



JOINT REPORT

DATE: February 25, 2025

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Fiscal Year 2024-25 Midyear Budget Status Report and Adjustments, and Fiscal Year 2025-26 Preliminary General Operating Fund Forecast**

RECOMMENDATION

1. Receive and file the Fiscal Year 2024-25 Midyear Budget Status Report, the six-month status of the Fiscal Year 2024-25 Performance Measures (Attachment 1 to the Council report), and the Fiscal Year 2025-26 Preliminary General Operating Fund Forecast.
2. Adopt a Resolution of the City Council of the City of Mountain View Amending the Fiscal Year 2024-25 Adopted Budget to: (1) Reduce Revenue Appropriations by \$166,300 in the General Operating Fund; (2) Appropriate \$210,000 in the General Fund Parental Leave Reserve for the Parental Leave Program, Appropriate \$200,000 in the Public Works Department, Solid Waste Landfill 544 Acres Fund for Landfill Operating Costs, Appropriate \$100,000 in the City Manager's Office, General Non-Operating Fund for the Community for All Grant Program, \$32,400 in the Community Services Department, General Non-Operating Fund for the Annual Pride Event, Appropriate \$15,200 in the City Council's Budget, General Non-Operating Fund for New Council Members' Per Term Allowances; (3) Transfer and Appropriate \$1,495,849 from the Park Land Dedication Fund to CIP 25-38, Eagle Park Pool Improvements, Transfer and Appropriate \$45,000 from the General Fund Transportation Reserve to CIP 23-31, Street Reconstruction (Miramonte Avenue), Transfer and Appropriate \$25,000 of Water Fund Appropriations from CIP 24-06, Water and Recycled Water System Improvement to CIP 23-42, Miramonte Reservoir Fence Replacement Project by \$25,000 (Net Zero Impact); and (4) Increase Appropriations by \$260,000 in the Community Development Department's General Operating Fund, Decrease Appropriations by \$272,000 in the Community Development Department's Development Services Fund, and Approve the Reallocation of Positions in the Community Development Department from the Development Services Fund to the General Operating Fund, for Project and Program Expenditures, to be read in title only, further reading waived (Attachment 2 to the Council report). (Five votes required)
3. Adopt a Resolution of the Board of Directors of the Shoreline Regional Park Community Amending the Fiscal Year 2024-25 Adopted Budget to: (1) Reduce Revenue Appropriations

by \$1,098,200 in the Shoreline Regional Park Community Fund; (2) Transfer and Appropriate \$5,000 of Shoreline Regional Park Community Fund Appropriations from CIP 24-24, NBS Semi-Annual Traffic Counts to CIP 25-24, NBS Semi-Annual Traffic Counts by \$5,000 (Net Zero Impact); and (3) Increase Appropriations by \$12,000 in the Community Development Department's Shoreline Regional Park Community Fund and Approve the Reallocation of Positions in the Community Development Department from the Development Services Fund to the Shoreline Regional Park Community Fund, for Project and Program Expenditures, to be read in title only, further reading waived (Attachment 3 to the Council report).

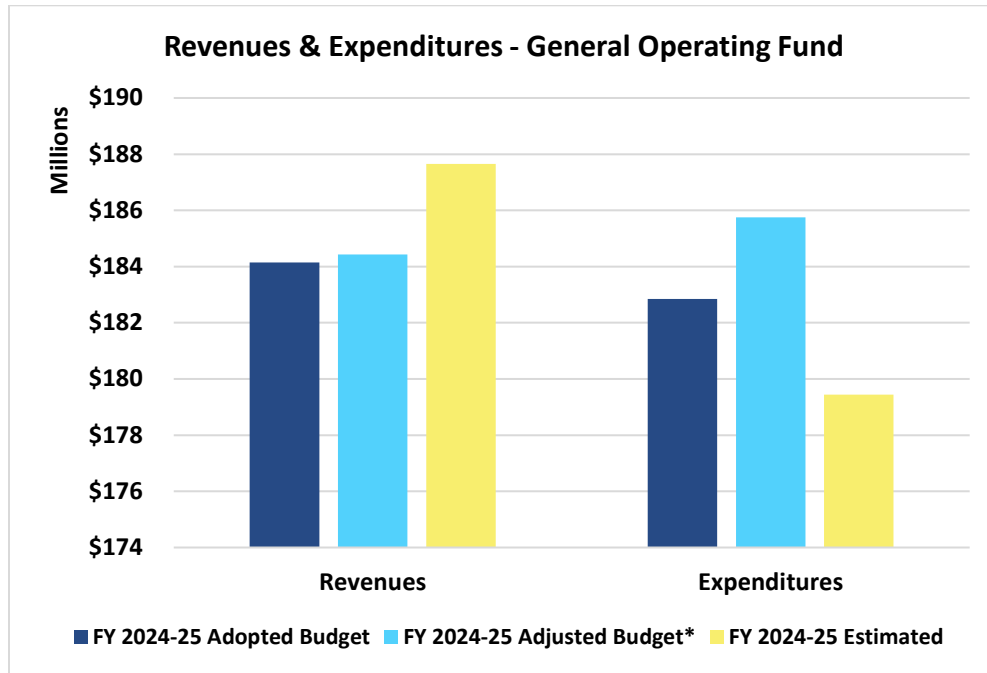
4. Approve/repurpose of \$43,475 in Unspent Limited-Period Funding in the Police Department, General Nonoperating Fund to purchase protective equipment.

OVERVIEW

Fiscal Year 2024-25

The City Council approved the Fiscal Year 2024-25 Adopted Budget on June 25, 2024. The Midyear Budget Status Report is an important tool in the City's monitoring of its finances. It provides an opportunity for the City Manager and staff to update the City Council and the community on the major financial factors affecting the City's current fiscal year budget. This report provides an update of the City's budgetary position at the midway point in the fiscal year as well as projections for both revenues and expenditures for Fiscal Year 2024-25 for the General Operating Fund (GOF), and a preliminary GOF forecast for the upcoming fiscal year (Fiscal Year 2025-26). The Midyear Budget Status Report is developed using five months of actual (unaudited) activity, with projections of anticipated spending and revenue trends for the remainder of the fiscal year.

At midyear, the Fiscal Year 2024-25 estimated GOF revenue is \$187.7 million, which is 1.9%, or \$3.5 million, higher than the Adopted Budget, and 1.8%, or \$3.2 million, higher than the Adjusted Budget amount of \$184.4 million. Including estimated budget vacancy savings, operating expenditures are estimated at \$179.2 million, \$3.6 million (2.0%) below the Adopted Budget and \$6.3 million (3.4%) below the Adjusted Budget. The GOF is currently estimated to end the fiscal year with an operating balance of \$8.2 million, which includes \$260,000 of midyear budget requests that are pending Council's approval (in this staff report). In previous fiscal years, operating balances, if any, have been carried over and approved to fund reserves and limited period (one-time) funding costs.



* Fiscal Year 2024-25 Adjusted Budget does not include \$2.7 million in year-end adjustments, which include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

Other major funds of the City are the Development Services Fund (DSF), the Shoreline Golf Links/Michaels at Shoreline Restaurant, the Shoreline Regional Park Community, and the Water, Wastewater, and Solid Waste Enterprise Funds. The revenues and expenditures in the DSF are trending slightly below budget, with revenues expected to be \$396,000 less than budgeted and expenditures \$581,000 lower. This results in the continuation of a projected operating deficit of \$7.2 million, including a reduction of \$272,000 in costs related to the realignment of positions, pending Council's approval (in this staff report). The revenues of the Shoreline Golf Links/Michaels at Shoreline Restaurant are trending slightly above budget, and expenditures are trending below budget. While Shoreline Golf Links is performing well, Michaels at Shoreline Restaurant continues to operate at a deficit. Shoreline Regional Park Community (SRPC) revenues are trending lower than budget, primarily due to lower property tax revenue, while operating expenditures are trending below budget. For the Water, Wastewater, and Solid Waste Enterprise Funds, revenues are currently trending higher than or at budget. Expenditures for all three funds are currently trending below budget. Further details on these major funds are described below.

Fiscal Year 2025-26

The preliminary Fiscal Year 2025-26 GOF Forecast projects revenues to be \$9.1 million (5.0%) and \$5.6 million (3.0%) higher than the current fiscal year Adopted Budget and Estimated,

respectively. Most revenue categories are expected to experience some growth in Fiscal Year 2025-26 when compared to the Fiscal Year 2024-25 Adopted Budget, except for sales tax. However, when compared to Fiscal Year 2024-25 Estimated, Fiscal Year 2025-26 revenues are projected to be primarily flat, with the exception of property tax revenue, Sales Tax, Utility Users Tax generated from energy services, and investment and lease revenues. While the projected revenues are sufficient to meet currently projected baseline expenditures, the amount by which revenues exceeds expenditures has declined considerably relative to prior years. This forecast results in a preliminary projected balance of \$1.4 million, which includes \$818,000 in additional expenditures resulting from the realignment of positions, included in the recommendation of this staff report. **Importantly, this projected balance does not reflect any ongoing expenditure recommendations for Fiscal Year 2025-26 that are currently under consideration as part of the budget development process.**

The major components to this staff report include the following:

I. Economic Update

An economic update on federal, state, and local trends provides context to the Fiscal Year 2024-25 Midyear Budget Status Report and Fiscal Year 2025-26 Preliminary GOF Forecast.

II. Fiscal Year 2024-25 Midyear Budget Status Summary

This portion of the Council report includes an update on estimated Fiscal Year 2024-25 operating results based on current revenue and expenditure trends approximately midway through the fiscal year.

III. Recommended Midyear Budget Amendments

This portion of the Council report includes proposed midyear budget amendments, including position-related amendments, for Fiscal Year 2024-25.

IV. Fiscal Year 2025-26 Preliminary General Operating Fund Forecast

This section discusses the General Operating Fund's estimated revenues and expenditures for Fiscal Year 2025-26 based on limited data and financial assumptions with information available at this time.

V. Fiscal Year 2023-24 General Fund Remaining Balance

This section displays the updated remaining unallocated balance of the General Operating Fund at June 30, 2024.

VI. Fiscal Year 2024-25 Midyear Performance Measure Update

This section provides a six-month status update of the current fiscal year's performance measures.

BACKGROUND AND ANALYSIS

I. ECONOMIC UPDATE

The economic conditions discussed below help inform the Fiscal Year 2024-25 Midyear Budget Status Report and Fiscal Year 2025-26 Preliminary GOF Forecast.

