COUNCIL REPORT

CITY OF MOUNTAIN VIEW

DATE: February 8, 2022

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Fiscal Year 2021-22 Midyear Budget Status Report and Adjustments, Strategic Roadmap Action Plan Update, and Fiscal Year 2022-23 Preliminary General Operating Fund Forecast**

RECOMMENDATION

1. Receive and file the Fiscal Year 2021-22 Midyear Budget Status Report, the six-month status of the Fiscal Year 2021-22 Performance/Workload Measures (Attachment 1 to the Council report), the Fiscal Year 2022-23 Preliminary General Operating Fund Forecast, and the Strategic Roadmap Action Plan six-month update (Attachment 3 to the Council report).

2. Transfer and appropriate the following:

   a. $6,100 from the General Non-Operating Fund to the Community Services Department, General Operating Fund, for increased janitorial costs. (Five votes required)

   b. Acting as the Board of Directors of the Shoreline Regional Park Community, appropriate $24,300 in the Community Services Department, Shoreline Community, for increased janitorial costs.

3. Authorize the following new positions:

   - 3.0 FTE Junior/Assistant/Associate Engineers (convert from limited-period to ongoing) (Public Works Department).

   - 1.0 FTE Executive Assistant (Public Works Department).

   - 1.0 FTE Payroll Accountant (Finance and Administrative Services Department).

   - 1.0 FTE Analyst I/II (Community Development Department, Rent Stabilization Program).

4. Authorize establishment of a new special revenue fund for the Mobile Home Rent Stabilization Ordinance and appropriate $85,600 as a loan from the General Non-Operating Fund to cover certain staffing costs needed to implement this ordinance. (Five votes required)

5. Appropriate $107,000 from the General Non-Operating Fund for the Community Development Department Rent Stabilization Program to cover the start-up cost of implementing the Mobile Home Rent Stabilization Ordinance. (Five votes required)

6. Appropriate $20,000 in the Finance and Administrative Services Department, General Non-Operating Fund, to cover the cost of implementing GASB 87. (Five votes required)

7. Adopt a Resolution of the City Council of the City of Mountain View Authorizing the City Manager or Designee to Amend the Classification and Salary Plan for Regular Employees for Fiscal Year 2021-22, to be read in title only, further reading waived (Attachment 2 to the Council report).

EXECUTIVE SUMMARY

The City Council was presented with a Fiscal Year 2021-22 First Quarter budget update on November 16, 2021. This report provides an update of the City's budgetary position at the midway point in the fiscal year as well as a preliminary General Operating Fund (GOF) forecast for the upcoming fiscal year. A six-month status update of the Fiscal Year 2021-22 Performance/Workload Measures is attached to this report (Attachment 1) as well as the six-month update of the Strategic Roadmap Action Plan (Attachment 3).

At the midyear, the Fiscal Year 2021-22 estimated GOF revenue is $157.3 million, which is $10.8 million (7.3%) higher than budgeted. Including estimated budget savings, operating expenditures are estimated at $149.6 million, essentially the same as the Adopted Budget, and $4.1 million (2.6%) below the Adjusted Budget. The GOF is currently estimated with an ending balance of $7.7 million, excluding the Excess Education Revenue Augmentation Fund (EERAF) revenue that was included in the Adopted Budget. The practice in recent years has been to record EERAF receipts as nonoperating revenue due to their limited-period nature. For the Fiscal Year 2021-22 Budget, EERAF was originally expected to be needed to balance the GOF. However, because of the sufficient projected balance at midyear, staff recommends that EERAF revenue return to being recorded to the General Non-Operating Fund as it had previously.

The global COVID-19 pandemic has continued much longer than anticipated due to new variants surfacing, including the Delta and Omicron variants, leading to a prolonged recovery period. However, with more of the population receiving vaccinations and boosters and improved testing, most Shelter-In-Place (SIP) restrictions have been lifted, and the economy continues to recover. Consequently, certain revenue categories are showing signs of improvement with greater increases than originally anticipated in the Adopted Budget.

Development Services Fund revenues and expenditures are trending below budget, and the ending balance is necessary to continue funding operations for projects that have already paid fees as well as during this slowdown in the economy. The revenues and expenditures of the Shoreline Golf Links/Michaels at Shoreline Restaurant are below budget. While Shoreline Golf Links is doing well, Michaels at Shoreline Restaurant continues to be significantly impacted by the pandemic. The Shoreline Regional Park Community (SRPC) revenues are trending higher than budget, primarily due to higher property tax revenue, while operating expenditures are trending below budget. For the Water and Solid Waste Funds, revenues are currently trending slightly higher than or at budget, and Wastewater revenues are trending below budget. Expenditures for all three funds are currently trending below budget.

The preliminary Fiscal Year 2022-23 GOF Forecast projects revenues to be $14.7 million (10.0%) and $3.8 million (2.4%) higher than the current fiscal year Adopted Budget and Estimated, respectively. There is anticipated revenue growth from increasing property tax revenue (from changes in ownership, new development, and a 2.0% California Consumer Price Index (CCPI)), Consumer Price Index increases on the City's leases, and service charge revenue. Although revenues from Sales Tax, Transient Occupancy Tax, and Utility Users Tax are estimated higher for the current fiscal year, they are projected slightly lower or essentially the same for Fiscal Year 2022-23. All other revenues are projected to be either flat or show a slight decline. The projected revenues are sufficient to meet currently projected baseline expenditures, resulting in a preliminary projected balance of $2.2 million. **Importantly, this balance does not reflect any ongoing expenditure recommendations for Fiscal Year 2022-23 that are currently under consideration as part of the budget development process.**

BACKGROUND AND ANALYSIS

I. FISCAL YEAR 2021-22 MIDYEAR BUDGET STATUS SUMMARY

The Midyear Budget Status Report represents staff's best estimate of the City's budgetary position at this point in time, approximately midway through the fiscal year, and making certain assumptions regarding revenues and expenditures for the remainder of the fiscal year. This section of the report includes a discussion of Fiscal Year 2021-22 revenue and expenditure estimates compared to budget for major funds.

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

	2020-21 Audited	2021-22 Adopted Budget	2021-22 Adjusted	**2021-22 Estimated**	Variance of 2021-22 Estimated to 2021-22 Adjusted
Revenues	$143,706	$146,412	$146,538	**$157,308**	$10,770
Expenditures[1]	(136,811)	(150,804)	(153,689)	**(149,624)**	4,065
Rebudgets[2]	(5,235)	-0-	3,165	**-0-**	(3,165)
Operating Balance	1,660	(4,392)	(3,986)	**7,684**	11,670
GNOF	(8,501)	-0-	-0-	**-0-**	-0-
Excess ERAF	6,841	5,836	5,836	**-0-**	(5,836)
Ending Balance	$ -0-	$ 1,444	$ 1,850	**$ 7,684**	$ 5,834

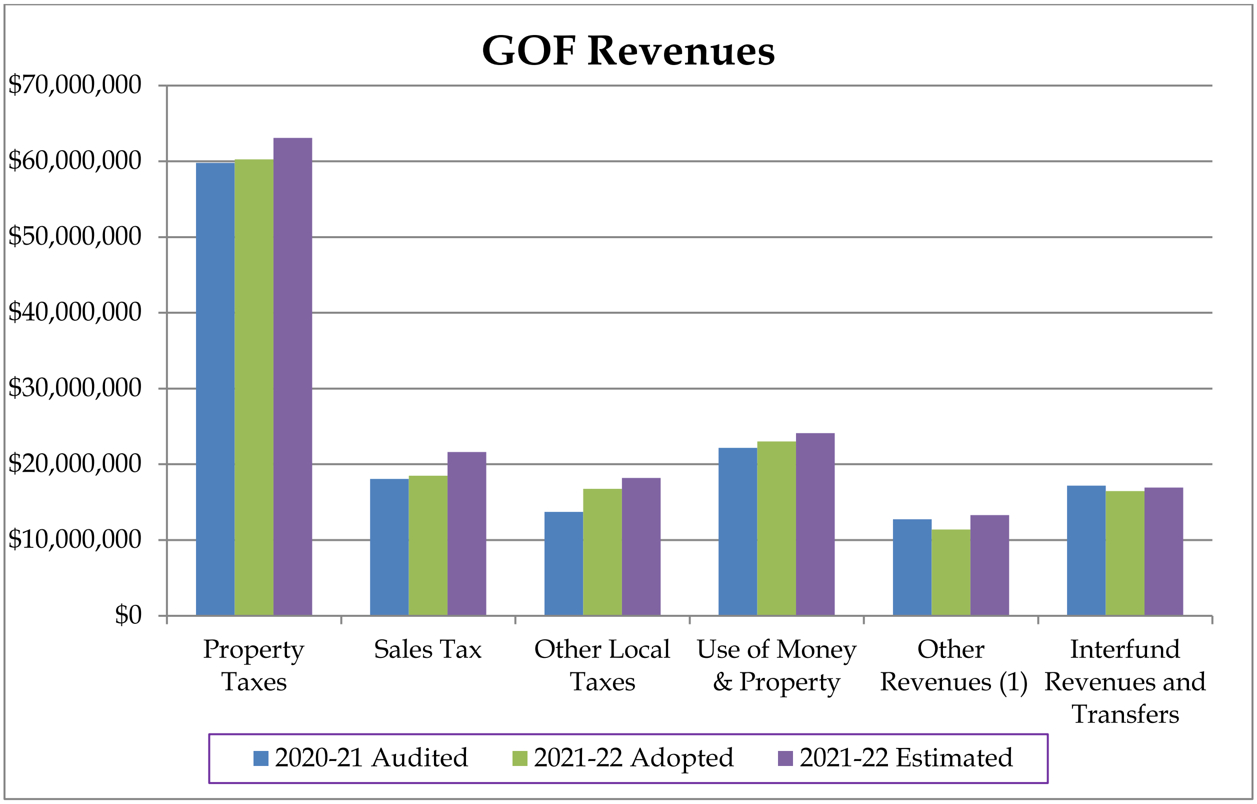
[1] Adopted and Adjusted Budgets include $4.0 million in projected budget savings.

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

General Operating Fund

Revenues

The chart below is a comparison of the Fiscal Year 2020-21 Audited and Fiscal Year 2021-22 Adopted and Estimated for GOF major revenue categories.



[1] Includes: Licenses, Permits, and Franchise Fees/Fines and Forfeitures; Intergovernmental; Charges for Services; and Miscellaneous Revenues.

