as a result of the decennial revaluations of the Crittenden and Charleston East leases. The Crittenden lease revaluation resulted in a 104.8 percent rent increase (\$3.1 million for a full year), effective January 1, 2017, while the Charleston East lease revaluation resulted in a 26.5 percent rent increase (\$387,000 for a full year), effective February 1, 2018.
- Licenses, Permits, and Franchise Fees/Fines and Forfeitures are \$322,000 (5.5 percent) above budget and \$418,000 (7.3 percent) higher than the Fiscal Year 2016-17 audited. License, Permits, and Franchise Fees are \$336,000 (6.8 percent) higher compared to the Fiscal Year 2016-17 audited, primarily as a result of higher Franchise Fees with the exception of Cable Franchise Fees. Fines and Forfeitures

are \$82,000 (9.9 percent) higher than the Fiscal Year 2016-17 audited as a result of increased parking enforcement and false alarm fines.

- Intergovernmental revenues are \$193,000 (30.9 percent) above budget and \$76,000 (10.3 percent) higher than the Fiscal Year 2016-17 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 higher reimbursements.
- Charges for Services are \$576,000 (21.9 percent) above budget and \$368,000 (13.0 percent) higher than the Fiscal Year 2016-17 audited. Revenues in this category are mainly derived from City Recreation programs and miscellaneous other services. The Fiscal Year 2017-18 revenues are higher than budget and the Fiscal Year 2016-17 audited, primarily as a result of greater registration fee revenue from Recreation camps and classes, and performing arts use fees.
- Miscellaneous Revenues are \$1.1 million (31.4 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 2016-17 audited, Miscellaneous Revenues are \$1.0 million (27.8 percent) higher, primarily as a result of \$1.0 million more strike team reimbursements received in Fiscal Year 2017-18.
- Interfund Revenues and Transfers are \$535,000 (3.4 percent) above budget, primarily as a result of higher Capital Improvement Projects (CIP) administrative overhead. The Fiscal Year 2017-18 revenues are \$950,000 (6.2 percent) higher than Fiscal Year 2016-17 audited, also as a result of higher CIP administrative overhead and the subsequent budget adoption of the Community Stabilization and Fair Rent Act (CSFRA) on October 2017, which included a reimbursement of administrative overhead to the GOF.

Expenditures

The Fiscal Year 2016-17 audited and Fiscal Year 2017-18 Adopted Budget, Adjusted Budget, and audited results for GOF expenditures are as follows (dollars in thousands):

	<u>2016-17 Audited</u>	<u>2017-18 Adopted Budget</u>	<u>2017-18 Adjusted Budget</u>	<u>2017-18 Audited</u>	<u>Variance of Audited to Adjusted</u>
Operating Expenditures:					
Salaries and Benefits:					
Salaries and All Pays	\$ 55,262	60,345	61,793	59,483	2,310
Retirement	13,606	16,649	16,649	15,360	1,289
Health Benefits	8,320	10,360	10,360	8,527	1,833
All Other Benefits	<u>5,968</u>	<u>6,750</u>	<u>6,750</u>	<u>6,254</u>	<u>496</u>
	83,156	94,104	95,552	89,624	5,928
Supplies and Services	14,926	17,110	19,823	16,089	3,734
Capital Outlay/ Equipment Replacement	2,950	3,228	3,414	3,184	230
Interfund Expenditures and Transfers	3,404	5,545	5,545	4,785	760
Budget Savings	Included	(2,300)	(2,300)	Included	(2,300)
Transfer to GNOF	500	-0-	-0-	-0-	-0-
CalPERS Contribution	2,000	4,000	4,000	4,000	-0-
OPEB Contribution	2,000	2,000	2,000	2,000	-0-
Transfer to SPAR	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>-0-</u>
Operating Expenditures	<u>\$110,936</u>	<u>125,687</u>	<u>130,034</u>	<u>121,682</u>	<u>8,352</u>

A summary of expenditures by category follows:

- Although more positions were filled than vacated throughout the fiscal year, there was a significant 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 \$5.9 million (6.2 percent) favorable variance in Salaries and Benefits compared to Adjusted and \$4.5 million (4.8 percent) compared to Adopted. This is higher savings than in prior fiscal years, which has averaged \$3.9 million per year over the last five fiscal years.

- Historically, every fiscal year, there are savings in Supplies and Services. For Fiscal Year 2017-18, there were savings of \$3.7 million (18.8 percent) compared to Adjusted and \$1.0 million (6.0 percent) compared to Adopted. There are Supplies and Services encumbrances totaling \$1.6 million identified to be carried over into Fiscal Year 2018-19. Including these encumbrances, the variance to Adjusted Budget would be \$2.1 million or 10.9 percent.
- The GOF's \$2.7 million contribution to the Equipment Replacement Reserve occurred as budgeted. The remaining capital outlay has a favorable variance of \$230,000 (33.4 percent) compared to budget; \$90,000 of this has been encumbered to be expended in Fiscal Year 2018-19.