National

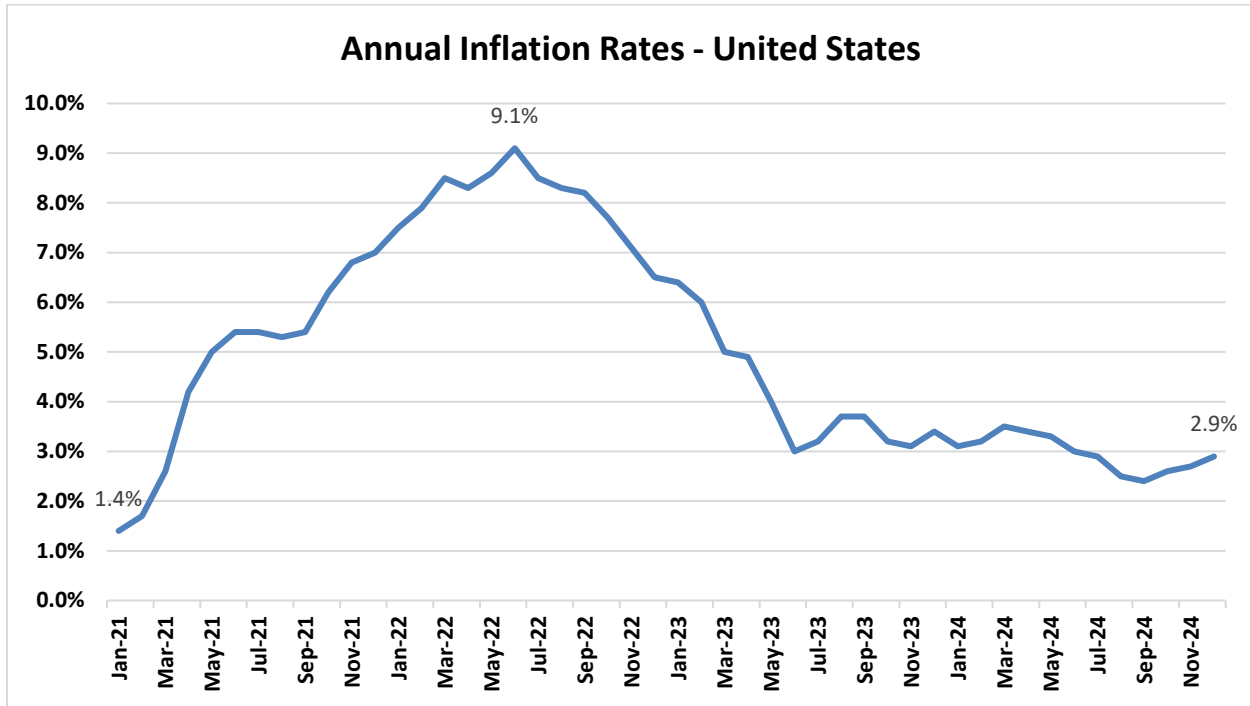
Overall, the national economy started the calendar year 2025 in a good position, maintaining economic momentum from 2024. Consumer spending continues to be the driving force behind the much of the economic growth the nation has been experiencing. However, the nation is facing significant potential political challenges, economic volatility, and other micro- and macro-economic uncertainties. Inflation still remains a concern of the Federal Reserve, with consumer prices remaining elevated. The application of tariffs on goods imported from Canada, China, and Mexico, could see further increased pressure on prices of certain goods if the tariffs remain for an extended period or expand to other countries and goods. While inflation has come down a great deal over the past two and a half years, the Federal Reserve's target rate of 2% has still not been reached.

The Federal Open Market Committee (Federal Reserve) expects inflation to continue its progress toward their long-term goal of 2% as supply and demand conditions have moved into better balance and wage growth has slowed to a more sustainable pace. At the same time, the Federal Reserve's cautious stance on monetary policy highlights the ongoing need to contain inflationary pressures while striving to maintain economic stability amongst an uncertain time.

Additionally, transitioning to a new federal administration typically introduces further uncertainty, with shifting political priorities and policy agendas potentially influencing market and investment decisions. The new administration is likely to shape economic policies, potentially impacting fiscal stimulus, regulatory frameworks, and consumer and investor confidence.

Adding to the current complexity, the potential for a government shutdown in March 2025 remains a significant risk as policy-makers grapple with budget negotiations. A disruption to federal operations could negatively impact economic activity and consumer confidence.

As shown in the chart below, annual inflation hit a peak of 9.1% in June 2022, declining to a three-year low of 2.4% in September 2024, and is currently sitting at 2.9% as of December 2024.



Source: U.S. Labor Department

According to the UCLA Anderson Forecast, tariffs will be passed on for the most part in the form of higher prices, temporarily raising inflation in 2025 to just above 3%. Their research anticipates that inflation could be well above 2% in 2026. In addition, a UCLA Anderson Forecast believes that the cumulative effect of policy changes all impact on the cost of living. Tariffs will raise price levels on many goods and services. Deportation will create labor shortages in agriculture, nondurable goods manufacturing, construction, leisure, and hospitality services. Additional tax cuts may further increase consumption demand and, therefore, prices in a labor-constrained economy.

Another economic concern, and one that directly impacts the City and funding for public services, is the potential reduction or elimination of federal awards and grants to local agencies. In Fiscal Year 2023-24, the City spent approximately \$6.4 million in federal funding. A majority of this funding was from the U.S. Department of Housing and Urban Development (HUD), including \$4.1 million for the Community Development Block Grant (CDBG) program and \$2.0 million for the HOME program. Both programs have supported rent relief and supportive housing for people experiencing homelessness, including youth aging out of foster care. The City also spent \$0.2

million of federal funds from the Department of Transportation (DOT) on the replacement and upgrades of the traffic signal systems at Shoreline Boulevard and Villa Street.

City staff and legislative consultants will continue to monitor the federal administration's directive to freeze federal funding and potential impacts to City services.

A more robust economic outlook will be provided in the Recommended Budget in June 2025 as more information is gathered on decisions being made at the federal level that could negatively impact the State of California and the City of Mountain View.

State

On January 10, 2025, Governor Newsom's administration presented its proposed state budget to the California Legislature. The Governor's proposed budget for California for Fiscal Year 2025-26 remains largely balanced, with some small differences in revenue and spending estimates compared to earlier projections. The budget includes a mix of short-term savings and new spending proposals, but results in a decline of \$3.8 billion in the balance of the Special Fund for Economic Uncertainties, from a projected balance at June 30, 2025 of \$8.3 billion to \$4.5 billion at June 30, 2026, and the state's overall reserve balance falling from \$26.3 billion to \$15.4 billion. While the revenue estimates are reasonable, there are concerns about their sustainability, particularly due to a reliance on stock market performance rather than broader economic improvements. The Governor's use of reserves is considered reasonable, with a planned withdrawal from the state's rainy-day fund to help manage budgetary challenges.

The budget faces significant deficits in future years, and it has been recommended that the Legislature maintain efforts to address these long-term issues, as current measures mostly involve one-time fixes. Additionally, the Governor's proposals to enhance reserve policies, including increasing the cap on reserve deposits and excluding them from the appropriations limit, are seen as sensible steps, though further changes to savings formulas may be needed for more robust reserves in the future.

As fixes to future deficits are proposed, City staff will monitor the potential impacts to local funding.

Local

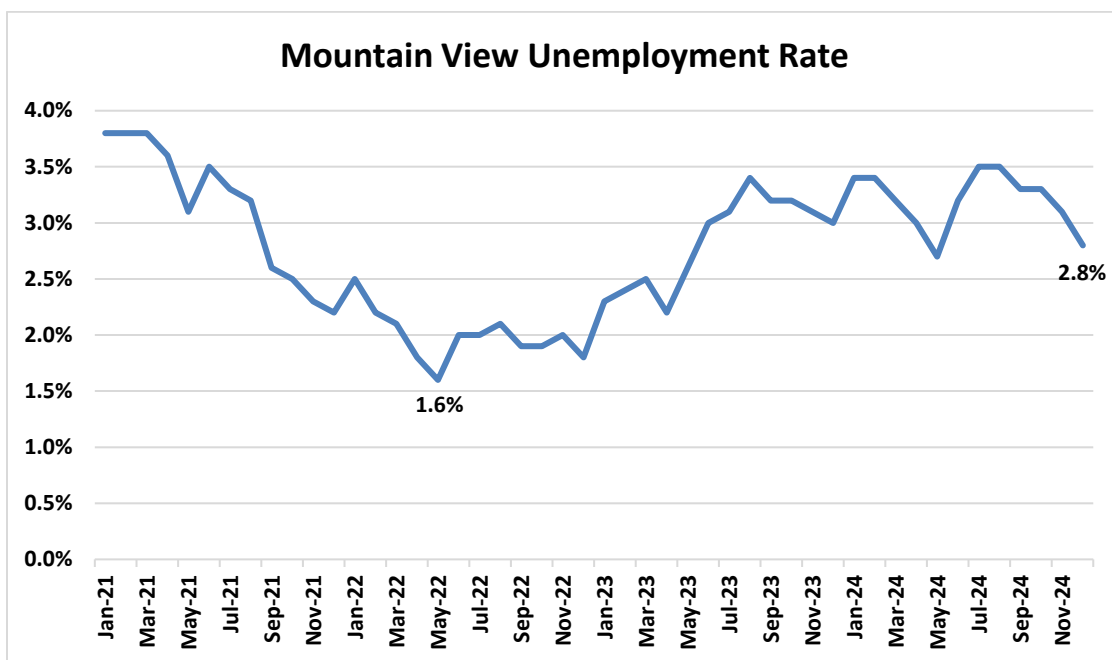
The local economy is showing signs of slowing. While the City's major revenues have generally remained consistent and have benefited from inflation as well as the increase in interest rates, there is slowing or minimal growth in the City's major revenue sources, including property tax and sales tax revenues. Local economic indicators continue to project stable revenues, but slower-paced growth is anticipated in the future. This is a departure from the strong revenue

growth the City has experienced the past several fiscal years. Uncertainty with inflation, interest rates, national and state economic policies, and geopolitical conflicts all contribute to the projected slower-paced growth.

The labor market and the resulting unemployment rate appear to be in a steady and strong position, with conditions broadly returning to balance after a period of being overheated. The unemployment rate surged in early 2020 when the pandemic first took hold, and a wide swath of the economy was shut down. Since that time, the unemployment rate has fallen swiftly as the economy recovered. After reaching a low of 1.6% in May 2022, when many employers reported that they were struggling to fill openings, the City's unemployment rate has since nearly doubled, climbing to around 3%, an unusual pattern outside of a recession. The preliminary figure for December 2024 is currently 2.8%. For comparison, the state's unemployment has hovered between 5% and 5.5% for the past 16 months.

While it is expected that the demand for labor has come into better balance with the supply of workers, the local unemployment rate is expected to increase as corporate layoffs in the area continue to occur. In 2023 and 2024, the City was notified of 3,057 and 1,354 layoffs in the private sector, respectively.

Staff will continue to track and monitor local corporate layoffs as they are announced and/or the City is notified. Fewer employees working in the City not only impacts the local sales tax revenue generated but also negatively impacts the City's business license tax revenue, as the tax is based on the "headcount" of employees, or the number of people employed by each business.

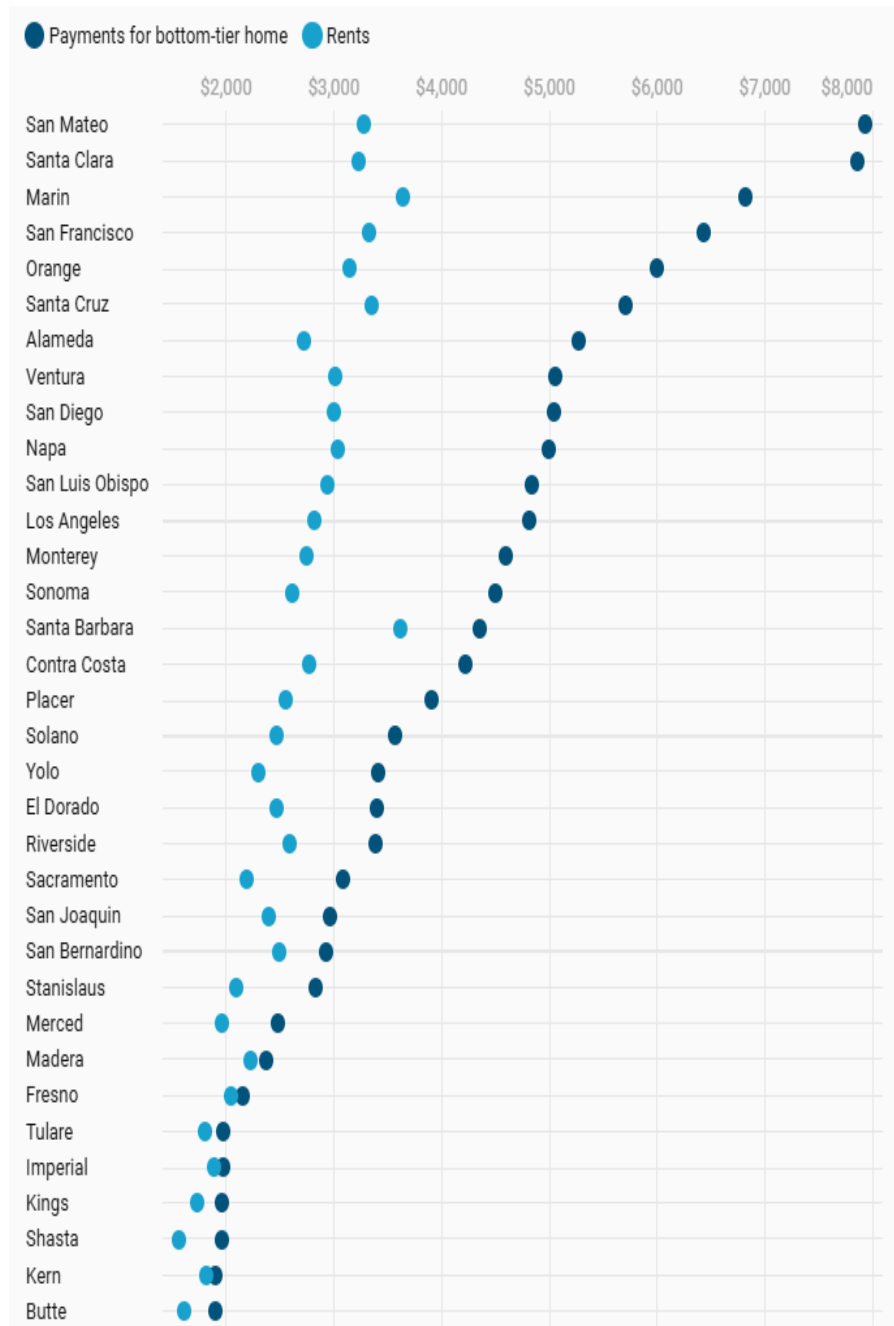


Source: Bureau of Labor Statistics

According to Zillow, the average home value in Mountain View is \$2.0 million, up 4.8% from one year ago. The median rent for all bedroom types and property categories in Mountain View is approximately \$3,145, which is \$45 higher than a year ago.