Estimated results of revenue categories are trending higher than budget. A detailed discussion of major revenue categories is as follows:

Property Tax revenue is estimated at $63.1 million, $2.8 million (4.7%) higher than budget. The Fiscal Year 2021-22 Adopted Budget included projected growth based on a positive 1.036% CCPI applied to a majority of properties plus increased values related to changes in ownership and new development. It also included projected assessment reductions from appeals on commercial properties due to shelter-in-place restrictions and remote work. The information provided by the Santa Clara County Assessor after the beginning of the current fiscal year indicates the total actual July 1, 2021 General Fund

Assessed Value (AV) increased a net 6.1% compared to the July 1, 2020 AV, reflecting growth in both secured and unsecured AV. Overall, AV in the City increased a net 8.1%, which is the highest among the 15 cities in the County. This presented a better outlook than staff originally expected as developers showed continued interest in constructing commercial and residential buildings. However, the County also continues to process appeals and refunds, and the estimated revenue takes into consideration anticipated additional refunds by the end of the current fiscal year.

Sales Tax revenue is currently estimated at $21.6 million, $3.2 million (17.1%) higher than budget, primarily due to strength in new automobile sales, general consumer goods, and a quicker-than-expected rebound from restaurants as the economy continued to recover. The estimate includes $526,000 in additional sales tax the City received for Q2 2021, which was not included at 2020-21 fiscal year-end, and about $593,000 of distributions that belong to the prior fiscal year. After adjusting to exclude the unanticipated additional taxes, the adjusted current estimate is $20.5 million, $2.1 million (11.1%) higher than budget.

Other Local Taxes revenue is estimated at $18.2 million in total, $1.4 million (8.6%) higher than budget. This is primarily due to Transient Occupancy Tax (TOT) revenue, which is estimated to be $972,000 (29.6%) higher than budget. Although revenues are better than anticipated, travel is still significantly impacted, affecting hotel stays and TOT revenue. In addition, business travel has been further impacted by the decision of some local businesses and corporations to extend telecommuting for their employees.

Based on the payments received to date, Utility Users Tax (UUT) revenue is estimated to be $543,000 (7.2%) higher than budget. UUT generated from telecommunications services increased this fiscal year due to remittances from new service providers for the audio and video streaming services. Previously, it had been steadily declining since Fiscal Year 2015-16. The pervasive use of cell phones has eliminated the necessity and cost of a landline for many people, and it is not uncommon for a cell phone to be utilized for both personal and professional uses. UUT generated from energy services is trending slightly higher than budget, primarily from an increase in PG&E and smaller energy providers, offset by lower-than-projected revenue from Silicon Valley Clean Energy (SVCE).

Business License revenue is estimated to be $74,000 (1.2%) below budget based on billings for the new Business License Tax structure. Staff continues to process renewal applications and will provide an updated estimate with the next quarterly update in April.

Use of Money and Property revenue is comprised of Investment Earnings and Rents and Leases and is estimated at $24.1 million, $1.1 million (4.8%) higher than budget. Investment Earnings revenue is estimated $74,000 (2.8%) below budget. From December 2016 to December 2018, the Federal Open Market Committee (FOMC) increased the benchmark interest rate eight times from the benchmark target of 0.25% to 0.5% to a benchmark target of 2.25% to 2.5%, resulting in increased yields on investment securities available for the City to purchase. Since then, the FOMC reduced the benchmark interest rate five times, the most significant reduction being 150 basis points in March 2020 to a target benchmark of 0.0% to 0.25%. While the portfolio is still benefiting from the securities purchased in the prior fiscal years, as investments mature, they are replaced with lower-yielding investments. Recently, the FOMC signaled its intent to begin raising its benchmark rate to combat inflation, which has been an issue for the past several months. Rents and Leases revenue is estimated to be $1.2 million, 5.8% higher than budget, primarily due to unbudgeted percentage rent revenue for the Ameswell office lease and three months of Amphitheatre rent collected rather than partially waived as previously projected.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is estimated at $6.0 million, $728,000 (10.8%) below budget. Licenses, Permits, and Franchise Fee revenue is estimated $311,000 (5.1%) below budget, primarily due to less franchise fees from Recology. Fines and Forfeiture revenue is estimated at $417,000 (62.8%) below budget, primarily due to less collections from parking violations, bail/fine payments from the County, and false alarm response fees.

Intergovernmental revenue is estimated at $1.6 million, $890,000 (220.6%) higher than budget. This is related to unbudgeted and higher-than-expected reimbursements from governmental agencies and a grant awarded to the Center for the Performing Arts (CPA).

Charges for Services revenue is generated by fees assessed for Recreation and other types of services and is estimated at $2.4 million, $255,000 (12.1%) higher than budget. In general, Recreation and CPA revenues are on track and slowly recovering. In addition, Short-Term Rental (STR) registration revenue is estimated to be $146,000 lower than budget.

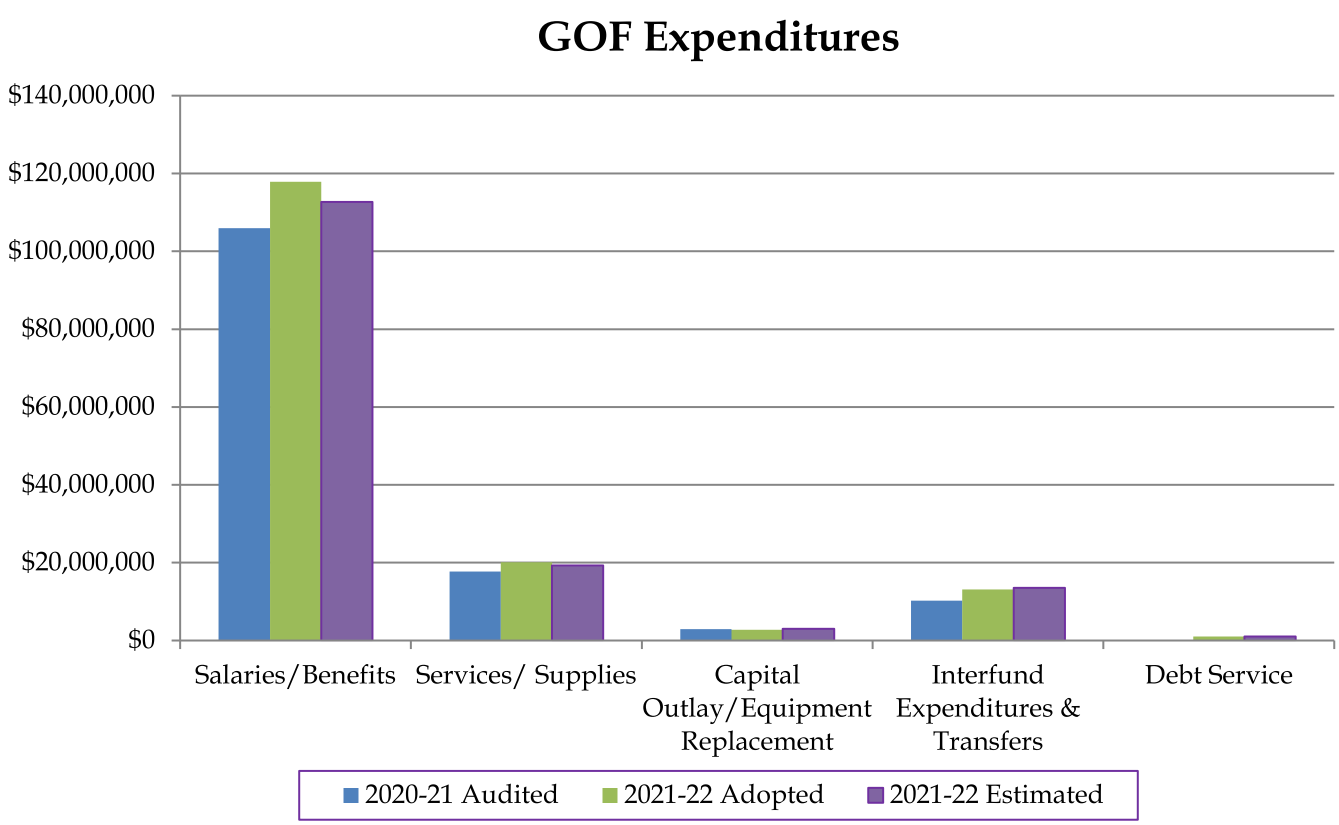
Miscellaneous Revenues are estimated at $3.3 million, $1.5 million (82.9%) and $1.4 million (70.9%) higher than the Adopted and Adjusted Budget, respectively. Included in the estimate is $1.3 million in reimbursements for Fire mutual-aid overtime, including administration, that have not been received, but are expected to be received during this fiscal year. There are other smaller grants, donations, and expenditure reimbursements received that are not budgeted due to the uncertainty of receipt, and full fiscal year estimates are not calculated for these revenues as the amounts can vary greatly.

Interfund Revenues and Transfers are estimated at $16.9 million, $444,000 (2.7%) higher than budget, due to CIP overhead trending higher.

Expenditures

Budget savings are expected each fiscal year and are included in the Adopted Budget. Including the projected budget savings, total estimated expenditures are essentially the same as the Adopted Budget and indicate a $4.1 million (2.6%) favorable variance compared to the Adjusted Budget.

The chart below is a comparison of the Fiscal Year 2020-21 Audited and Fiscal Year 2021-22 Adopted and Estimated for GOF expenditures.



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

Salaries and Benefits expenditures are estimated at $112.7 million, $5.2 million (4.4%) below budget. This is the result of vacant positions and personnel turnover during the first half of the fiscal year. There are also significant savings in hourly wages of $370,000. For regular (nonhourly) positions, there are currently 89 vacancies and 35 active recruitments to fill 56 current and anticipated vacancies. Although some savings are expected annually and included in the Adopted Budget, it is not possible to precisely predict the level and impact of vacancies. While the number of current total vacancies is similar to the prior year, the City saw a significant increase in separations and retirements in the last three months of 2021. The City is monitoring labor market studies indicating high levels of workforce stress nationwide due to the pandemic and a trend being called "the Great Resignation" as workers seek job or career changes or even decide to leave the workforce.

Services and Supplies expenditures are estimated at $19.3 million, $761,000 (3.8%) and $3.3 million (14.5%) below the Adopted and Adjusted Budget, respectively. Savings are expected annually, and this is comparable to prior fiscal years.