The budget savings of \$2.3 million takes into consideration the anticipated savings in expenditure accounts. The Fiscal Year 2017-18 audited amounts indicated in the table do not include a total of \$1.7 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):

	2017-18 Adjusted Budget	2017-18 Audited	Encumbrances	Variance of Audited Plus Encumbrances to Adjusted	% Savings from Adjusted Budget
Department:					
City Council	\$ 423	301	-0-	122	28.8%
City Clerk	644	563	-0-	81	12.6%
City Attorney	2,040	1,663	58	319	15.6%
City Manager	4,072	3,761	159	152	3.7%
Information Technology	4,452	3,914	54	484	10.9%
Finance and Administrative Services	6,757	5,442	397	918	13.6%
Community Development	1,972	1,551	154	267	13.5%
Public Works	10,263	9,303	394	566	5.5%
Community Services	16,460	14,378	241	1,841	11.2%
Library Services	6,143	5,381	10	752	12.2%
Fire	24,567	23,534	120	913	3.7%
Police	38,114	36,259	76	1,779	4.7%
Nondepartmental <sup>(1)</sup> CalPERS	8,427	7,632	-0-	795	9.4%
Contribution	4,000	4,000	-0-	-0-	0.0%
OPEB Contribution	2,000	2,000	-0-	-0-	0.0%
Transfer to SPAR	2,000	2,000	-0-	-0-	0.0%
Budget Savings	(2,300)	Included	-0-	(2,300)	100.0%
Total Operating Expenditures	<u>\$130,034</u>	<u>121,682</u>	<u>1,663</u>	<u>6,689</u>	5.1%

<sup>(1)</sup> Nondepartmental expenditures include Interfund Transfers for equipment replacement and Interfund Expenditures and Transfers.

All departments ended the 2017-18 fiscal year with expenditures below the Adjusted Budget.



FISCAL YEAR 2017-18 GOF BALANCE AND ONE-TIME REVENUES AND EXPENDITURE SAVINGS

As discussed earlier, the City's GOF ended the 2017-18 fiscal year with a positive operating balance of \$15.1 million. The table below details the General Fund balance, including one-time revenues and expenditure savings, budgeted transfers, and limited-period expenditure allocations (dollars in thousands):

GOF Balance	\$15,124
Remaining Available Balance from Fiscal Year 2016-17	2,027
One-Time Revenues and Expenditure Savings:	
Sale of Property	1,816
Reimbursements	952
Unspent Limited-Period Expenditures	<u>701</u>
Total Available for Allocation	<u>20,620</u>
Allocations in the Fiscal Year 2018-19 Adopted Budget:	
Limited-Period Expenditures and Capital Outlay	(4,893)
Capital Improvement Reserve	(3,000)
CalPERS	(2,000)
Transportation Reserve	(2,000)
General Fund Reserve	(1,800)
Compensated Absences Reserve	<u>(1,100)</u>
Total Allocated	<u>(14,793)</u>
Remaining Unallocated Balance	<u>\$ 5,827</u>

Including the GOF balance, the remaining balance available from Fiscal Year 2016-17, one-time revenues, and expenditure savings, there is a total of \$20.6 million available for allocation.

Allocations in the Fiscal Year 2018-19 Adopted Budget include the funding of new limited-period and capital outlay expenditures of \$4.9 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 Transportation Reserve, \$1.8 million to the General Fund reserve, and \$1.1 million to the Compensated Absences Reserve. This results in a

remaining unallocated balance of \$5.8 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 2019.

## **CONCLUSION**

Total Fiscal Year 2017-18 GOF revenues are \$136.4 million, \$6.1 million (4.7 percent) above the Adjusted Budget and \$8.4 million (6.5 percent) higher than the Adopted Budget. Total Fiscal Year 2017-18 GOF expenditures are \$121.7 million, \$8.4 million (6.4 percent) below the Adjusted Budget and \$4.0 million (3.2 percent) below the Adopted Budget. This does not include the \$1.7 million in encumbrances outstanding at the end of Fiscal Year 2017-18. The GOF ended Fiscal Year 2017-18 with a positive operating balance of \$15.1 million, which provided funding for Fiscal Year 2018-19 limited-period and capital outlay expenditures and transfers to reserves and unfunded liabilities. The remaining unallocated balance is \$5.8 million.

An updated estimate of the City's financial position for Fiscal Year 2018-19 and preliminary projections for Fiscal Year 2019-20 will be presented to Council in February 2019 with the Midyear Budget Status Report. A 5-year financial forecast will be presented to Council with the Narrative Budget Report in April 2019.

ROD-HA-SN-PJK/3/FIN  
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