As shown in the chart on the right, the housing costs in the Bay Area are significantly higher than in other areas. The difference in costs between buying and renting is much higher in the Bay Area as well.

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



Source: Zillow

II. FISCAL YEAR 2024-25 MIDYEAR BUDGET STATUS SUMMARY

The Midyear Budget Status Report and the analyses that support the year-end revenue and expenditure projections are based on the most current data available at the time of publication, including statistical data, economic analyses, and professional judgment and expertise from economic consultants. The data represents staff's best estimate of the City's budgetary position at this point in time, approximately midway through the fiscal year, and makes certain assumptions regarding revenues and expenditures for the remainder of the fiscal year.

Staff will continue to monitor actual revenues and expenditures and will provide an update in April and June as part of the Fiscal Year 2025-26 budget development process. This section of the report includes a discussion of Fiscal Year 2024-25 revenue and expenditure estimates compared to budget for major funds.

General Operating Fund

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

	2023-24 <u>Audited</u>	2024-25 Adopted <u>Budget</u>	2024-25 Adjusted <u>Adjusted</u>	2024-25 Estimated	Variance of 2024-25 Estimated to 2024-25 <u>Adjusted</u>
Revenues	\$182,381	\$184,144	\$184,430	\$187,658	\$3,228
Expenditures ¹	(166,522)	(182,844)	(185,496)	(179,183)	6,313
FY 2024-25 Midyear Requests ²	-0-	-0-	(260)	(260)	-0-
Year-End Adjustments ³	<u>225</u>	<u>-0-</u>	<u>2,672</u>	<u>-0-</u>	<u>(2,672)</u>
Operating Balance	16,084	1,300	1,346	8,215	6,869
Transfer to GNOF	(7,084)	-0-	-0-	-0-	-0-
Transfer to GF Reserve	(3,000)	-0-	-0-	-0-	-0-
Transfer to Capital	-0-	-0-	-0-	-0-	-0-
Improvement Reserve					
Transfer to SPAR	-0-	-0-	-0-	-0-	-0-
Transfer to Budget	-0-	-0-	-0-	-0-	-0-
Contingency Reserve					
Transfer to Liability Ins Fund	(1,000)	-0-	-0-	-0-	-0-
Transfer to Transportation	(1,000)	-0-	-0-	-0-	-0-
Reserve					
Transfer to Open Space	(3,000)	-0-	-0-	-0-	-0-
Acquisition Reserve					
Transfer to Parental Leave	<u>(1,000)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Reserve					
Ending Balance	\$ <u>-0-</u>	\$ <u>1,300</u>	\$ <u>1,346</u>	\$ <u>8,215</u>	\$ <u>6,869</u>

¹ Adopted and Adjusted Budgets include \$8.5 million in vacancy factor.

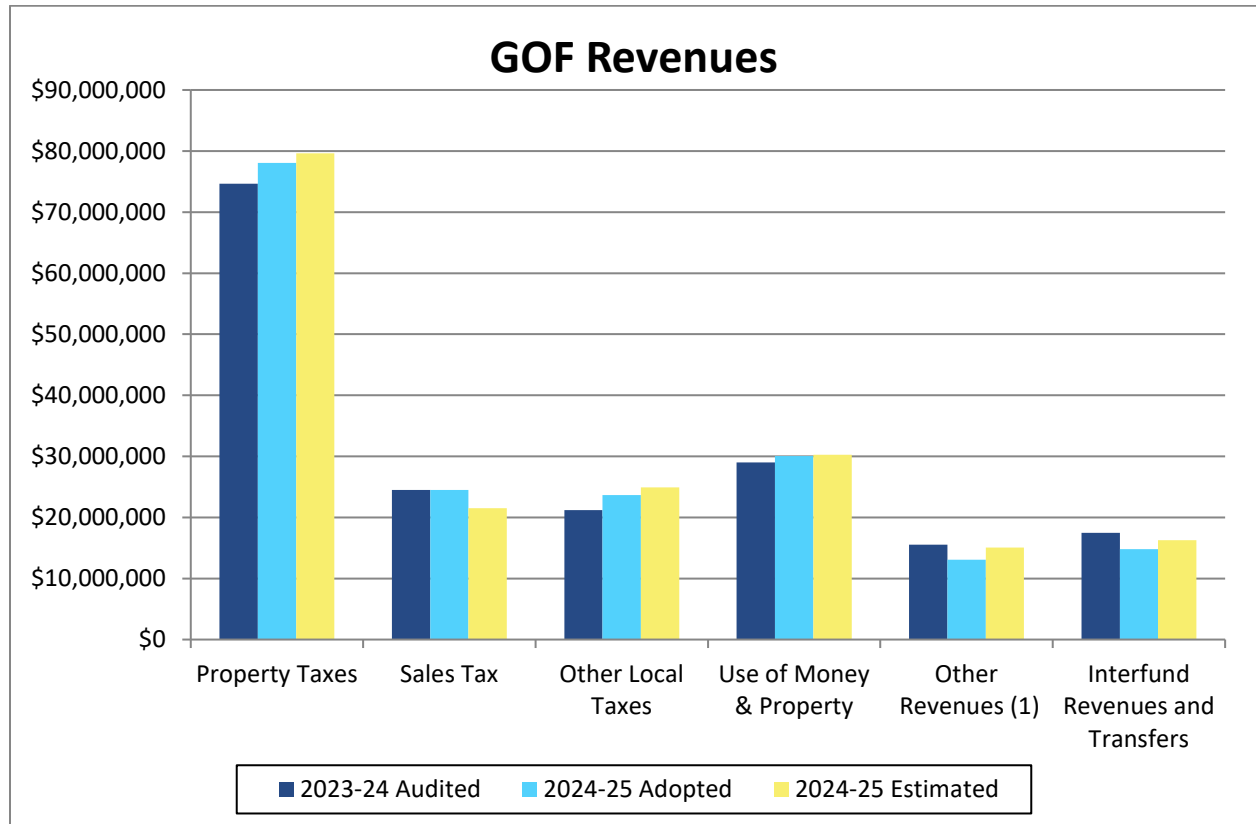
² Staff recommendations pending approval by the City Council.

³ Year-End Adjustments include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

At midyear, the Fiscal Year 2024-25 estimated GOF revenue is \$187.7 million, which is 1.9%, or \$3.5 million, higher than the Adopted Budget, and 1.8%, or \$3.2 million, higher than the Adjusted Budget amount of \$184.4 million. Including estimated budget vacancy savings, operating expenditures are estimated at \$179.2 million, \$3.6 million (2.0%) below the Adopted Budget and \$6.3 million (3.4%) below the Adjusted Budget.

Revenues

The projections for GOF revenues are based on actual revenue distributions received as of the midyear and the most recent economic information available to the City at the time of the preparation of this report. The chart below is a comparison of the Fiscal Year 2023-24 Audited and Fiscal Year 2024-25 Adopted Budget 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, as shown above, are trending higher than budget with the exception of sales tax. A detailed discussion of major revenue categories is as follows:

Property Tax revenue is estimated at \$79.6 million, \$1.6 million (2.0%) higher than budget. The Fiscal Year 2024-25 Adopted Budget included projected growth based on a positive 2.0% CCPI applied to a majority of properties plus increased values related to changes in ownership and new development. It also included projected assessment reductions from appeals. The information provided by the Santa Clara County Assessor after the beginning of the current fiscal year indicates the total actual July 1, 2024 General Fund Assessed Value (AV) increased a net 7.5% compared to the July 1, 2023 AV, reflecting growth in secured and unsecured AV.

Sales Tax revenue is currently estimated at \$21.5 million, \$3.0 million (12.2%) lower than budget, which has been negatively impacted by Synopsys relocating outside the City, Kohl's closing its Mountain View store, audit adjustments made by the California Department of Tax and Fee Administration, and slower spending in all categories with the exception of restaurants and hotels.

Other Local Taxes

Transient Occupancy Tax (TOT) revenue is estimated to be \$9.6 million, \$1.1 million (12.4%) higher than budget for Fiscal Year 2024-25 and includes a late payment from one hotel for the prior fiscal year. The City's current TOT rate is 10.0% with 1% of TOT equating to about \$963,000 in revenue. The current TOT rate was last modified in June 1991, increasing from 8.0% to 10.0%.

Utility Users Tax (UUT) revenue is estimated to be \$9.8 million, \$118,000 (1.2%) lower than budget. UUT generated from telecommunications services has been steadily declining since Fiscal Year 2015-16. The pervasive use of cell phones has eliminated the necessity and cost of a landline for many people, and it is common for a cell phone to be utilized for both personal and professional uses. UUT generated from energy services is trending higher than budget, primarily from an increase in rates charged by Silicon Valley Clean Energy (SVCE) and PG&E.

Business License revenue is estimated to be \$5.4 million, \$212,000 (4.1%) higher than budget. Staff continues to process renewal applications and will provide an updated estimate with the next budget update.

Use of Money and Property revenue is comprised of investment earnings and rents and leases and is estimated at \$30.3 million, essentially the same as budget.

Other Revenues

Licenses, Permits, and Fees/Fines and Forfeitures revenue is estimated at \$7.0 million, \$193,000 (2.8%) higher than budget.

Intergovernmental revenue is estimated at \$823,000, \$96,000 (13.2%) higher than budget.

Charges for Services revenue is generated by fees assessed for Recreation and other types of services and is estimated at \$3.3 million, \$123,000 lower than budget, primarily due to the delayed opening of the Rengstorff Park Aquatics Center.