Capital Outlay/Equipment Replacement expenditures are estimated at $3.0 million, $298,000 higher than the Adopted Budget, but equal to the Adjusted Budget, and include $2.2 million of annual funding for equipment replacement and $798,000 currently estimated for new capital purchases.

Interfund Expenditures and Transfers are estimated at $13.5 million, $430,000 higher than budgeted.

Debt Service is budgeted at $1.0 million for the Hope Street Parking Certificates of Participation. However, the developer has requested an extension for the financing of this project, and it is unknown whether this debt issuance will be completed by fiscal year-end. Debt service payment is included in the estimate, and staff will provide an update in the next quarter's update in April.

Expenditures by Department

All but one of the departments appear to be trending under budget for the current fiscal year. The Fire Department is currently trending $1.9 million over budget; however, this is primarily due to a timing issue with reimbursements, where overtime incurred from several mutual-aid incidents has not yet been reimbursed, and a higher level of overtime during the first six months of the fiscal year. The past year continued to be a heavy fire season, requiring a significant amount of assistance to combat multiple wildfires throughout the State. As mentioned earlier, the Fire Department is estimating outstanding reimbursements to be approximately $1.0 million for overtime costs and $397,000 for administration and vehicle reimbursement. Historically, these reimbursements have typically been received by fiscal year-end. The Fire Department will continue managing its expenditures to ensure staying within budget. The variances detailed below do not take into consideration encumbrances that may be incurred as of the end of the fiscal year.

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

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget	Percent Savings of Adjusted Budget
City Council	$ 424	$ 424	**$ 294**	$ 130	30.6
City Clerk	985	985	**858**	127	12.9
City Attorney	2,548	2,621	**2,427**	194	7.4
City Manager	4,539	4,707	**3,945**	762	16.2
Human Resources	2,522	2,638	**2,486**	152	5.7
Information Technology	6,490	6,721	**5,811**	910	13.5
Finance and Admin. Services	7,426	7,744	**6,415**	1,329	17.2
Community Development	1,874	2,020	**1,888**	132	6.5
Public Works	12,063	12,496	**11,994**	502	4.0
Community Services	18,719	19,139	**16,881**	2,258	11.8
Library Services	6,870	7,147	**6,132**	1,015	14.2
Fire	28,049	28,241	**30,157**	(1,916)	(6.8)
Police	45,519	46,030	**43,555**	2,475	5.4
Nondepartmental[1]	16,776	16,776	**16,781**	(5)	0.03
Projected Budget Savings	(4,000)	(4,000)	**Included**	(4,000)	100.0
Total Operating Expenditures	$150,804	$153,689	**$149,624**	$4,065	6.0

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

General Operating Fund Summary

In summary, revenues are currently estimated at $157.3 million, $10.9 million (7.4%) and $10.8 million (7.3%) higher than both the Adopted and Adjusted Budgets, respectively, including $1.3 million in reimbursements not yet received for Fire Strike Team deployment. Including projected budget savings, operating expenditures for the current fiscal year are estimated at $149.6 million, essentially the same as the Adopted Budget and $4.1 million (2.6%) below the Adjusted Budget. The operating balance is currently estimated to be $7.7 million, without Excess ERAF revenue, and staff recommends the Excess ERAF revenue be recorded to the General Non-Operating Fund as it is considered one-time revenue.

Development Services

Development Services is a General Fund program separated from the GOF in order to facilitate better tracking and accounting for development activity. This separation allows for an effective way to match revenues and expenditures related to private development activity and provide support to sustain services throughout the fluctuations of development and economic cycles. Effective with the Fiscal Year 2014-15 Adopted Budget, the Development Services Fund was expanded to consolidate all development-related activities; previously, only Building-related services were segregated in the Building Services Fund.

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

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$15,260	$16,087	**$13,985**	($2,102)
Expenditures	(17,592)	(22,273)	**(17,618)**	4,655
Operating Balance (Deficit)	(2,332)	(6,186)	**(3,633)**	2,553
Land Use Documents	800	800	**636**	(164)
CalPERS Contribution	(177)	(177)	**(177)**	-0-
Transfer to Comp Absences	(160)	(160)	**(160)**	-0-
Capital Projects	(25)	(25)	**(25)**	-0-
Excess (Deficiency) of Revenues	(1,894)	(5,748)	**(3,359)**	2,389
Beginning Balance	23,155	23,155	**23,155**	-0-
Land Use Document Reserve	(10,558)	(10,558)	**(10,394)**	164
Ending Balance	$10,703	$ 6,849	**$ 9,402**	$2,553

The level of development activity is approximately as budgeted for the current fiscal year with the exception of Plan Checking, which is under budget; operating revenues of $14.0 million are estimated to be $2.1 million (13.1%) below budget with Plan Check revenue estimated $1.9 million (22.3%) below budget. The variance is due to the timing of some of the larger projects that might not be ready until the beginning of next fiscal year. Estimated operating expenditures of $17.6 million are estimated to be $4.7 million (20.9%) below the Adjusted Budget, reflecting salary and benefit savings from vacancies plus savings in supplies and contractual services.

Operating expenditures are estimated to exceed operating revenue by $3.4 million. This is primarily due to projects paid for in the prior fiscal year requiring plan check and other services in the current fiscal year. Revenue from the Land Use Document Fee is currently estimated to be $164,000 (20.5%) lower than budget. There is also a CalPERS contribution of $177,000, a transfer of $160,000 to fund Compensated Absences, and $25,000 for Capital Projects. The ending balance is estimated at $9.4 million and will be necessary to continue funding operations during a period of slower development activity. In addition, fees are paid in advance of the services provided, including long-term existing development projects.

Shoreline Golf Links/Michaels at Shoreline Restaurant

Shoreline Golf Links is an 18-hole course designed by Robert Trent Jones II & Associates that was completed in 1983. Shoreline Golf Links is owned by the City and scheduled to be open 364 days per year. The City contracts with Touchstone Golf (Touchstone) to manage and operate the pro shop and to maintain the course. A five-year extension with Touchstone commenced January 2016. Prior to contracting with Touchstone, Shoreline Golf Links incurred annual operating deficits over a five-year period totaling $2.1 million.

On October 23, 2018, the City Council approved amending the operating agreement with Touchstone to include management of Michaels at Shoreline Restaurant. The amended operating agreement began January 1, 2019 and, after making some improvements to the facility, Touchstone began operations January 24, 2019. On December 7, 2021, Council approved a five year extension for Touchstone to operate Shoreline Golf Links and Michaels Restaurant.

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

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$3,802	$3,802	**$3,508**	($294)
Expenditures	(3,643)	(3,668)	**(3,287)**	381
Operating Balance	159	134	**221**	(87)
Transfer to GOF	(150)	(150)	**(150)**	-0-
Excess (Deficiency) of Revenues	9	(16)	**71**	87
Beginning Balance	98	98	**98**	-0-
Ending Balance	$ 107	$ 82	**$ 169**	$ 87

Paid rounds of golf played in Fiscal Year 2020-21 totaled 79,355, a 42.2% increase from the prior fiscal year and a record high since Fiscal Year 2014-15. The increase of revenue was primarily due to the impact of COVID-19, which led to more interest in safer outdoor activities. Based on financial information midway through the fiscal year, activity at Shoreline Golf Links is estimated to generate $3.0 million in revenues, $403,000 (15.7%) higher than budget. Golf has become a popular activity as it is one of few activities allowed with SIP restrictions. Unfortunately, not the same is true for the restaurant, which is estimated to generate $545,000 in revenues, $696,000 (56.1%) below budgeted revenues of $1.2 million. While SIP restrictions have eased to allow indoor dining and banquets, the restaurant was under renovation for the first half of the fiscal year with limited hours and a limited menu. With renovations now recently completed, the restaurant is expected to return to normal operations for the remainder of the fiscal year.

In total, golf expenditures for the current fiscal year are estimated at $2.3 million, $43,000 (1.8%) below budget. Restaurant expenditures are estimated at $993,000, $338,000 (25.4%) below budget. Golf expenditures are trending on target with budget. Restaurant expenditures are trending lower than budget as the restaurant has been operating with limited hours; however, expenditures are trending higher than revenue as there are also fixed costs associated with restaurant operations.

The fund is trending to finish the fiscal year with an operational balance of $221,000; Shoreline Golf Links is trending with a positive balance of $670,000 while Michaels at Shoreline Restaurant is trending at a loss of $449,000. For Fiscal Year 2020-21, there was a transfer of $250,000 to the General Operating Fund, and the fund ended the fiscal year with a balance of $98,000. For the current fiscal year, an operating transfer to the General Operating Fund of $150,000 was included. With the prior fiscal year balance of $98,000 and estimated operating balance for the current fiscal year of $221,000, staff is conservatively estimating a transfer to the General Operating Fund of $150,000. Staff will closely monitor the fund and will update this transfer, if needed, in the next quarterly update.

Shoreline Regional Park Community (Shoreline Community)

The Shoreline Community is a separate legal entity created by legislation in 1969, known as the Shoreline Regional Park Community Act (the Act), to fund a regional park, develop the surrounding North Bayshore Area economically and environmentally, and provide a means of financing the short- and long-term responsibilities of the Shoreline Community. In accordance with the Act, all tax revenues received by the Shoreline Community are deposited into a special fund and used to pay the principal of and interest on loans, advances, or other indebtedness of the Shoreline Community. However, for purposes of financial reporting, the Shoreline Community is considered a blended component unit of the City, and its financial activities are reported with the City's financial documents.

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

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$50,971	$50,971	**$57,338**	$6,367
Expenditures	(33,894)	(34,177)	**(33,503)**	674
Operating Balance	17,077	16,794	**23,835**	7,041
Development Impact Fees[1]	-0-	-0-	**221**	221
Bond Proceeds Interest	-0-	-0-	**39**	39
CalPERS Contribution	(71)	(71)	**(71)**	-0-
Transfer to Comp Absences	(89)	(89)	**(89)**	-0-
Capital Projects	(13,371)	(14,426)	**(14,426)**	-0-
Excess (Deficiency) of Revenues	3,546	2,208	**9,509**	7,301
Beginning Balance	53,666	53,666	**53,666**	-0-
Reserve	(5,400)	(5,400)	**(5,400)**	-0-
Reserve for Bond Proceeds	(26)	34	**(5)**	(39)
Landfill Reserve	(10,000)	(10,000)	**(10,000)**	-0-
Sea Level Rise Reserve	(12,000)	(12,000)	**(12,000)**	-0-
Dev. Impact Fee Reserve	(158)	(158)	**(379)**	(221)
Ending Balance	$29,628	$28,350	**$35,391**	$7,041

[1] Includes interest earned on the balance.