Miscellaneous Revenues are estimated at \$4.0 million, \$1.8 million (83.4%) higher than budget. Included in the estimate is \$323,000 in reimbursements for Fire mutual-aid overtime, including

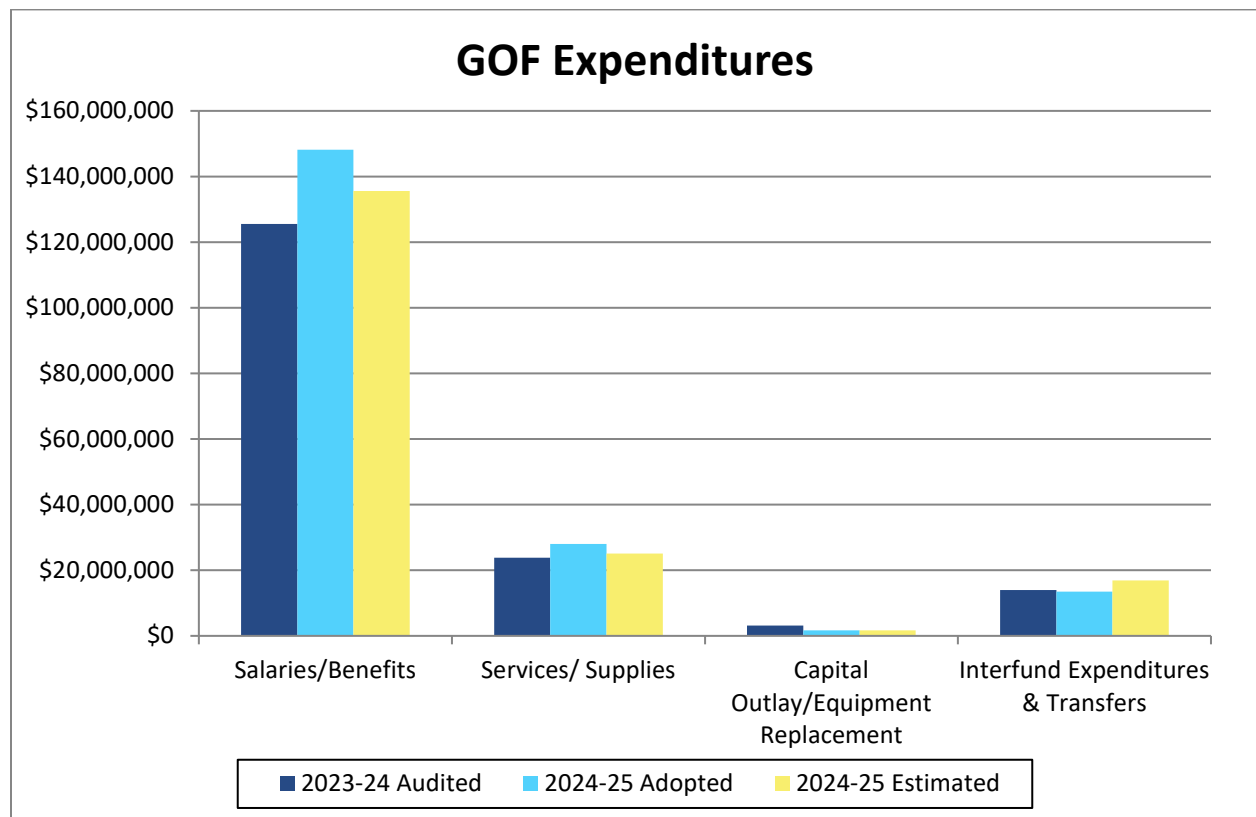
administration, which have not been received but are expected to be received during this fiscal year. There are other grants, donations, and expenditure reimbursements received that are not budgeted due to the uncertainty of receipt, and full fiscal year estimates are not calculated for these revenues as the amounts can vary greatly.

Interfund Revenues and Transfers are estimated at \$16.3 million, \$1.5 million (10.1%) higher than budget, due to higher CIP administrative overhead.

Expenditures

A vacancy factor is anticipated each fiscal year and is presented in the Adopted Budget. Including the projected vacancy factor, total estimated expenditures are projected to be \$3.6 million (2.0%) and \$6.3 million (3.4%) lower, resulting in a favorable variance compared to the Adopted and Adjusted Budget, respectively.

The chart below is a comparison of the Fiscal Year 2023-24 Audited and Fiscal Year 2024-25 Adopted and Estimated for GOF expenditures.



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

Salaries and Benefits expenditures are estimated at \$135.6 million, \$12.7 million (8.6%) below Adjusted Budget. This is the result of vacant positions and personnel turnover during the first half of the fiscal year. For regular (nonhourly) positions, there are currently 75 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. The number of current total vacancies is less than last year, while turnover has remained steady. The City continues to monitor labor market trends and prioritize recruitment and retention.

Services and Supplies expenditures are estimated at \$25.1 million, \$500,000 (2.0%) and \$2.9 million (10.4%) 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 \$1.7 million, \$70,000 higher than the Adopted Budget but equal to the Adjusted Budget, including \$1.4 million of annual funding for equipment replacement and \$300,000 currently estimated for new capital purchases.

Interfund Expenditures and Transfers are estimated at \$16.8 million, \$900,000 higher than budgeted. This is primarily due to higher-than-expected TOT revenue from the Ameswell Hotel which continues to be transferred to the Budget Contingency Reserve to be set-aside and dedicated to the Public Safety Building until such time as it is needed for debt service.

Expenditures by Department

All departments are trending under budget for the current fiscal year. Nondepartmental expenditures are trending higher due to a larger transfer to the Budget Contingency Reserve due to higher-than-expected TOT revenue from the Ameswell Hotel. 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):

	2024-25 Adopted <u>Budget</u>	2024-25 Adjusted <u>Budget</u>	2024-25 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>	Percent Savings of Adjusted <u>Budget</u>
City Council	\$ 549	\$ 549	\$ 397	\$ 152	27.7
City Clerk	1,177	1,178	1,054	124	10.5
City Attorney	3,901	4,101	3,412	689	16.8
City Manager	6,794	7,022	6,304	718	10.2
Human Resources	3,866	3,962	3,613	349	8.8
Information					
Technology	8,804	8,913	8,008	905	10.2
Finance and Admin.					
Services	8,716	8,936	7,786	1,150	12.9
Community					
Development	1,584	1,609	1,433	176	10.9
Public Works	16,526	16,950	15,114	1,836	10.8
Community Services	24,470	24,973	21,794	3,179	12.7
Library	8,089	8,254	7,656	598	7.2
Fire	36,550	36,843	35,745	1,098	3.0
Police	54,426	54,755	50,041	4,714	8.7
Housing	687	746	701	45	6.0
Nondepartmental ¹	15,205	15,205	16,125	(920)	(6.1)
Projected Budget					
Vacancy Savings	<u>(8,500)</u>	<u>(8,500)</u>	<u>Included</u>	<u>(8,500)</u>	<u>100.0</u>
Total Operating					
Expenditures	<u>\$182,844</u>	<u>\$185,496</u>	<u>\$179,183</u>	<u>\$6,313</u>	<u>3.4</u>

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

General Operating Fund Summary

In summary, revenues are currently estimated at \$187.7 million, \$3.5 million (1.9%) higher than the Adopted Budget. Including projected budget vacancy savings, operating expenditures for the current fiscal year are estimated at \$179.2 million, \$3.6 million (2.0%) below the Adopted Budget and \$6.3 million (3.4%) below the Adjusted Budget. The operating balance is currently estimated to be \$8.2 million, which includes \$260,000 of midyear budget requests that are pending Council's approval (in this report). In previous fiscal years, operating balances, if any, have been carried over and approved to fund reserves and limited-period funding costs.

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. The Development Services Fund (DSF) was created in Fiscal Year 2006-07 for Building Division services. Effective with the Fiscal Year 2014-15 Adopted Budget, the DSF was expanded to consolidate all development-related activities, including Planning, Public Works (Land Development and Traffic Divisions), and administration staff that support these teams.

The DSF is currently projected to continue to have a deficit at the close of the fiscal year. Part of the deficit on a year-by-year basis can be explained by the fact that fees are received in advance, but services are provided over several years (such as Building and Public Works inspections throughout the construction period of a project) and there is less development activity due to current economic conditions.

In addition, increases in staff allocated to the DSF over the years has also led to an increase in deficits as:

- The fees collected do not recover the full cost of staff time required to review the projects;
- The fees have not been regularly reviewed and updated (industry standard is every three to five years); and
- New staff positions have been added to the DSF without changes to fees.

Currently, staff is in the process of conducting a comprehensive Citywide Fee Study to achieve cost-recovery, address the DSF deficit now and in the future, and implement any necessary adjustments to how staff are budgeted within the DSF accordingly.

The Citywide Fee Study is a Fiscal Year 2023-25 Council Work Plan priority project, a program in the adopted 2023-2031 Housing Element (Program 4.1, Development Streamlining and Processing Revisions), and a recommendation from the City's Development Review Study (Matrix Study, Recommendation No. 36). Due to the length of time since the City's last Citywide Fee Study, it is likely the study that is currently under way will demonstrate that a number of the City's current fees are significantly below the cost of providing services.

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

	2024-25 Adopted <u>Budget</u>	2024-25 Adjusted <u>Budget</u>	2024-25 Estimated	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$10,450	\$10,450	\$ 10,054	(\$396)
Expenditures	(17,412)	(18,600)	(18,019)	581
FY 2024-25 Midyear Requests ¹	<u>-0-</u>	<u>272</u>	<u>272</u>	<u>-0-</u>
Operating Balance (Deficit)	(6,962)	(7,878)	(7,693)	185
Land Use Documents	<u>585</u>	<u>585</u>	<u>454</u>	<u>(131)</u>
Excess (Deficiency) of Revenues	(6,377)	(7,293)	(7,239)	54
Beginning Balance	7,321	7,321	7,321	-0-
Land Use Document Reserve	<u>(7,258)</u>	<u>(7,258)</u>	<u>(7,127)</u>	<u>131</u>
Ending Balance	<u>(\$6,314)</u>	<u>(\$7,230)</u>	<u>(\$7,045)</u>	<u>\$185</u>

¹ Staff recommendations pending approval by the City Council.

The development revenue is currently estimated at \$10.1 million, which is \$396,000 (3.8%) below the Adjusted Budget amount. Estimated operating expenditures are \$18.0 million, which is \$581,000 (3.0%) below the Adjusted Budget.

Expenditures are projected to exceed revenue by \$7.2 million for this fiscal year with the proposed midyear position realignment (see Section III, Recommended Budget Adjustment below for details), resulting in an estimated fund balance deficit of \$7.0 million. This deficit is primarily due to reduced development activity, and the fees the City charges are not recovering costs as discussed above. The City is currently conducting a new fee study to address the imbalance in this fund, as well as a comprehensive position allocation review to ensure that positions are charged to the appropriate funding sources.

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):

	2024-25 Adopted <u>Budget</u>	2024-25 Adjusted <u>Budget</u>	2024-25 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$4,708	\$4,708	\$4,476	(\$232)
Expenditures	(4,531)	(4,550)	(4,332)	<u>218</u>
Operating Balance	177	158	144	(14)
Transfer to GOF	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess (Deficiency) of				
Revenues	177	158	144	(14)
Beginning Balance	<u>120</u>	<u>120</u>	<u>120</u>	<u>-0-</u>
Ending Balance	<u>\$ 297</u>	<u>\$ 278</u>	<u>\$ 264</u>	<u>(\$ 14)</u>

Paid rounds of golf played in Fiscal Year 2023-24 totaled 80,319, a 1.6% increase from the prior fiscal year of 79,030 rounds, and 2.3% below Fiscal Year 2021-22 rounds of 82,223, which was an all-time high since this statistic began being tracked in Fiscal Year 2013-14. Based on financial information midway through the fiscal year, activity at Shoreline Golf Links is estimated to generate \$3.1 million in revenues, \$62,000 (2.0%) below budget. Restaurant revenues are estimated at \$1.4 million, \$169,000 (10.9%) below budget but 6.2% better than the prior fiscal year. Banquet and tournament sales are growing while restaurant sales are better but not achieving the budgeted target.

In total, golf expenditures for the current fiscal year are estimated at \$2.8 million, approximately 6.4% lower than the Adjusted Budget. Restaurant expenditures are estimated at \$1.5 million, \$27,000 (1.7%) below the Adjusted Budget.

The fund is trending to finish the fiscal year with an operational balance of \$144,000; Shoreline Golf Links is trending with a positive balance of \$290,000 while Michaels at Shoreline Restaurant is trending at a loss of \$146,000. For Fiscal Year 2024-25, no transfer to the GOF was budgeted.

With the prior fiscal year balance of \$120,000 and estimated operating balance for the current fiscal year of \$144,000, there is the potential for a transfer to the GOF. Staff will monitor the fund to transfer to the GOF, if possible, at year-end.