Operating revenues, primarily property taxes, for the current fiscal year are estimated at $57.3 million, $6.4 million (12.5%) higher than budget. Property Tax revenue is trending higher than budget as, subsequent to adoption of the budget, the County provided the July 1, 2021 tax roll information for the Shoreline Community. After adjusting the assessment roll to remove a secured property tax bill that was incorrectly allocated to the Shoreline Community, the actual net increase is about 10.2%. It is important to note that Assessed Value in the Shoreline Community can be significantly impacted by economic conditions. Overall, the City tax roll increased a net 8.1%, which is the highest among the 15 cities in the County. The City estimated a 1.7% increase for Fiscal Year 2021-22 during the pandemic, which corresponds to an approximate $4.0 million difference compared to the actual tax roll increase. The remaining variance is primarily from the County's correction to the prior year roll, generating about $1.8 million of additional taxes this fiscal year.

Operating expenditures for the current fiscal year are estimated at $33.5 million, $674,000 (2.0%) below budget. Included in operating expenditures are $13.0 million for the combined annual interagency payments to the school districts and the County and $6.4 million for debt service.

It is estimated that operating revenues will exceed operating expenditures by $23.8 million, which will fund the CalPERS contribution of $71,000, the transfer of $89,000 to fund the Compensated Absences Fund, and $10.9 million for Capital Projects. In addition, capital projects will be funded by an additional $733,000 from bond proceeds and $2.8 million from the North Bayshore Development Impact Fees (NBSDIF) previously received and interest earned on the fees. The NBSDIF revenue is designated for transportation improvements in the Shoreline Community, and because the timing of each development process and the payment of fees are uncertain, revenue is not budgeted. A portion of the NBSDIF revenue is for water and wastewater infrastructure improvement projects and is accounted for in those funds. After reserving $27.4 million for the General Reserve, the Landfill Reserve, and the Sea Level Rise Reserve, $5,000 for bond proceeds (mainly from interest earnings), and $379,000 for the Development Impact Fee Reserve, the fund is estimated with a $35.4 million ending balance.

A 2021 Shoreline Sea Level Rise Study Update was presented to City Council on June 22, 2021. The current cost estimate for identified sea level rise projects is $122 million. Staff is developing a feasibility analysis in order to prioritize the projects for funding, scheduling, and implementation. It is anticipated additional reserves will be needed to provide for increased mitigation over what was recommended by the Initial Study.

Enterprise Utility Funds

The City's three enterprise utility funds (Water, Wastewater, and Solid Waste) are fully funded by the rates charged to customers; there is no General Fund support to the utility funds. Utility rates charged by governmental entities for water, sewer, and trash and recycling services are considered property-related fees and are subject to the procedural requirements of Proposition 218, Article XIII, of the California Constitution. The City has complied with Proposition 218 and will be reviewing the revenues and expenditures for each of the utility funds and returning to the City Council with rate recommendations in the next quarterly update report in April.

Water Fund

The Water Enterprise Fund is a utility fund accounting for the revenues and expenditures associated with the provision of retail water and recycled water services to Mountain View residents and businesses. The City provides potable water service to approximately 96.0% of water customers within the City limits while California Water Service (a private company) provides potable water service to the remaining 4.0% of water customers in a few previously unincorporated neighborhoods. Potable water for the City's system is obtained primarily from the San Francisco Public Utilities Commission (SFPUC) regional Hetch Hetchy water system (88.0%). Potable water is also purchased from Valley Water (formerly the Santa Clara Valley Water District) (10.0%) and City well production (2.0%). The primary costs associated with water service are the purchase of water, staffing to operate and maintain the system, ongoing maintenance, and capital replacement and improvement projects. Charges for services are designed to fully fund ongoing annual costs and a base level of annual capital projects as well as to maintain adequate reserves in accordance with Council policy.

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

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$37,326	$37,326	**$36,094**	($1,232)
Expenditures[1]	(34,787)	(34,680)	**(29,981)**	4,699
Operating Balance	2,539	2,646	**6,113**	3,467
Capacity/Development Impact Fees	-0-	-0-	**995**	995
CalPERS Contribution	(116)	(116)	**(116)**	-0-
Capital Projects from Fees	(1,600)	(1,600)	**(1,600)**	-0-
Capital Projects	(2,443)	(2,533)	**(2,533)**	-0-
Excess (Deficiency) of Revenues	(1,620)	(1,603)	**2,859**	4,462
Beginning Balance	35,134	35,134	**35,134**	-0-
Capacity/Dev Impact Fees Reserves	(4,406)	(4,405)	**(5,400)**	(995)
Water Transfer Reserve	(5,000)	(5,000)	**(5,000)**	-0-
Reserves	(11,629)	(11,629)	**(11,629)**	-0-
Ending Balance	$12,479	$12,497	**$15,964**	$3,467

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

A 1.0% increase for the average cost of water, meter rates, and recycled water rates effective July 1, 2021 were adopted for Fiscal Year 2021-22. Operating revenues are estimated at $36.1 million, $1.2 million (3.3%) lower than budget. Water usage year-over-year through November is trending approximately 10.0% lower as a result of conservation efforts due to the drought. In Fiscal Years 2014-15 and 2015-16, revenues were severely impacted by reduced water usage (16.7% and 14.2%, respectively) as a result of conservation due to drought. Although usage increased over the next five years, it was still approximately 22.0% below the 2013 drought baseline. With the downward trend in water use once again due to drought, usage is back to the lowest point of approximately 28.0% below the 2013 drought baseline. Recycled water sales are trending up comparing usage through November in the current fiscal year to last fiscal year.

Operating expenditures are estimated at $30.0 million, $4.7 million (13.5%) below budget, primarily as a result of the SFPUC waiving the minimum water purchase due to drought water conservation mandates and $1.0 million savings in operations.

During Fiscal Year 2016-17, staff evaluated options to minimize or eliminate future penalties as a result of the City's minimum water purchase requirement with the SFPUC. The City of East Palo Alto was approaching its individual water supply guarantee (ISG) with the SFPUC, which precluded approval of large development projects in East Palo Alto. The City of Mountain View is not anticipated to reach its ISG through 2040. Therefore, staff worked with the City of East Palo Alto to transfer 1.0 million gallons of the City's ISG to East Palo Alto in return for $5.0 million. The agreement was approved in 2017, and this $5.0 million is reserved to use toward future minimum water purchase penalties when insufficient water services charges are collected. As stated above, there is no penalty for Fiscal Year 2021-22 due to the drought.

The estimated operating balance is $6.1 million, which is sufficient to fund the $116,000 CalPERS contribution, proportionate to the General Fund's share, and the current fiscal year's $2.5 million for Capital Projects.

Restructured capacity fees were adopted by the City Council effective July 1, 2015. The updated fee structure accounts for increased water and sewer infrastructure costs based on additional demands resulting from new development or changes to the type of development. Capacity fees are not included in the Adopted Budget as the fees are uncertain; funds are available for capital projects after the fees are actually received. The Capacity fees received through November 2021 total $754,000, and interest is estimated at $144,000. Various development impact fees have been adopted by the City Council, and for Fiscal Year 2021-22, no revenue has been received through November 2021, but interest is estimated at $97,000. Any fees received and interest earned will be designated for specific projects and will be identified in the Five-Year CIP. Capacity and Development Impact Fees received in prior fiscal years are sufficient to fund the $1.6 million in additional capital projects for Fiscal Year 2021-22. The Water Fund is estimated to have an ending balance of $16.0 million and $22.0 million in reserves.

Wastewater Fund

The Wastewater Enterprise Fund is a utility fund that accounts for the costs and revenues associated with the collection, transportation, and treatment of wastewater generated by all residents and businesses in the City. Other associated functions included in this fund are the Hazardous Materials Permit Program and the Industrial Liquid Waste Management Program. Expenditures in this fund include the construction and maintenance of sanitary sewer lines, stormwater lines, and pump stations; the City's costs associated with the operation of the Palo Alto Regional Water Quality Control Plant (Treatment Plant), in which the City is a partner; and personnel costs for the operation and maintenance of the system.

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

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$25,916	$25,916	**$28,288**	$2,372
Expenditures	(24,017)	(24,178)	**(21,478)**	2,700
Operating Balance	1,899	1,738	**6,810**	5,072
Loan Proceeds & Interest	-0-	-0-	**17**	17
Capacity/Development Impact Fees	-0-	-0-	**1,104**	1,104
CalPERS Contribution	(70)	(70)	**(70)**	-0-
Capital Projects from Fees	(1,980)	(1,980)	**(1,980)**	-0-
Capital Projects	(4,071)	(4,161)	**(4,161)**	-0-
Excess (Deficiency) of Revenues	(4,222)	(4,473)	**1,720**	6,193
Beginning Balance	35,238	35,238	**35,238**	-0-
Capacity/Dev Impact Fees Reserves	(7,689)	(7,689)	**(8,793)**	(1,104)
Treatment Plant Reserve	(10,751)	(10,751)	**(12,652)**	(1,901)
Reserve for Loan Proceeds	(222)	(222)	**(239)**	(17)
Reserves	(8,224)	(8,224)	**(8,224)**	-0-
Ending Balance	$ 4,130	$ 3,879	**$ 7,050**	$3,171

A 6.0% overall rate increase was adopted for Fiscal Year 2021-22 effective July 1, 2021, including a 4.0% rate increase for operations and a 2.0% rate increase for future Treatment Plant capital costs. As previously outlined, future capital expenditures are forecasted for the Treatment Plant as the facility began operations in 1972 and is in need of major renovations. A cumulative rate increase of 20.0% is projected, and the City Council approved a gradual phase-in of 2.0% annually for 10 years to fund these long-term capital costs, of which Fiscal Year 2021-22 is the eighth year.

Operating revenues are estimated at $28.3 million, $2.4 million (6.8%) higher than budget, due to trending higher service charge revenue. Estimated operating expenditures of $21.5 million are trending $2.7 million (9.3%) below budget. This is primarily due to savings in operations offset slightly by $282,000 owed for prior-year Treatment Plant expenses.

Each fall, an annual reconciliation of the prior fiscal year's actual treatment costs (based on volume) is performed by the Treatment Plant, and an adjustment is provided to each member agency. The City's share of audited expenditures of the Treatment Plant for last fiscal year was $282,000 more than budgeted, resulting in an additional amount due and paid in the current fiscal year. The additional Treatment Plant charge is applied against the Treatment Plant Reserve. The estimated operating balance of $6.8 million includes $2.7 million collected for future Treatment Plant Capital Costs, as stated above, and will partially fund the $70,000 CalPERS contribution, proportionate to the General Fund's share, and $4.2 million for Capital Projects with the remainder needed from fund balance.

Restructured capacity fees were adopted by the City Council effective July 1, 2015. Capacity fees are not included in the Adopted Budget as the fees are uncertain; funds are available for capital projects after the fees are actually received. The Capacity fees received through November 2021 total $943,000 and interest is estimated at $128,000. Various Development Impact fees have been adopted by the City Council, and for Fiscal Year 2021-22, $6,000 has been received through November 2021, and interest is estimated at $26,000. Any fees and interest earned will be designated for specific projects and will be identified in the Five-Year CIP. Capacity and Development Impact Fees received in prior fiscal years are sufficient to fund the $2.0 million in additional capital projects for Fiscal Year 2020-21.

The majority of the trunk main infrastructure was installed in the 1950s and 1960s. Staff has previously indicated through the CIP process that there are major City sewer main replacement projects necessary over the next 10 years. As identified in the Fiscal Year 2018-19 Midyear Report, capacity and development impact fees have provided a source of funding for some projects; however, the fees received are not sufficient to fund all projects, and staff recommended issuing debt to secure additional funds. On October 23, 2018, the City Council approved a $10.1 million loan financing for Wastewater infrastructure projects. The proceeds have funded $3.1 million of midyear capital projects in Fiscal Year 2018-19, $6.3 million of scheduled and midyear capital projects in Fiscal Year 2019-20, and $640,000 of scheduled projects in Fiscal Year 2020-21. There is a nominal amount of interest earned on proceeds currently not allocated to a capital project. Staff will return to the City Council with a recommendation for use of the proceeds at a later time. The financing structure includes the ability to prepay 10.0% of the outstanding balance each year and all of the outstanding balance after 10 years without penalty. Annual payments are approximately $852,000.

The fund is estimated with an ending balance of $7.1 million and $29.9 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, $2.4 million in Treatment Plant credits for prior fiscal years, and the Capacity and Development fees balance.

Solid Waste Management Fund

The Solid Waste Management Enterprise Fund is a utility fund that accounts for the revenues and expenditures of solid waste-related services, including trash collection and disposal, recycling services, street sweeping, and the maintenance of two of the City's three closed landfill sites.

Trash and recyclables generated in the City are transported to the SMaRT® Station (the City is one of three partners) for removal of recyclables, and the remaining trash is transported for final disposal at the Kirby Canyon Landfill in South San Jose. The City provides a variety of services through an outside contractor (Recology) for the collection of trash 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):

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
City Revenues	$15,390	$15,390	**$15,026**	($ 364)
Recology Revenues[1]	20,305	20,305	**18,584**	(1,721)
Total Revenues	35,695	35,695	**33,610**	(2,085)
City Expenditures	(16,015)	(17,627)	**(15,219)**	2,408
Recology Payments[1]	(20,305)	(20,305)	**(18,584)**	1,721
Total Expenditures	(36,320)	(37,932)	**(33,803)**	4,129
Operating Balance (Deficit)	(625)	(2,237)	**(193)**	2,044
CalPERS Contribution	(48)	(48)	**(48)**	-0-
Capital Projects	(290)	(290)	**(290)**	-0-
Excess (Deficiency) of Revenues	(963)	(2,575)	**(531)**	2,044
Beginning Balance	15,793	15,793	**15,793**	-0-
Reserve for Future Facility Equipment	(2,200)	(2,200)	**(2,200)**	-0-
Reserves	(4,004)	(4,004)	**(4,004)**	-0-
Ending Balance	$ 8,626	$ 7,014	**$ 9,058**	$2,044

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

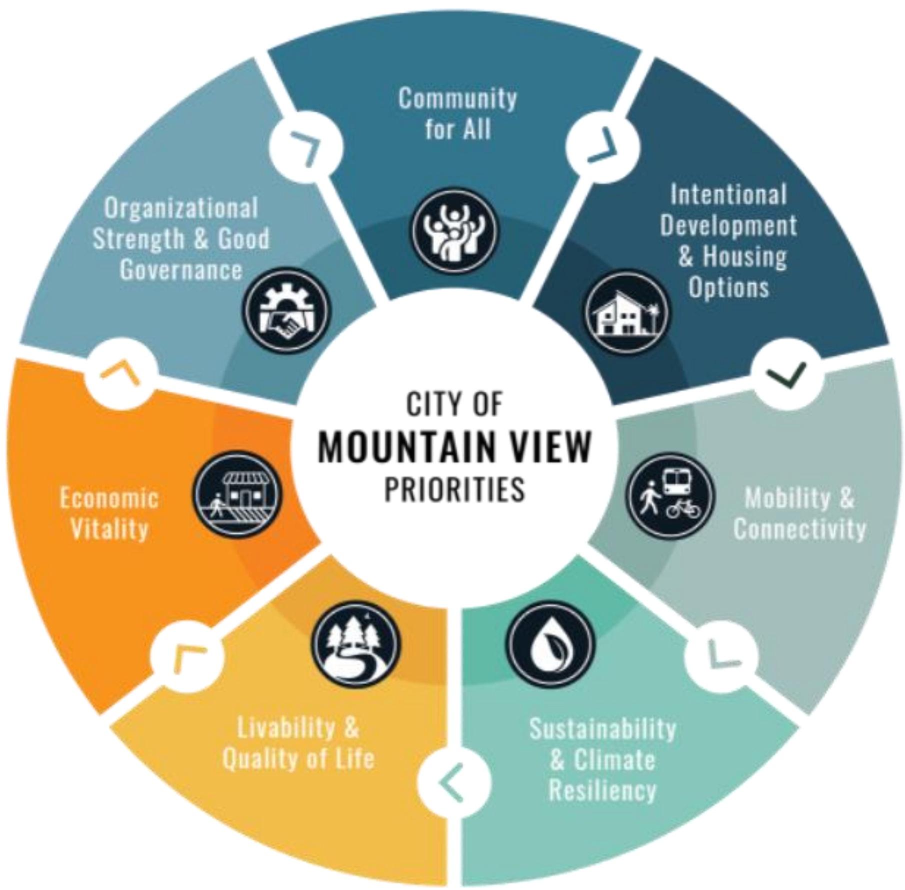
For Fiscal Year 2021-22, a 4.0% rate increase effective July 1, 2021 was adopted. The City's Solid Waste Fund operating revenues are estimated at $15.0 million, slightly below budget. This is the result of higher cart service revenue offset by lower commercial account revenue. City operating expenditures are estimated at $15.2 million, $2.4 million (11.5%) below budget, as a result of operating savings. The SMaRT® Station performs an annual reconciliation of the prior fiscal year's costs, and an adjustment is provided to each member agency. The City has not received the reconciliation for Fiscal Year 2021-22 yet, and the adjustments would be included as current fiscal year charges.

There is an estimated negative operating balance of $193,000, and the $48,000 CalPERS contribution, proportionate to the General Fund's share, and $290,000 for Capital Projects will come from fund balance. The fund is estimated with an ending balance of

$9.1 million and reserves of $6.2 million. The balance will be needed to smooth future rate adjustments needed for the new Recology Agreement and changes to the SMaRT Station Agreement.

II. STRATEGIC ROADMAP ACTION PLAN UPDATE

On June 22, 2021, the City Council adopted the Strategic Roadmap Action Plan, identifying the following seven critical priorities for Fiscal Years 2021-22 and 2022-23.



The Strategic Roadmap was developed based on Council, staff, and public input, and describes a vision of where the City strives to be in the next three to five years. The adopted two-year Strategic Roadmap Action Plan includes 42 projects related to the above priorities. In December 2021, Council expressed interest in adding a project to refinance existing Shoreline Community outstanding debt. Staff anticipates work on this project to begin in Q2/Q3 2022.

This report provides an update on the status of these 43 projects as of January 12, 2022 in Table 1 below. In addition, Figure 1 below highlights significant accomplishments for the first six months of the action plan and the upcoming key milestones in the next six months for each of the strategic priorities. A comprehensive list of each goal and project with status updates is included in Attachment 3.

The next update will be provided along with adoption of the Fiscal Year 2022-23 Budget in June 2022.

Table 1: Summary of Project Status

Project Status	Count
Projects Completed	2
Projects in Progress	31
Projects Not Started	9
Project On Hold	1
Total Projects	**43**

Significant Accomplishments

- Mobile Home Rent Stabilization: Ordinance adopted (Sep. 2021)
- Guaranteed Basic Income Pilot: Study session (Sep. 2021)
- Responsible Construction: Study session (Oct. 2021)
- Wage Theft: Study session (Oct. 2021)
- Alternative Mental Health Crisis Response: PD pilot project underway

Upcoming Milestones

- GBI Pilot: Program adoption scheduled for Feb. 22, 2022
- Community Workforce Agreement: RFP for consultant services (est. Q2 2022)
- Mobile Home Rent Stabilization: MOU to Council for approval (est. Q2 2022)

Community for All

Significant Accomplishments

- Lot 12: Council approval of deal terms (Aug. 21)
- Housing Element: Study session (Nov. 2021)
- Crestview Hotel: 3 community meetings (2021); County approval of Measure A funds (Nov. 2021)

Upcoming Milestones

- VTA Evelyn Site Affordable Housing: Lease signed; Preparing site scenarios for Council study session (est. Q1 2022)
- Housing Element: Site inventory progress and draft goals for EPC and Council review (est. Q1 2022)

Intentional Development & Housing Options

Significant Accomplishments

- Castro Pedestrian Mall Feasibility Study: Council direction on design concepts (Oct. 2021); Contract approval to develop interim design guidelines (Dec. 2021)
- City Active Transportation Plan: RFP for consultant services (Jan. 2022)

Mobility & Connectivity

Significant Accomplishments

- South Bay Salt Ponds Project: Agreement approved in (Dec. 2021); Soil hauling for project to begin (Feb. 2022)

Upcoming Milestones

- Shoreline Wildlife Management Plan: Final report to PRC and Council (est. Q2 2022)

Sustainability & Climate Resiliency

Significant Accomplishments

- Visual Arts: 3 new public art installations for Fayette and Rengstorff Parks (2021)