Shoreline Regional Park Community

The Shoreline Regional Park Community (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. The Act further stipulates that the Shoreline Community was created to:

- a. Contribute to better living conditions through improved overall community design;
- b. Make substantial contributions to the sound and economic growth of the area;
- c. Provide needed additions to the general housing supply;
- d. Provide opportunities for innovation in housing and community development technology and land use planning;
- e. Enlarge housing, employment, and investment opportunities;
- f. Encourage a diversified local homebuilding industry; and
- g. Provide a suitable environment to a significant public recreational facility which is the park.

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):

	2024-25 Adopted <u>Budget</u>	2024-25 Adjusted <u>Budget</u>	2024-25 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$81,835	\$81,834	\$78,875	\$(2,959)
Expenditures	(42,452)	(42,776)	(40,249)	2,527
FY 2024-25 Midyear Request ¹	<u>-0-</u>	<u>(12)</u>	<u>(12)</u>	<u>-0-</u>
Operating Balance	39,383	39,046	38,614	(432)
Development Impact Fees ²	-0-	-0-	744	744
Bond Proceeds Interest	-0-	-0-	1,285	1,285
Capital Projects from Fees	-0-	-0-	-0-	-0-
Capital Projects from Sea Level Rise Reserve	-0-	-0-	-0-	-0-
Capital Projects	<u>(17,466)</u>	<u>(17,466)</u>	<u>(17,466)</u>	<u>-0-</u>
Excess (Deficiency) of Revenues	21,917	21,580	23,177	1,597
Beginning Balance	111,290	111,290	111,290	-0-
Reserve	(5,900)	(5,900)	(5,900)	-0-
Reserve for Bond Proceeds	(4,877)	(4,877)	(6,162)	(1,285)
Site Contamination Reserve	(5,000)	(5,000)	(5,000)	-0-
Reserve for CIP	(10,000)	(10,000)	(10,000)	-0-
Landfill Reserve	(13,000)	(13,000)	(13,000)	-0-
Sea Level Rise Reserve	(22,500)	(22,500)	(22,500)	-0-
Dev. Impact Fee Reserve	<u>(3,793)</u>	<u>(3,793)</u>	<u>(4,537)</u>	<u>(744)</u>
Ending Balance	<u>\$68,137</u>	<u>\$67,800</u>	<u>\$67,368</u>	<u>(\$ 432)</u>

¹ Staff recommendations pending approval by the City Council.

² Includes interest earned on the balance.

Operating revenues, primarily property taxes, for the current fiscal year are estimated at \$78.9 million, \$3.0 million (3.6%) lower than budget. Property Tax revenue is trending lower than budget as, subsequent to adoption of the budget, the County provided the July 1, 2024 tax roll information for the Shoreline Community, indicating a 8.6% increase. It is important to note that Assessed Value in the Shoreline Community can be significantly impacted by economic conditions. The City estimated a 10.3% increase for Fiscal Year 2023-24, which corresponds to an approximate \$1.2 million difference compared to the actual tax roll increase. The City also collected about \$1.6 million more supplemental taxes than budget. Supplemental taxes tend to fluctuate due to change in ownership and completion of new construction during the fiscal year. There were significant negative roll corrections in Google properties midyear that totaled

\$1.6 million and were offset against the secured payments since the supplemental taxes collected were not sufficient. Over the past five years, they have been as low as \$33,000 and as high as \$3.4 million. In addition, there are currently over 40 pending property tax appeals in process and being reviewed by the Assessor's office. Based on experience, the projected revenue loss to the Shoreline Community Fund, related to these appeals, is \$3.2 million.

Operating expenditures for the current fiscal year are estimated at \$40.3 million, \$2.5 million (5.9%) lower than budget. Included in operating expenditures are \$18.6 million for the combined annual interagency payments to the school districts and the County and \$5.8 million for debt service.

It is estimated that operating revenues will exceed operating expenditures by \$38.6 million, which will fund \$17.5 million for Capital Projects. 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 \$67.1 million for the General Reserve, the Landfill Reserve, the Sea Level Rise Reserve, bond proceeds (mainly from interest earnings), the Development Impact Fee Reserve, CIP Reserve, and the reserve for a potential site contamination liability, the fund is estimated with a \$67.4 million ending balance.

A 2021 Shoreline Sea Level Rise Study Update was presented to the City Council on June 22, 2021. The current cost estimate for the identified sea level rise adaptation projects is \$122.0 million. The projects are in various of phases of implementation (planning, design, and construction) and some have not started. It is anticipated additional reserves will be needed to provide for increased costs due to inflation and more stringent regulatory requirements. Currently, the Shoreline Community set aside \$6.0 million annually for the Sea Level Rise Projects and the Shoreline Community has accumulated approximately \$22.5 million to date. Staff anticipates the need for approximately \$17.0 million in appropriations in calendar year 2025 for project construction.

In June 2023, staff presented to the City Council a cost-sharing project with the City of Palo Alto to construct an Advanced Water Purification Recycled Water Project at the Palo Alto Regional Water Quality Control Plant. The project design is complete and is in the process of obtaining construction bids. Since this project primarily benefits the Shoreline Community, staff plans to present the project cost to the City Council in Spring 2025 for approval and direction. A portion of the \$67.4 million reserve currently held by the Shoreline Community is slated to support this project.

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 during Fiscal Year 2023-24, each enterprise fund underwent a cost-of-service study which is done periodically to ensure the rate structures comply with Proposition 218 and the City is collecting appropriately for the cost of each service. The City held a public hearing on June 25, 2024 for all utility rates recommended for Fiscal Years 2024-25 through 2028-29 and the allowance of inflationary and pass-through adjustments for water and sewer rates for Fiscal Years 2025-26 through 2028-29. Staff will be reviewing the revenues and expenditures for each of the utility funds, as well as considering the inflationary and passthrough adjustments for water and sewer rates and returning to the City Council with rate recommendations in the next quarterly update report in April.

Water Fund

The Water Enterprise Fund is a utility fund accounting for the revenues and expenditures associated with the provision of retail water and recycled water services to Mountain View residents and businesses. The City provides potable water service to approximately 96.0% of water customers within the City limits, while California Water Service (a private company) provides potable water service to the remaining 4.0% of water customers in a few previously unincorporated neighborhoods. Potable water for the City's system is obtained primarily from the San Francisco Public Utilities Commission (SFPUC) regional Hetch Hetchy water system (88.0%). Potable water is also purchased from the Santa Clara Valley Water District (Valley Water) (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):

	2024-25 Adopted <u>Budget</u>	2024-25 Adjusted <u>Budget</u>	2024-25 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$45,868	\$45,868	\$48,748	\$2,880
Expenditures ¹	<u>(44,493)</u>	<u>(45,179)</u>	<u>(43,790)</u>	<u>1,389</u>
Operating Balance	1,375	689	4,958	4,269
Capacity/Development				
Impact Fees	-0-	-0-	572	572
Capital Projects from	1,612	1,612	1,612	-0-
Fees				
Capital Projects	<u>(3,457)</u>	<u>(3,457)</u>	<u>(3,457)</u>	<u>-0-</u>
Excess (Deficiency) of				
Revenues	(470)	(1,156)	3,685	4,841
Beginning Balance	40,346	40,346	40,346	-0-
Capacity/Dev Impact				
Fees Reserves	(8,689)	(8,689)	(9,261)	(572)
Water Transfer Reserve	(5,000)	(5,000)	(5,000)	-0-
Reserves	<u>(14,336)</u>	<u>(14,336)</u>	<u>(14,336)</u>	<u>-0-</u>
Ending Balance	<u>\$11,851</u>	<u>\$11,165</u>	<u>\$15,434</u>	<u>\$4,269</u>

¹ Adjusted Budget excludes encumbrance carryover for the water purchase.

Fiscal Year 2024-25 water rates effective July 1, 2024 were adopted to account for an overall 6.0% revenue increase as well as adjustments to the rate structure to align rates with the cost of providing service. The recycled water rate was set to be no more than 85% of the uniform potable water rate. Operating revenues are estimated at \$48.7 million, \$2.9 million (6.3%) higher than budget. Water usage through November, compared to the same period the prior fiscal year, is trending approximately 7.7% higher. This is most likely the result of less conservation efforts due to no longer having drought restrictions coupled with more housing units in Mountain View. It should be noted that although water usage is trending higher, it is still well below, approximately 26.8%, the 2013 drought baseline usage. Recycled water sales are trending 11.6% higher comparing usage through November in the current fiscal year to last fiscal year.

Operating expenditures are estimated at \$43.8 million, \$1.4 million (3.1%) below budget, primarily as a result of savings in operations.

During Fiscal Year 2016-17, staff evaluated options to minimize or eliminate future penalties as a result of the City's minimum water purchase requirement with the SFPUC. The City of East Palo Alto was approaching its individual water supply guarantee (ISG) with the SFPUC, which precluded approval of large development projects in East Palo Alto. The City of Mountain View is not anticipated to reach its ISG through 2040. Therefore, staff worked with the City of East Palo Alto to transfer 1.0 million gallons of the City's ISG to East Palo Alto in return for \$5.0 million. The agreement was approved in 2017, and this \$5.0 million is reserved to use toward future minimum water purchase penalties when insufficient water services charges are collected.

The estimated operating balance is \$5.0 million. The fund has sufficient balance to fund the current fiscal year's \$3.5 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 December 2024 total \$49,600, and interest is estimated at \$258,000. Various development impact fees have been adopted by the City Council, and for Fiscal Year 2024-25, no revenue has been received through December 2024, but interest is estimated at \$265,000. Any fees received and interest earned will be designated for specific projects and will be identified in the Five-Year Capital Improvement Program (CIP). Capacity Fees received in prior fiscal years are sufficient to fund the \$1.8 million in additional capital projects for Fiscal Year 2024-25. Development Impact Fees of \$3.4 million previously allocated to CIPs have been returned and will fund future projects. The Water Fund is estimated to have an ending available balance of \$15.4 million and \$28.6 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):

	2024-25 Adopted <u>Budget</u>	2024-25 Adjusted <u>Budget</u>	2024-25 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$34,447	\$34,447	\$36,892	\$2,445
Expenditures	<u>(30,023)</u>	<u>(31,033)</u>	<u>(29,445)</u>	<u>1,588</u>
Operating Balance	4,424	3,414	7,447	4,033
Capacity/Development Impact				
Fees	-0-	-0-	499	499
Capital Projects from Fees	<u>(7,488)</u>	<u>(7,488)</u>	<u>(7,488)</u>	-0-
Capital Projects	<u>(9,304)</u>	<u>(9,304)</u>	<u>(9,304)</u>	<u>-0-</u>
Excess (Deficiency) of				
Revenues	(12,368)	(13,378)	(8,846)	4,532
Beginning Balance	54,713	54,713	54,713	-0-
Capacity/Dev. Impact				
Fees Reserves	(2,494)	(2,494)	(2,993)	(499)
Treatment Plant Reserve	(17,226)	(17,226)	(17,506)	(280)
Reserve for Loan Proceeds	(265)	(265)	(265)	-0-
Reserves	<u>(9,925)</u>	<u>(9,925)</u>	<u>(9,925)</u>	<u>-0-</u>
Ending Balance	<u>\$12,435</u>	<u>\$11,425</u>	<u>\$15,178</u>	<u>\$3,753</u>

Fiscal Year 2024-25 wastewater rates effective July 1, 2024 were adopted to account for an overall 3.0% revenue increase as well as adjustments to the rate structure to align rates with the cost of providing service. These rate structure adjustments are being phased in over two years. This rate increase includes 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% was 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 2023-24 was the tenth year. As noted in the Adopted Budget, construction costs have risen dramatically and, thus, the forecast for the future Treatment Plant capital costs have risen since the Treatment Plant's original forecast 10 years ago. An additional up to five years of the additional 2% increases beyond the original 10-year plan has been approved to fund the City's share of these additional costs.

Operating revenues are estimated at \$36.9 million, \$2.4 million (7.1%) higher than budget, due to anticipated higher service charge revenue, permit fee revenue, and interest earnings.