Upcoming Milestones

- Downtown Precise Plan Areas A, G and H: Adoption scheduled for Q2 2022
- Historic preservation Ordinance: Scope of Consultant services for Council approval (est. Q1 2022)
- Safe Storage of Firearms Ordinance: Introduction scheduled for Feb. 22, 2022

Livability & Quality of Life

Significant Accomplishments

- Covid-19 Recovery: Ongoing implementation of Small Business Action Plan (9 of 10 strategies achieved); $3.8 million for COVID-19 Rent Relief; ongoing eviction prevention workshops
- Economic Vitality Strategy: Council direction on scope of services (Oct. 2021); RFP for consultant services (Jan. 2022)

Economic Vitality

Significant Accomplishments

- Enhanced Legislative Program: Legislative Advocacy firm selected (Q4 2021); Council study session on Legislative Platform (Jan. 2022); Adoption scheduled for Feb. 8, 2022
- City Buildings Workspace Study: Consultant contract awarded (Nov. 2021)
- Transient Occupancy Tax: Council approval to contract for polling, strategy and project management services (Dec. 2021)

Upcoming Milestones

- Campaign Disclosure in Advertisements Ordinance: Council approval of key provisions scheduled for March 8, 2022

Organizational Strength & Good Governance

Figure 1: Significant Accomplishments and Upcoming Milestones

III. RECOMMENDED MIDYEAR BUDGET ADJUSTMENTS

The midyear budget review provides an opportunity for the City to adjust the budget to recognize unanticipated revenues and costs and to propose expenditures to address high-priority community and operational needs. Any such proposed adjustments are made in the context of assessing the resources needed to provide high-quality services to the public and the fiscal capacity to fund this level of resources. Each department continuously reviews its programs and operations, as well as changing conditions and emerging community needs. In addition, special studies may be conducted to assess a program area and recommend changes to increase effectiveness or efficiency, with a focus on continuous improvement. Such efforts serve to accomplish the Council priority in the Strategic Roadmap Action Plan under Organizational Strength and Good Governance. As noted below, a comprehensive study of the development review process was recently conducted, which has resulted in recommended process, technology, and staffing changes, some of which are being proposed for funding in this midyear budget update.

The following sections describe the proposed midyear adjustments.

Appropriations for Increased Janitorial Costs

Additional funding is necessary to cover increased janitorial costs in the Community Services Department (CSD) through the rest of the fiscal year. The City recently completed a Request for Proposals (RFP) for janitorial services, and additional budget is needed due to increased vendor rates implemented in January 2022. The janitorial contractor provides services to park restrooms and CSD facilities: $6,100 is needed to continue Day Porter services at the Mountain View Community Center, and $24,300 is needed to continue services at park restrooms in the North Bayshore Area. The janitorial contract covers other CSD facilities, and the other City sites have enough budget to absorb the increased rates this fiscal year.

New Positions

Six new positions are recommended for ongoing funding, as discussed below:

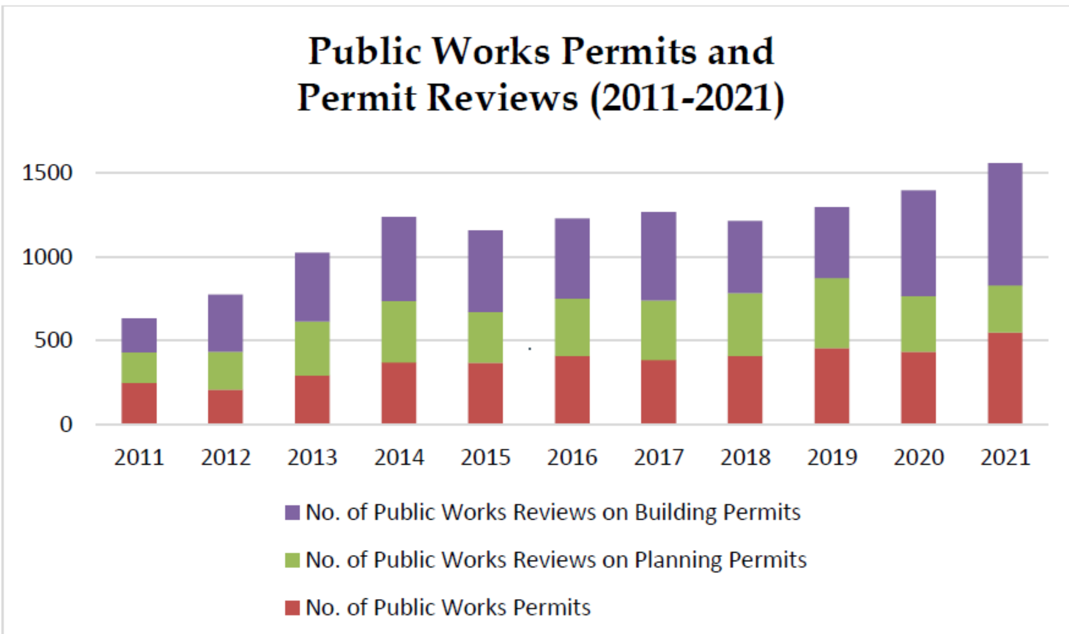
FTE	Position	Department	Annual Cost	Fund
2.0*	Junior/Assistant/ Associate Engineer	PW	$472,200	DSF—100%
1.0*	Junior/Assistant/ Associate Engineer	PW	$236,100	DSF—25%; Shoreline Fund—25%; Water Fund—25%; Wastewater Fund—25%
1.0	Executive Assistant	PW	$173,000	GOF—40%; DSF—20%; Water Fund—20%; Wastewater Fund—20%
1.0	Payroll Accountant	FASD	$213,700	GOF—100%
1.0	Analyst I/II	CDD	$205,400	Fees charged to mobile home park owners

** Convert from Limited-Period Position to Ongoing Position.*

3.0 FTE Junior/Assistant/Associate Engineers

Matrix Consulting Group recently completed a comprehensive Development Review Process study for the City and recommended several improvements related to City processes, technology upgrades, and staffing needs. Staff identified several positions that are critical to enhancing the development review process, including converting three current limited-term Junior/Assistant/Associate Engineer positions to regular positions. These positions are in the Public Works Department: 2.0 FTE positions are in the Land Development Section, and 1.0 FTE is in the Construction Section. These positions work exclusively on development and permitting projects. They have been funded with limited-period funding for more than five years, indicating that they are performing regular, ongoing work for the development/permit processes.

The challenge of managing the development review process in which change is constant, timelines are brief, and outcomes are crucial requires effective staffing. The number of development permit applications has increased the last several years, as noted below. In addition, the complexity of the projects has increased significantly. The development applications are much larger in scope, mostly on infill sites, and create challenges with retrofitting them into the City's existing context and infrastructure. This is requiring more time and attention to problem-solve issues to not only meet City requirements, but also to resolve issues related to residents who have concerns and questions regarding traffic, parking, the increase in development and building massing, and other matters related to specific projects. This increase in the number and complexity of applications, combined with the challenges of COVID-19, have contributed to vacancies and leaves of absence, resulting in even more of the burden being placed on existing staff.



The heavy workload is due to high levels of development activity that have continued and increased since Fiscal Year 2017-18, and these positions are required in order to be responsive to this demand.

In addition to permits increasing, the large workload due to high levels of construction activity in both Capital Improvement Program (CIP) and development projects has been increasing. An example of this can be seen in the number of excavation permits issued each Fiscal Year since 2016-17:

Fiscal Year 2016-17: 383
Fiscal Year 2017-18: 408
Fiscal Year 2018-19: 456
Fiscal Year 2019-20: 434
Fiscal Year 2020-21: 548

The annual cost for the 2.0 FTE ongoing positions in the Land Development Section is estimated to be $472,200. One of the positions would be funded 100.0% by the Development Services Fund (DSF), and the other position would be funded 25.0% each by the DSF, Shoreline Regional Park Community Fund, Water Fund, and Wastewater Fund. Converting these positions to regular status does not increase current annual costs to the DSF or the other funds but instead would improve recruitment and retention in the increasingly challenging labor market, thereby improving on-time performance, continuity, and consistency. The annual cost of the 1.0 FTE position in the Construction Section is estimated at $236,100 and is recommended to be funded by the DSF. The total cost for the three positions is $708,300.

1.0 Executive Assistant

The Matrix Development Review Process Report recommended adding administrative support for the Public Works Director and the Land Development Engineering Section. Staff recommends adding a full-time, regular Executive Assistant to the Public Works Department. The Public Works Department currently consists of three divisions with over 150 employees. This Executive Assistant would help manage the Public Works Director's office, including such tasks as: managing the Director's calendar and setting up meetings; keeping the office organized; processing Council agenda items; tracking and assisting with responses to City Manager, Councilmembers, and sensitive public issues; filing and processing confidential employee documents; managing responses to Public Records Requests; and preparing certain annual reports for the department. In addition, the Executive Assistant would be in charge of the logistics, communications, agenda packets, and other tasks for the two committees staffed by the Public Works Department: the Council Transportation Committee and the Bicycle/Pedestrian Advisory Committee. The Executive Assistant would also be available to assist the two Assistant Public Works Directors located at City Hall with calendar management, setting up meetings, and any confidential tasks.

The annual cost of this position is estimated at $173,000. This position would be funded 40.0% by the General Operating Fund, 20.0% each by the DSF, Water Fund, and Wastewater Fund. It is estimated this new position can be filled as early as March 22, and the additional funds needed for the remainder of the fiscal year, estimated at $57,000, can be absorbed by the department's salary savings.

1.0 Payroll Accountant

A new Payroll Accountant position is recommended in the Finance and Administrative Services Department, Accounting Division. The Payroll Section has 3.0 FTE currently with 1.0 Senior Accountant (Payroll Manager), 1.0 Payroll Accountant, and 1.0 Payroll Technician. Historically, these positions have been difficult to recruit for and fill, and in recent years, this has continued in light of COVID-19 and recent labor market trends in generally and in the public sector. Additional reporting and compliance requirements by governmental and regulatory bodies have created more complex environments in which payroll issues have continued to grow and require more time to analyze, research, and implement. In addition, the City's financial and payroll timekeeping systems must be modified constantly to meet business needs as new requirements must be implemented. To ensure payroll processing continues uninterrupted every two weeks despite work shutdowns, staff shortages, and dealing with numerous technical issues that often arise each payroll, an additional position is needed to run the payroll if needed as well as to assist with the growing demands of the Payroll Section.