Estimated operating expenditures of \$29.4 million are trending \$1.6 million (5.1%) below budget. This is primarily due to savings in operations.

Each fall, an annual reconciliation of the prior fiscal year's actual treatment costs (based on volume) is performed by the Treatment Plant, and an adjustment is provided to each member agency. The City's share of audited expenditures of the Treatment Plant for last fiscal year was \$28,568 more than budgeted, resulting in an additional amount owed. The estimated operating balance of \$7.4 million includes \$3.9 million collected for future Treatment Plant Capital Costs, as stated above, and will partially fund \$9.3 million for Capital Projects with the remaining coming from available 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 December 2024 total \$23,500, and interest is estimated at \$404,000. Various Development Impact fees have been adopted by the City Council, and no revenue has been received through December 2024, but interest is estimated at \$71,000. 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 \$7.5 million in additional capital projects for Fiscal Year 2024-25.

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, \$640,000 of scheduled projects in Fiscal Year 2020-21, and \$15,350 of midyear capital projects in Fiscal Year 2023-24. There is \$265,000 of interest earned on proceeds, and proceeds returned from a capital project currently not allocated to a capital project. Staff will return to the City Council with a recommendation for use of these funds 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 \$15.2 million and \$30.7 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, \$3.1 million in Treatment Plant credits for prior fiscal years, and the Capacity and Development fees balance.

Solid Waste Management Fund

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

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

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

	20243-254 Adopted <u>Budget</u>	20243-254 Adjusted <u>Budget</u>	20243-254 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
City Revenues	\$18,837	\$18,837	\$18,136	\$ (701)
Recology Revenues ⁽¹⁾	<u>21,334</u>	<u>21,334</u>	<u>20,899</u>	<u>(435)</u>
Total Revenues	<u>40,171</u>	<u>40,171</u>	<u>39,035</u>	<u>(1,136)</u>
City Expenditures	(23,551)	(25,351)	(22,850)	2,501
Recology Payments ¹	<u>(21,334)</u>	<u>(21,334)</u>	<u>(20,899)</u>	<u>435</u>
Total Expenditures	<u>(44,885)</u>	<u>(46,685)</u>	<u>(43,749)</u>	<u>2,936</u>
Operating Balance (Deficit)	(4,714)	(6,514)	(4,714)	1,800
Capital Projects	<u>(300)</u>	<u>(300)</u>	<u>(300)</u>	<u>-0-</u>
Excess (Deficiency) of Revenues	(5,014)	(6,814)	(5,014)	1,800
Beginning Balance	20,298	20,298	20,298	-0-
Reserves	<u>(4,883)</u>	<u>(4,883)</u>	<u>(4,883)</u>	<u>-0-</u>
Ending Balance	<u>\$10,401</u>	<u>\$ 8,601</u>	<u>\$10,401</u>	<u>\$1,800</u>

¹ Neither revenues nor expenditures are adopted for Recology.

Fiscal Year 2024-25 trash/recycling/compost rates effective July 1, 2024 were adopted to account for an overall 16.0% revenue increase as well as adjustments to the rate structure to align rates

with the cost of providing service. These rate structure adjustments are being phased in over three to four years. It should be noted that revenue for services is coming in lower than anticipated. Staff is monitoring and working with the cost-of-service consultant to determine if any adjustments to rates are needed. The City's Solid Waste Fund operating revenues are estimated at \$18.1 million, 3.7% below budget. City operating expenditures are estimated at \$22.9 million, \$2.5 million (9.9%) below budget, as a result of savings in lower compost service charges and operational savings, offset by a prior-year amount due as part of the year-end payment reconciliation with the SMaRT® Station. The SMaRT Station performs an annual reconciliation of the prior fiscal year's costs, and an adjustment is provided to each member agency. The City owes and will pay an additional \$67,000 for Fiscal Year 2023-24 services. It should be noted that City operating expenditures include a one-time payment of \$4.0 million for SMaRT Station capital costs. The City accumulated \$2.6 million from prior capital debt payments that ended in Fiscal Year 2016-17 and since have been reserved for future facility equipment. This, along with \$1.4 million from available fund balance, is now being used to partially pay the City's share of SMaRT Station capital costs and keep new debt payments level with the previously mentioned prior debt payments so that no additional rate increase is needed. The current estimates assume this \$4.0 million payment will be made by the end of the current fiscal year.

There is an estimated operating balance deficit of \$4.7 million, which will come from available fund balance along with \$300,000 for Capital Projects. The fund is estimated with an ending balance of \$10.4 million and reserves of \$4.9 million. The balance is needed to smooth the phased-in rate structure adjustments resulting from the cost-of-service study prepared last fiscal year.

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.

The following sections briefly describe the proposed midyear adjustments and recommendations are summarized in Exhibit A of Attachment 2.

Expenditures Changes

Transfer and Appropriate \$1,495,849 from the Park Land Fund to CIP 25-38, Eagle Park Pool Improvements.

CIP 25-38 is for improvements to Eagle Park Pool, including a full deck replacement, pool replastering, pool lighting upgrade, removal and relocation of diving boards, and the purchase and installation of a new bulkhead. The current level of funding in the CIP is based on early cost estimates and will not be enough to support the design and construction process, given the significant level of work that needs to be done and rising costs of materials and labor. Due to this being an older facility with aged infrastructure, it is also anticipated that other unanticipated repairs may need to be addressed. Staff recommend committing Park Land Dedication fees from the development at 500 Ferguson Drive, received on June 18, 2020. A portion of the fees received at 500 Ferguson have been committed to various park land projects, with approximately \$1.4 million remaining from the original collected park land fees. Staff recommends committing the remaining fees to the Eagle Park Pool project. (Attachment 4)

Appropriate \$210,00 in the Parental Leave Reserve Fund for the Parental Leave Program.

The City Council approved \$1.0 million in the Fiscal Year 2024-25 Adopted Budget for the parental leave program. As of December 2024, approximately \$268,000 remains in the fund. Given the anticipated number of staff members expected to take parental leave for the remainder of the fiscal year, staff is requesting a budget adjustment of \$210,000 to cover these costs through the end of the fiscal year.

Appropriate \$200,000 in the Solid Waste Fund in the Public Works Landfill Operating Budget for Overtime Costs.

Since August 2024, Public Services staff from various sections spent \$322,000 in overtime for necessary maintenance that had been deferred at the closed landfill. One of the large projects that necessitated the overtime was a major cap repair on the Vista Site, which encompasses over 11 acres. Staff spent over 3,500 hours to raise wells and various infrastructure, added 40,000 cubic yards of soil to the site, and reconstructed 4,000' of trail paths. Some of the work performed was to reduce greenhouse gas emissions, from security needs of the Amphitheatre as well as to minimize impacts to various protected species such as the burrowing owl. The work had to be performed in a small window of time during nonnesting season after September 1, when there are no wildlife impacts, and before the wet weather. The amount spent is approximately \$200,000 over the current budget. The operating budget does not currently have enough funds to cover this expense.

Appropriate \$100,000 in the General Non-Operating Fund in the City Manager's Office to Reinstate a Time-Limited Community for All Grant Program.

The City Manager's Office requests to reinstate funding for a time-limited Community for All grant program. Similar grants were previously provided in 2018 to eligible service agencies, community-based organizations, and other groups to support programs, projects, and events that promotes the City Council's goal to protect vulnerable populations and preserve the socioeconomic and cultural diversity of Mountain View. At that time, the grant program was funded at \$75,000 and supported projects that served immigrant families and underrepresented elementary school students. Such projects included improving awareness of and access to information and referral resources for immigrants and mixed-status families; and providing tutoring services to underrepresented elementary school students who qualify for free or reduced-cost meal programs. **This midyear request for \$100,000 would provide one-time funding in Fiscal Year 2024-25 for grants of up to \$10,000 each.**

Transfer and Appropriate \$45,000 from the Transportation Reserve Fund to Project 23-31: Street Reconstruction (Miramonte Avenue).

In Fiscal Year 2023-24, the VTA Board awarded the City a \$160,000 grant for a preliminary study, and this additional funding will be used as the City matching funds for the consultant cost.

Repurpose \$43,475 Unspent Limited-Period Funding in the Police Department.

The Police Department was allocated \$269,800 in limited-period funding from the General Fund to purchase protective equipment for Police Officers. The Department has completed all planned purchases and, due to vendors not raising prices as expected, there remains an unspent balance of \$43,475. The Department is requesting to repurpose this remaining funding to purchase protective equipment for the City Council Chambers.

Appropriate \$32,400 in the General Non-Operating Fund in the Community Services Department for the Annual Pride Event.

The Community Services Department (CSD) requests \$32,400 funding to support an annual Pride celebration, starting in June 2025, to recognize and support members and allies of the LGBTQIA2S+ community. Nationally, June is celebrated as Pride Month, with nearby cities, including San Francisco, hosting events. Mountain View has commemorated Pride Month for a decade through a flag-raising ceremony at Civic Center Plaza. During the 2024 ceremony, the City Council expressed interest in expanding this tradition by adding a larger-scale, ongoing event.

CSD is preparing to host Mountain View's first communitywide Pride celebration on Saturday, June 7, at Civic Center Plaza and Pioneer Park. The event will feature live musical and art

performances, family-friendly activities, informational/resource booths, food vendors, and themed decor.

Staff requests funding to support the annual event. Costs include performer and artist fees, booth and equipment rentals, event and décor supplies, giveaways, advertising, and hourly wages for part time event staff. Expenses will be partially offset with sponsorship revenue of \$10,000. As this event is expected to be held annually moving forward, CSD will include a budget request for Fiscal Year 2025-26 in the upcoming budget development, which will be presented to the City Council for review in June 2025.

Transfer and Appropriate \$25,000 of Water Funds from Project 24-06: Water and Recycled Water System Improvements to Project 23-42: Miramonte Reservoir Fence Replacement.

This will allow additional funding to cover construction management and inspection needs to support the awarded fence replacement project planned to start construction in spring 2025.

Appropriate \$15,200 in the General Non-Operating Fund in the City Council's Budget for New Council Members' Per-Term Allowances

As of January 2025, four Council members have started their new term with the City. In accordance with Council Policy A-2, City Council Policy Governing Expenses of the Council, each member is entitled to a one-time per-term allowance for purchasing office equipment. The allowance is \$3,800 per member.

Transfer and Appropriate \$5,000 of Shoreline Regional Park Community Funds from Project 24-24: NBS Semi-Annual Traffic Counts to Project 25-24: NBS Semi-Annual Traffic Counts.

This will allow staff to increase the fiscal year 2024-25 contract to cover the need for supplementary traffic counts in the event that inclement weather impairs data collection.

Position Changes

The Community Development Department (CDD) is requesting to modify the allocation of certain staff positions across various budget accounts to better reflect current job functions and activities. From time to time, the job functions of certain positions evolve based on City or community priorities, economic trends, or state laws and, therefore, warrant a review of how they are budgeted. Over time, these CDD positions have had less involvement in current planning activities, which are funded by the Development Services Fund, and greater involvement in long-range planning activities or general administration of the department, which are typically funded by the General Operating Fund. As a result, these positions are proposed to have reduced funding from the Development Services Fund and greater funding from the General Operating

Fund or other funding sources. Supporting this adjustment will allow these positions to be accurately budgeted based on their current job functions and will address some of the deficit of the Development Services Fund as these positions do not contribute to current planning activities and revenues equivalent to their current budget allocation.

The Department is requesting alignment of position costing for seven positions. The full-year impact to the General Operating Fund is about \$818,000 and \$39,000 to the Shoreline Regional Park Community Fund. The partial-year impact for Fiscal Year 2024-25 is \$260,000 to the General Operating Fund and \$12,000 to the Shoreline Regional Park Community Fund. Upon Council's approval, the new allocations for these seven positions will be included in the Fiscal Year 2025-26 Recommended Budget.

Revenue Changes

The Finance and Administrative Services Department monitors the Citywide budget and adjusts estimates based on trends. The following major revenues have experienced significant changes from the Adopted Budget. Therefore, staff is requesting a budget adjustment to reflect more accurate estimates. Please refer to Section II, Midyear Budget Status Summary, for additional information.

Fund	Description	Adopted Budget	Change	Revised Budget
General Operating Fund	Increase appropriations for FY 2024-25 Property Tax	\$ 78,063,000	\$ 1,552,700	\$ 79,615,700
General Operating Fund	Decrease appropriations for FY 2024-25 Sales Tax	24,478,000	(2,991,000)	21,487,000
General Operating Fund	Increase appropriations for FY 2024-25 Transient Occupancy Tax	8,571,000	1,060,000	9,631,000
General Operating Fund	Increase appropriations for FY 2024-25 Business License Tax	5,170,000	212,000	5,382,000
Shoreline Regional Park Community Fund	Decrease appropriations for FY 2024-25 Property Tax	77,121,500	(3,907,900)	73,213,600
Shoreline Regional Park Community Fund	Increase appropriations for FY 2024-25 Investment Earnings	4,187,000	2,809,700	6,996,700
Total		\$ 197,590,500	\$ (1,264,500)	\$196,326,000

IV. FISCAL YEAR 2025-26 PRELIMINARY GENERAL OPERATING FUND FORECAST

This section of the report focuses on the Fiscal Year 2025-26 Preliminary GOF Forecast. This forecast is based on limited data and financial assumptions made with information available at this time. An updated Five-year forecast will be incorporated into the Recommended Budget, scheduled for the June 10, 2025 City Council meeting.

Risks to the Forecast

Aforementioned uncertainty about federal policy presents a risk to the forecast. How potential new or increased tariffs, immigration regulations, income tax reform, a freeze on federal funding, and at what levels, could all impact the local economy and the strength of city finances. Staff has not modeled a recession scenario into the forecast.

The Forecast

The **preliminary** projection for Fiscal Year 2025-26 follows (dollars in thousands):

	2023-24 <u>Audited</u>	2024-25 Adopted <u>Budget</u>	2024-25 Estimated <u>Estimated</u>	2025-26 Preliminary <u>Forecast</u>	Variance of 2025-26 Forecast to 2024-25 <u>Adopted</u>
Revenues	\$182,381	\$184,144	\$187,658	\$193,288	\$9,144
Expenditures	(166,522)	(182,844)	(179,183)	(191,097)	(8,253)
FY 2024-25 Midyear Requests ⁽³⁾	-0	-0-	(260)	(818)	818
Year-End Adjustments ²	<u>225</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Operating Balance	16,084	1,300	8,215	1,373	73
Transfer to GNOF	(7,084)	-0-	-0-	-0-	-0-
Transfer to GF Reserve	(3,000)	-0-	-0-	-0-	-0-
Transfer to Capital					
Improvement Reserve	-0-	-0-	-0-	-0-	-0-
Transfer to SPAR	-0-	-0-	-0-	-0-	-0-
Transfer to Budget Contingency					
Reserve	-0-	-0-	-0-	-0-	-0-
Transfer to Liability Ins Fund ³	(1,000)	-0-	-0-	-0-	-0-
Transfer to Transportation					
Reserve	(1,000)	-0-	-0-	-0-	-0-
Transfer to Open Space					
Acquisition Reserve	(3,000)	-0-	-0-	-0-	-0-
Transfer to Parental Leave					
Reserve	<u>(1,000)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Ending Balance	\$ <u>-0-</u>	\$ <u>1,300</u>	\$ <u>8,215</u>	\$ <u>1,373</u> ⁴	\$ <u>73</u>

¹ Adopted Budget and Preliminary Forecast include \$8.5 million and \$10.1 million in estimated budget vacancy savings, respectively.

² Year-End Adjustments include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

³ Staff recommendations involving the realignment of positions, pending approval by the City Council.

⁴ The balance does not include any Fiscal Year 2025-26 ongoing budget requests.

The preliminary forecast projects total GOF revenues of \$193.3 million, \$9.1 million (5.0%) and \$5.6 million (3.0%) higher than the current fiscal year Adopted Budget and Estimated, respectively.

Baseline expenditures are anticipated to increase \$9.9 million; however, the vacancy factor increased by \$1.6 million, resulting in a net increase of \$8.3 million (4.5%), bringing the total to \$191.1 million compared to the current fiscal year Adopted. For Fiscal Year 2025-26, there is a preliminary ending balance of approximately \$1.4 million. **Notably, the forecast does not include any Fiscal Year 2025-26 ongoing budget recommendations from the City Manager as those are currently under evaluation as part of the budget development process.**

The full five-year forecast will be presented in the Fiscal Year 2025-26 Recommended Budget at the April and June Council meetings. Revenue projections are based on reasonable assumptions utilizing available information from a wide variety of sources. These sources include reviewing the City's historical trends, gathering information from economists that specialize in the regional economics of Silicon Valley, reviewing various indicators (e.g., unemployment rates, etc.), checking with neighboring agencies, reviewing State of California and national economic trends, and factoring in known Mountain View conditions, such as lease terms and property development.

Despite incorporating the most recent available data into the forecasting process, a considerable amount of volatility and uncertainty yet remains about the future of the economy for various reasons, including the Russia-Ukraine conflict, global supply chain disruptions, pace of corporate layoffs, increased commercial property vacancy rates, and continued elevated interest rates. 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):

	2023-24 <u>Audited</u>	2024-25 Adopted <u>Budget</u>	2024-25 <u>Estimated</u>	2025-26 Preliminary Forecast	Variance of 2025-26 Forecast to 2024-25 <u>Adopted</u>
Property Taxes	\$ 74,660	\$ 78,063	\$ 79,616	\$ 83,596	\$ 5,533
Sales Tax	24,489	24,478	21,487	23,163	(1,315)
Other Local Taxes	21,205	23,676	24,915	24,617	941
Use of Money and Property Licenses, Permits, and Fees/Fines and Forfeitures	29,010	30,048	30,264	31,481	1,433
Intergovernmental	6,924	6,767	6,960	7,132	365
Charges for Service	1,095	727	823	751	24
Miscellaneous Revenues	3,581	3,386	3,263	3,411	25
Interfund Revenues and Transfers	3,947	2,206	4,047	2,279	73
	<u>17,470</u>	<u>14,793</u>	<u>16,283</u>	<u>16,858</u>	<u>2,065</u>
Total Operating Revenues	<u>\$182,381</u>	<u>\$184,144</u>	<u>\$187,658</u>	<u>\$193,288</u>	<u>\$9,144</u>

A brief explanation of the assumptions and changes for the preliminary Fiscal Year 2025-26 forecast follows:

Property Tax revenue is projected at \$83.6 million (or 43.2% of total GOF revenue), an increase of \$5.5 million compared to the current fiscal year Adopted Budget and \$4.0 million compared to Estimated. Compared to the July 1, 2024 tax roll, the Fiscal Year 2025-26 AV of secured property-generating tax revenues for the GOF is projected with net growth, reflecting the following:

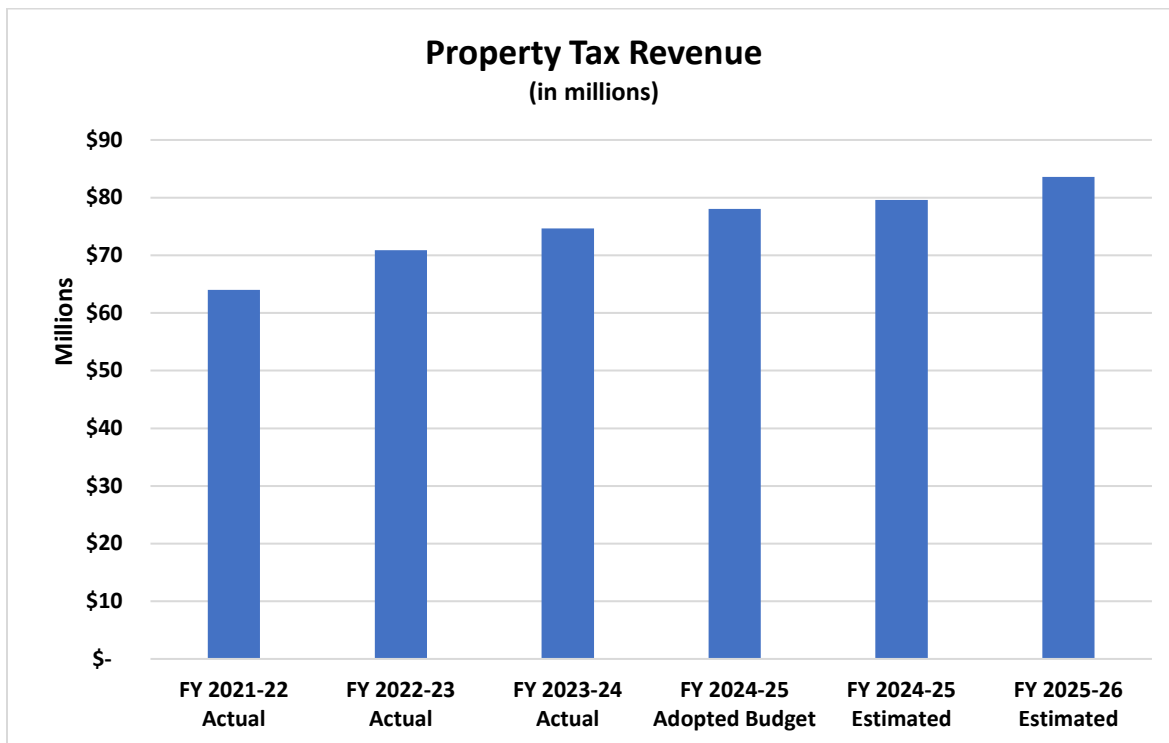
- A 2.0% increase in AV for most properties resulting from the annual CCPI inflation factor (October 2023 to October 2024);
- AV increases resulting from changes in ownership which occurred from January 1, 2024 through November 30, 2024 (information currently available);

- Increased AV related to new development anticipated to be included in the July 1, 2025 tax roll; and
- Anticipated AV decreases resulting from the resolution of current appeals and projected new appeals.

It should be noted that the Santa Clara County Assessor (Assessor) cautioned that the 2025 assessment roll may reflect dramatic declines in assessed values for commercial properties that changed hands after the January 1, 2024 lien date. Mountain View had 10 commercial properties that changed ownership in 2024 for less than their previous purchase price, with decreases ranging from \$80,000 to as high as \$80.3 million. In addition, there are currently over 600 pending property tax appeals in process and being reviewed by the Assessor's office. Based on experience, the projected revenue loss to the GOF, related to these appeals, is \$2.3 million.

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

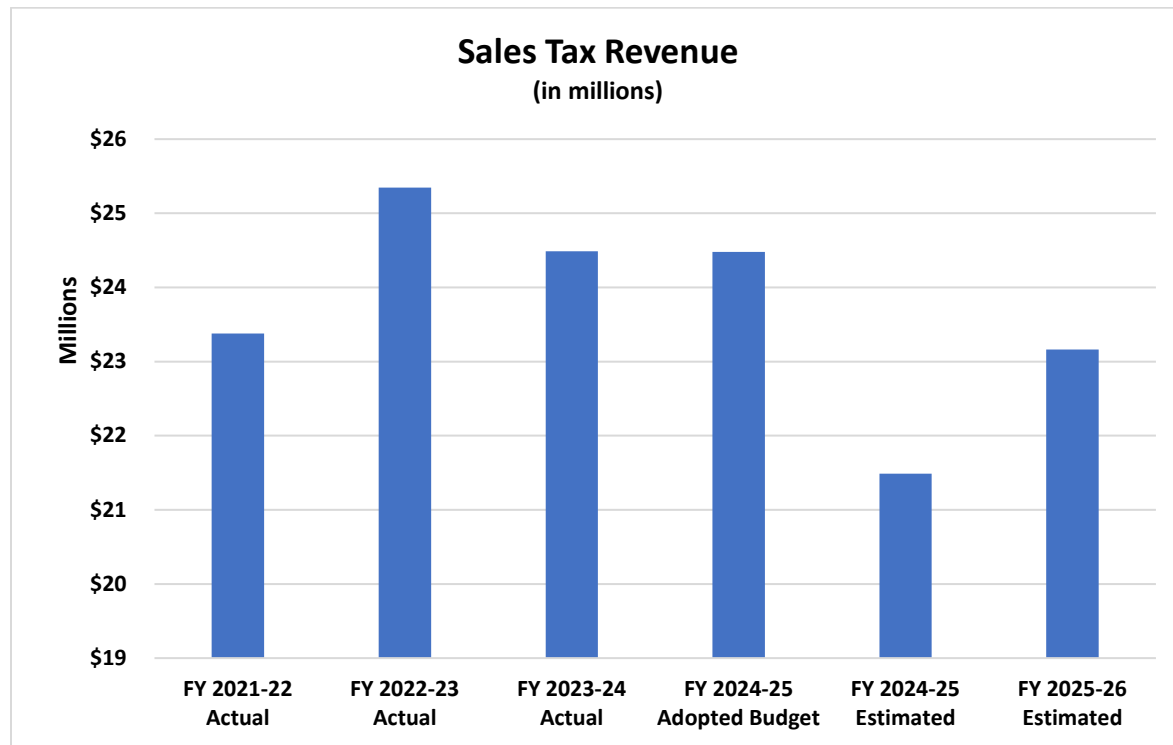
Recent and projected property tax revenue data is included below.