The estimated annual cost of the Payroll Accountant position is $213,700. It is estimated this new position can be filled as early as May 2022. The additional funds needed for the remainder of the fiscal year, estimated at $35,600, can be absorbed by the department's Budget.

1.0 Analyst I/II (Mobile Home Rent Stabilization)

Staff recommends funding a new Analyst I/II position primarily focused on the implementation and administration of the newly adopted Mobile Home Rent Stabilization Ordinance (MHRSO). Currently, the Rent Stabilization Program has 5.0 full-time staff, which include 1.0 Project Manager, 1.0 Senior Management Analyst, 2.0 Analyst II, and 1.0 Secretary. Due to existing heavy workloads, it is expected that most Community Stabilization and Fair Rent Act (CSFRA) staff would only be able to work on the implementation of the MHRSO on a part-time basis to translate existing CSFRA infrastructure and processes to adapt to MHRSO requirements. Additionally, the MHRSO implementation will include new components, such as space rental requirements provided in the Mobile Home Residency Ordinance for just-cause evictions, exemptions, as well as petition and hearing processes and capital improvement pass-through processes. Considering the volume, multi-faceted nature, and complexities of the work, staff recommends adding 1.0 FTE Analyst I/II and will use temporary third-party professional consultants to assist with the intricacies of mobile home rent stabilization specifics for the other anticipated work.

The estimated annual cost of the Analyst II position is $205,400. We anticipate this position to be filled as soon as feasible after approval of this budget request. The costs for the remaining fiscal year (February through June) amount to $85,600. The funding source for this hire would come from fees charged to mobile home park owners (similar to CSFRA annual fees) upon the Rental Housing Committee's approval.

Start-Up Costs of Implementing the Mobile Home Rent Stabilization Ordinance

Staff is recommending a one-time contribution from the General Non-Operating Fund for the implementation of the newly adopted Mobile Home Rent Stabilization Ordinance in its first year of existence. Certain start-up costs are necessary at this time to develop new components of the MHRSO that are not easily translated from the existing CSFRA infrastructure. One-time funding is requested to assist with: (1) software development to include mobile homes into the rental registry; (2) legal services to draft new regulations to further detail the implementation of the MHRSO; (3) temporary assistance from third-party consultants; and (4) initial training of the Rental Housing Committee and staff. The estimated total cost of $107,000 is for approximately eight months of operating cost and expenses incurred in Fiscal Year 2021-22. The ongoing cost of this program will be funded from fees charged to mobile home park owners upon the Rental Housing Committee's approval.

In addition, staff is unable to determine at this time if the proposed mobile home park owner fees for calendar year 2021 can be collected before the end of Fiscal Year 2021-22. In order to close the fiscal year books, this special revenue fund cannot have a negative cash balance. Therefore, staff recommends that the City Council approve a one-time advance/loan from the General Non-Operating Fund up to $85,600 to cover any cash shortage. Once the fee is collected, the Mobile Home Rent Stabilization Fund will pay back the amount to the General Non-Operating Fund.

GASB 87 Implementation Costs

Staff recommends funding for GASB 87 Leases implementation in the amount of $20,000. In June 2017, the GASB issued Statement No. 87, Leases. This GASB statement is to provide better financial information for leases by governments. The City is required to implement this GASB statement for Fiscal Year 2021-22. The City has many complex lease agreements, including Google leases, MV 101 Development, LLC (Ameswell) lease, RGC Mountain View I, and the LLC (Hope Street) lease. All these leases will need research and review as well as computations to determine the required information needed to report annually. Staff will need to hire a consultant to assist the City in reviewing these leases so that the new accounting standard will be implemented successfully. This is a one-time cost and is recommended to be funded by the General Non-Operating Fund.

Salary Plan Changes

The currently vacant Information Technology Manager position has been reclassified to Assistant IT Director as part of the IT Department reorganization plan. The reclassification is within the City Manager's authority provided by the City Council on December 7, 2010; however, reflecting the reclassification on the salary plan requires Council adoption of a resolution (Attachment 2). Reclassifying the IT Manager to Assistant IT Director is recommended. The estimated total compensation cost for the reclassification is $24,400. The IT Department has anticipated salary savings that can absorb this increase for the remainder of the current fiscal year. Ongoing impacts will be included in the Fiscal Year 2022-23 budget. The total increase in control point for this position presented in the Salary Plan (Exhibit A to Attachment 2) is estimated to be $18,230 in salary only.

IV. FISCAL YEAR 2022-23 PRELIMINARY GOF FORECAST

This section of the report focuses on the Fiscal Year 2022-23 Preliminary GOF Forecast. This forecast is based on limited data and financial assumptions made with information available at this time. Although there is improvement in some revenue sources, it remains a challenge to determine if economic conditions will change for better or worse as the pandemic recovery continues to unfold. An updated five-year forecast will be incorporated into the Recommended Budget, scheduled for the June 14, 2022 City Council meeting.

The **preliminary** projection for Fiscal Year 2022-23 follows (dollars in thousands):

	2020-21 Audited	2021-22 Adopted Budget	2021-22 Estimated	**2022-23 Preliminary Forecast**	Variance of 2022-23 Forecast to 2021-22 Adopted
Revenues	$143,706	$146,412	$157,308	**$161,106**	$14,694
Expenditures[1]	(136,811)	(150,804)	(149,624)	**(157,447)**	(6,643)
Rebudgets[2]	(5,235)	-0-	-0-	**-0-**	-0-
Operating Balance	1,660	(4,392)	7,684	**3,659**	8,051
Transfer to GNOF	(8,501)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	-0-	-0-	-0-	**(1,500)**	(1,500)
Excess ERAF	6,841	5,836	-0-	**-0-**	(5,836)
Ending Balance	$ -0-	$ 1,444	$ 7,684	**$ 2,159**	$ 715

[1] Adopted Budget and Preliminary Forecast include $4.0 million in estimated budget savings.
[2] Rebudgets include grant and donation carryovers from the prior fiscal year and changes in encumbrances and assets and liabilities for audited results.

The preliminary forecast projects total GOF revenues of $161.1 million, $14.7 million (10.0%), and $3.8 million (2.4%) higher than the current fiscal year Adopted Budget and Estimated, respectively.

Baseline expenditures are anticipated to increase $6.6 million (4.4%) to $157.4 million compared to the current fiscal year Adopted. For Fiscal Year 2022-23, there is a preliminary ending balance of approximately $2.2 million. Notably, this forecast includes the additional position requests discussed in the Recommended Midyear Adjustment section of this report. **However, at this time, the forecast does <u>not</u> include any Fiscal Year 2022-23 ongoing budget requests from departments, as those are currently under evaluation as part of the budget development process.** All labor agreements expire June 30, 2023 and include an opener for salary for Fiscal Year 2022-23 for which negotiations will be commencing.

The full five-year forecast will be presented in the Fiscal Year 2022-23 Recommended Budget in June. This forecast will continue to incorporate impacts from the COVID-19 pandemic for some revenue sources such as TOT, although less significant than in the prior fiscal year. Revenue projections are based on reasonable assumptions utilizing available information from a wide variety of sources. These sources include reviewing the City's historical trends, gathering information from economists that specialize in the regional economics of Silicon Valley, reviewing various indicators (e.g., unemployment rates, etc.), checking with neighboring agencies, reviewing State of California and national economic trends, and factoring in known Mountain View conditions, such as lease terms and property development.

Despite incorporating the most recent available data into the forecasting process, a considerable amount of volatility and uncertainty yet remains as the pandemic continues to bring new and varied impacts on the economy. Until such time as the volatility settles down and greater stability returns, the ability to more accurately forecast future revenues and expenditures will continue to be challenged.

A more detailed discussion of the projected GOF revenues and expenditures follows.

Revenues

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

	2020-21 Audited	2021-22 Adopted Budget	2021-22 Estimated	**2022-23 Preliminary Forecast**	Variance of 2022-23 Forecast to 2021-22 Adopted
Property Taxes	$ 59,783	$ 60,272	$ 63,114	**$ 68,280**	$ 8,008
Sales Tax	18,058	18,477	21,644	**21,096**	2,619
Other Local Taxes	13,717	16,775	18,216	**18,345**	1,570
Use of Money and Property	22,195	23,014	24,123	**25,040**	2,026
Licenses, Permits, and Fees/Fines and Forfeitures	5,677	6,767	6,039	**6,296**	(471)
Intergovernmental	782	738	1,628	**739**	1
Charges for Service	1,941	2,099	2,354	**2,842**	743
Miscellaneous Revenues	4,358	1,781	3,257	**1,840**	59
Interfund Revenues and Transfers	17,195	16,489	16,933	**16,628**	139
Total Operating Revenues	$143,706	$146,412	$157,308	**$161,106**	$14,694

A brief explanation of the assumptions and changes for the preliminary Fiscal Year 2022-23 forecast follows:

Property Tax revenue is projected at $68.3 million, an increase of $8.0 million compared to the current fiscal year Adopted and $5.2 million compared to the current fiscal year Estimated. Compared to the July 1, 2021 tax roll, the Fiscal Year 2022-23 AV of secured property-generating tax revenues for the GOF is projected with net growth, reflecting the following:

- A 2.0% increase in AV for most properties resulting from the annual CCPI inflation factor (October 2020 to October 2021);
- AV increases resulting from changes in ownership which occurred from January 1, 2021 through October 31, 2021 (information currently available);
- Increased AV related to new development anticipated to be included in the July 1, 2022 tax roll; and
- Anticipated AV decreases resulting from the resolution of current appeals and projected new appeals.

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

Sales Tax revenue is projected at $21.1 million for Fiscal Year 2022-23 based on the actual third-quarter sales tax activity and the prior three quarters, adjusted for the following:

- One-time payments;
- CDTFA (previously known as State Board of Equalization (SBOE)) one-time audit adjustments; and
- Anticipated new businesses and business closures.

This results in an increase of $2.6 million compared to the current fiscal year Adopted Budget and a decline of $548,000 compared to the current fiscal year Estimated. Sales Tax revenues have been impacted by the pandemic but have rebounded quicker than expected. At the high in Fiscal Year 2000-01, Sales Tax revenues reached $24.1 million. During the recession that followed, sales tax revenue declined an unprecedented

$7.4 million in Fiscal Year 2001-02 to a low of $14.2 million in Fiscal Year 2003-04. Taking into consideration the prior fiscal years' CDTFA corrections, Sales Tax revenues have still not recovered to the peak level reached in Fiscal Year 2000-01.

Other Local Taxes revenue is projected at $18.3 million, $1.6 million (9.4%) higher than the current fiscal year Adopted and essentially the same as the current fiscal year Estimated. TOT revenue has been gradually recovering from the pandemic and is projected $948,000 higher than the current fiscal year adopted and projected to be essentially the same as the current fiscal year Estimated. The Fiscal Year 2022-23 Business License Tax projection is essentially the same compared to the current fiscal year Adopted and Estimated. The City Council earmarked 80.0% of the increased tax for transportation and 10.0% for housing; transfers are included and discussed in the expenditure section below. Fiscal Year 2022-23 UUT revenue is projected $637,000 and $94,000 higher than the current fiscal year Adopted and Estimated, respectively.

Use of Money and Property revenue is projected to increase by $2.0 million (8.8%) and $917,000 (3.8%) compared to the current fiscal year Adopted and Estimated, respectively. Investment revenue is projected to decline due to the current market of low interest rates. Lease revenues are projected with inflators as stipulated in the leases or estimated with 3.0% increases.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is projected to be $471,000 (7.0%) lower than the current fiscal year Adopted Budget and $257,000 (4.3%) higher than the current fiscal year Estimated. The projection assumes about the same level of activity as the current fiscal year plus the approval of one cannabis permit and higher franchise fees.

Intergovernmental revenue is projected to be essentially the same as the current fiscal year Adopted and $888,000 (54.6%) below the current fiscal year Estimated. The projected budget does not include any mandated reimbursement funding or intergovernmental grants and reimbursements as the amounts are variable.

Charges for Services revenue is projected to be $743,000 (35.4%) and $488,000 (20.7%) higher than the current fiscal year Adopted and Estimated, respectively, reflecting a steady recovery from the pandemic.

Miscellaneous Revenues are projected to be $59,000 (3.3%) higher than the current fiscal year Adopted. The projection is $1.4 million (43.5%) below the current fiscal year Estimated, primarily due to the $1.4 million in reimbursements for Fire Strike Team deployments in the current fiscal year Estimated. Some grants, donations, and reimbursements cannot be anticipated and, therefore, are not budgeted.

Interfund Revenues and Transfers are projected at $16.6 million, essentially the same as the current fiscal year Adopted and $305,000 (1.8%) below the current fiscal year Estimated, primarily due to estimated higher-than-budgeted CIP overhead in the current fiscal year.

As new information becomes available, all revenue sources and projections will be reviewed and revised as appropriate for the next quarterly update.

Expenditures

A comparison of the Preliminary Forecast to current fiscal year Estimated and Adopted Budget and prior fiscal year Audited for the GOF follows (dollars in thousands). **As stated previously, the Fiscal Year 2022-23 departmental budget requests are currently under review and, thus, are not included in the Preliminary Forecast.**

	2020-21 Audited	2021-22 Adopted Budget	2021-22 Estimated	**2022-23 Preliminary Forecast**	Variance of 2022-23 Forecast to 2021-22 Adopted
Salaries and Benefits:					
Salaries and All Pays	$ 68,292	$ 72,483	$ 71,985	**$ 77,899**	$ 5,416
Retirement	21,672	25,834	24,431	**27,059**	1,225
Health Benefits	9,090	11,803	9,294	**12,067**	264
All Other Benefits	6,875	7,762	7,025	**8,023**	261
	105,929	117,882	112,735	**125,048**	7,166
Services and Supplies	17,753	20,086	19,325	**20,839**	753
Capital Outlay/Equipment Replacement	2,899	2,745	3,043	**2,882**	137
Interfund Expenditures and Transfers	10,230	13,091	13,521	**11,678**	(1,413)
Debt Service	-0-	1,000	1,000	**1,000**	-0-
Budget Savings	Included	(4,000)	Included	**(4,000)**	-0-
Total Operating Expenditures	$136,811	$150,804	$149,624	**$157,447**	$6,643

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

Salaries and Benefits expenditures are projected $5.4 million (6.1%) higher than the current fiscal year Adopted. The forecast includes any impact from the minimum wage increase from $16.30 to $17.10 per hour effective January 2022**.** The forecast includes the position changes recommended in this Midyear report. All labor agreements expire June 30, 2022, and labor negotiations will begin soon. The cost for retirement benefits increased by 4.7% and is based on the rates provided by CalPERS. Health benefit costs are projected with increases based on historical trends.

Services and Supplies expenditures are currently projected to increase $753,000 over the current fiscal year Adopted Budget, related to projected inflationary increases for each type of service or supplies and a $150,000 increase for potential City water, wastewater, and trash rate increases. Any recommended increases will be included with the Recommended Budget in June.

Capital Outlay/Equipment Replacement expenditures include $500,000 for Capital Outlay. The annual equipment replacement funding amount is projected at $2.4 million, 5.0% higher than the current fiscal year adopted due to inflation for replacement cost and some adjustments to quantity of items and life expectancy. This is approximately $889,000 lower than annually required as no annual funding is needed for certain pieces of equipment that have reached their life expectancy but are not recommended to be replaced yet as they are still operating well. This is a one-time decrease in funding as, once this equipment is replaced, full annual funding will be required again.

Interfund Expenditures and Transfers are projected with $1.4 million (10.8%) less than the current fiscal year Adopted, mainly due to the Retirees' Health Unfunded Actuarial Accrued Liability being fully funded and no additional contribution is required. The transfer for "At-Risk" lease revenue is projected to increase $63,000 (3.9%), approximately $1.7 million. These revenues will fund future capital projects and are set aside to reduce the dependency on the significant increases that have resulted in the recent revaluation of City leases to Google LLC and represent an estimate of annual lease revenue loss that could result from the potential secured AV decline in the Shoreline Community after a downturn in the economy. During previous economic slowdowns, the Shoreline Community experienced approximately 13.0% declines in secured AV. The revenue from the Ameswell (Moffett Gateway) property is projected at $2.7 million and is transferred to the Budget Contingency Reserve to be utilized for funding of limited-period items until the proposed debt service related to the Public Safety Administration Building project begins. The new Business License structure was approved by voters in November 2018, and the City Council earmarked 80.0% of the increased tax (above the then-current

$250,000 received annually) for transportation and 10.0% for housing. Based on the projected $6.0 million to be received in January 2022 for the fully phased-in structure, the projection includes $4.6 million transferred to the Transportation Reserve and $572,000 transferred to the General Housing Fund, leaving an additional $572,000 above the $250,000 base amount in the GOF.

Debt Service is projected at $1.0 million for Fiscal Year 2022-23 based on an upcoming long-term debt issue for the Hope Street project, which is expected to be issued before the end of this fiscal year. However, there is a current delay in the project and more information will be provided as part of the third-quarter update in April.

The Fiscal Year 2022-23 projections will be updated for the next quarterly budget update in April.

V. FISCAL YEAR 2020-21 GENERAL FUND REMAINING BALANCE

As discussed in the Analysis of Fiscal Year 2020-21 Audited Financial Results for the GOF and General Fund Available Balance report, which is Attachment 1 to the Annual Comprehensive Financial Report on the December 7, 2021 Council Agenda, the City's General Fund ended the 2020-21 fiscal year with an unallocated balance of $5.0 million. The table below details the General Fund balance, including one-time revenues and expenditure savings, budgeted transfers, limited-period expenditure allocations, and the midyear adjustments contained in this Council report (dollars in thousands):

GOF Balance	$ 8,501
Remaining Available Balance from Prior Fiscal Years	9,312
Midyear Allocations Approved by City Council	(1,647)
One-Time Revenues and Expenditure Savings:	
Property Taxes—Excess ERAF	-0-[1]
Unspent Limited-Period Expenditures	1,334
Miscellaneous Revenues	307
Child-Care Center Rent	201
Total Available for Allocation	18,008
Allocations in the Fiscal Year 2021-22 Adopted Budget:	
Limited-Period Expenditures	(3,962)
Compensated Absences Reserve	(2,734)
CIP Reserve	(2,000)
Strategic Property Acquisition Reserve	(2,000)
General Fund Reserve	(1,300)
Payment to CalPERS	(1,000)
Total Allocated	(12,996)
Remaining Unallocated Balance at June 30, 2021	$ 5,012
Fiscal Year 2021-22 Midyear Council Actions	(133)
Recommendations in this Midyear Report	(219)
Remaining Available Balance	$4,660

[1] Property Taxes-excess ERAF was recorded in the GOF in the Fiscal Year 2020-21.

Council Policy A-11 provides, to the extent possible, the GOF carryover funds remaining, not designated for other reserve purposes, shall be applied to the Capital Improvement Reserve. However, in light of the ongoing uncertainty from the COVID-19 pandemic, staff is still reviewing potential priority funding needs and will provide recommendations for the use of the remaining unallocated balance with the Recommended Budget in June.

VI. FISCAL YEAR 2021-22 MIDYEAR PERFORMANCE/WORKLOAD MEASURE UPDATE

Departments review and revise their performance measures from time to time to ensure measures provide relevant and clear information about department operations. Attachment 1 includes the Fiscal Year 2020-21 actual results as well as the annual target and midyear (six-month) status of each measure for the current fiscal year.

Updated results for Fiscal Year 2021-22 will be reported in the Fiscal Year 2022-23 Adopted Budget.

VII. AMERICAN RESCUE PLAN ACT (ARPA) REMAINING FUNDS FOR SECOND ROUND OF FUNDING

As a reminder, the City was awarded $15.7 million in ARPA funding, of which $7.84 million was received earlier this fiscal year. While Council committed the first part of the award to various uses, we expect to receive the second payment of equal sum either by the end of this fiscal year or the fall of 2022 at the latest. Staff will bring back recommendations for use of these funds with the Recommended Budget in the spring.

FISCAL IMPACT

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

ALTERNATIVES

1. Do not approve the recommendations.

2. Provide other direction.

<u>PUBLIC NOTICING</u> — Agenda posting.

Prepared by:

Elliot Young
Financial Analyst

Ann Trinh
Senior Financial Analyst

Grace Zheng
Assistant Finance and Administrative
Services Director

Approved by:

Jesse Takahashi
Finance and Administrative
Services Director

Kimbra McCarthy
City Manager

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Attachments:
1. Performance/Workload Measures
2. Resolution Amending the City's Regular Salary Plan
3. Strategic Roadmap Action Plan Goals and Projects List