Sales Tax revenue is projected at \$23.2 million (or 12.0% of total GOF revenue) for Fiscal Year 2025-26, \$1.3 million lower than the current fiscal year Adopted Budget and \$1.7 million

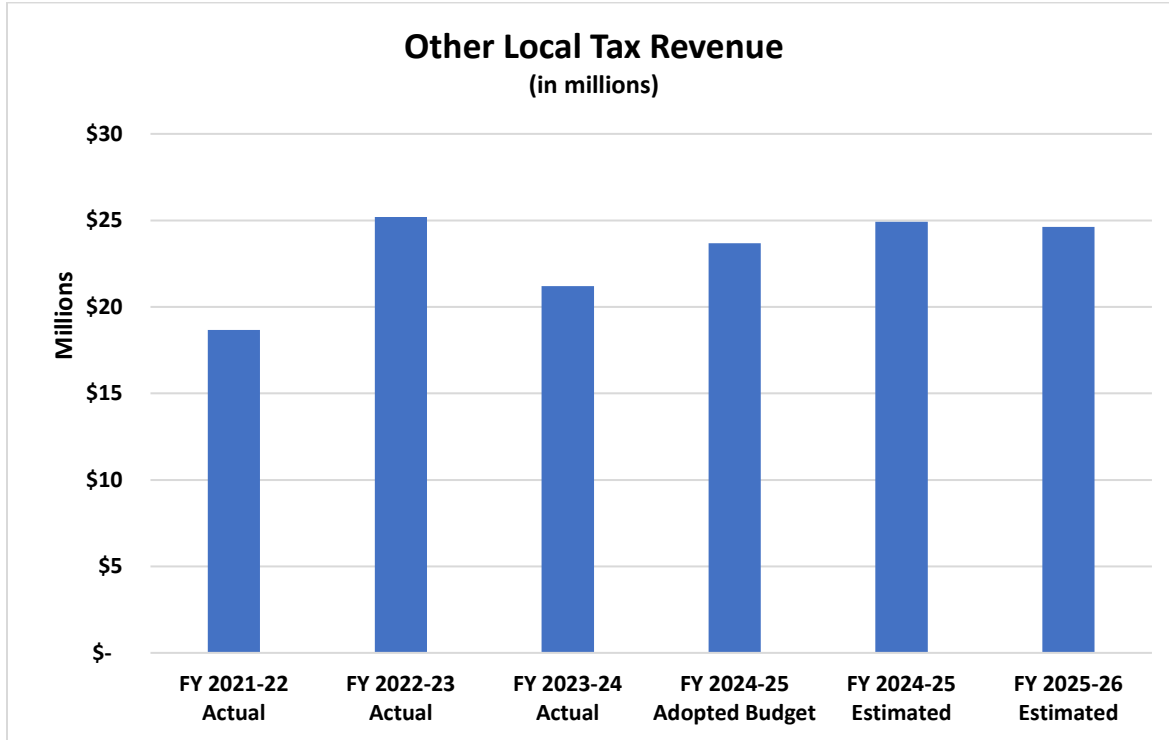
higher than the current fiscal year Estimated. Staff will continue to monitor the sales tax collection and work with the City's sales tax consultant and the City's Economic Development Division to revise the sales tax forecast.

Recent and projected sales tax revenue data is included below.



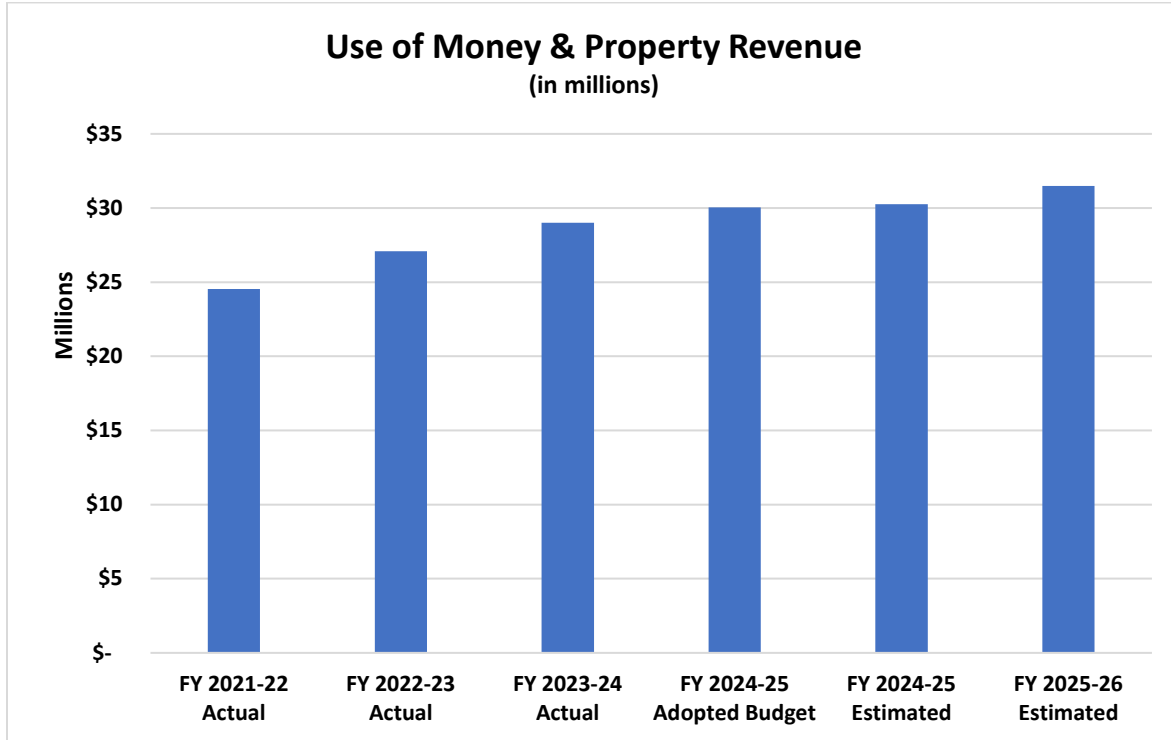
Other Local Taxes revenue is projected at \$24.6 million (or 12.7% of total GOF revenue), \$941,000 (4.0%) higher than the current fiscal year Adopted Budget and \$298,000 (1.2%) lower than Estimated. TOT revenue is projected to be \$602,000 (7%) higher than the current fiscal year Adopted and essentially flat compared to Estimated when late payments collected from the prior fiscal year are excluded. The Fiscal Year 2025-26 Business License Tax (BLT) is projected to experience a 2.5% decline compared to the current fiscal year Estimated, which considers known and additional potential layoffs. Given the City's per-head tax structure for each employee laid off, there is a corresponding reduction in taxes collected. The City Council earmarked 80.0% of the increased business license tax for transportation and 10.0% for housing; transfers are included and discussed in the Expenditure section below. Fiscal Year 2025-26 UUT revenue is projected \$174,000 and \$292,000 higher than the current fiscal year Adopted Budget and Estimated, respectively. This is primarily driven by revenues generated from energy services. Cannabis Tax is projected to be flat compared to the current fiscal year Estimated.

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



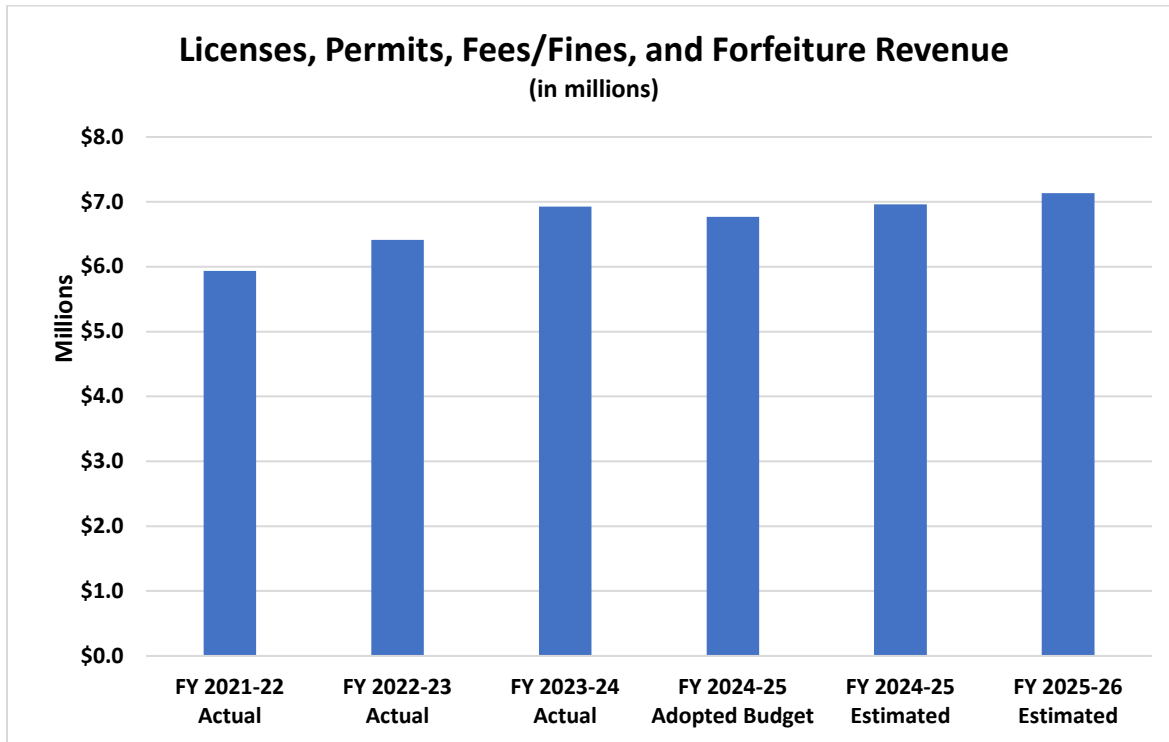
Use of Money and Property revenue is projected to be \$31.5 million (or 16.3% of total GOF revenue), an increase of \$1.4 million (4.8%) and \$1.2 million (4.0%) compared to the current fiscal year Adopted Budget and Estimated, respectively. Investment revenue is projected to increase due to the current market of high interest rates. The City has a practice of laddering its portfolio so the impact of higher interest rates will have a greater impact on future fiscal years as lower-yielding securities mature and are replaced with higher-yielding securities. Lease revenues are projected with inflators as stipulated in the leases or estimated with 2.0% increases.

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



Licenses, Permits, and Fees/Fines and Forfeitures revenue is projected to be \$7.1 million (or 3.7% of total GOF revenue), an increase of \$365,000 (5.4%) and \$172,000 (2.5%) compared to the current fiscal year Adopted Budget and Estimated, respectively.

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



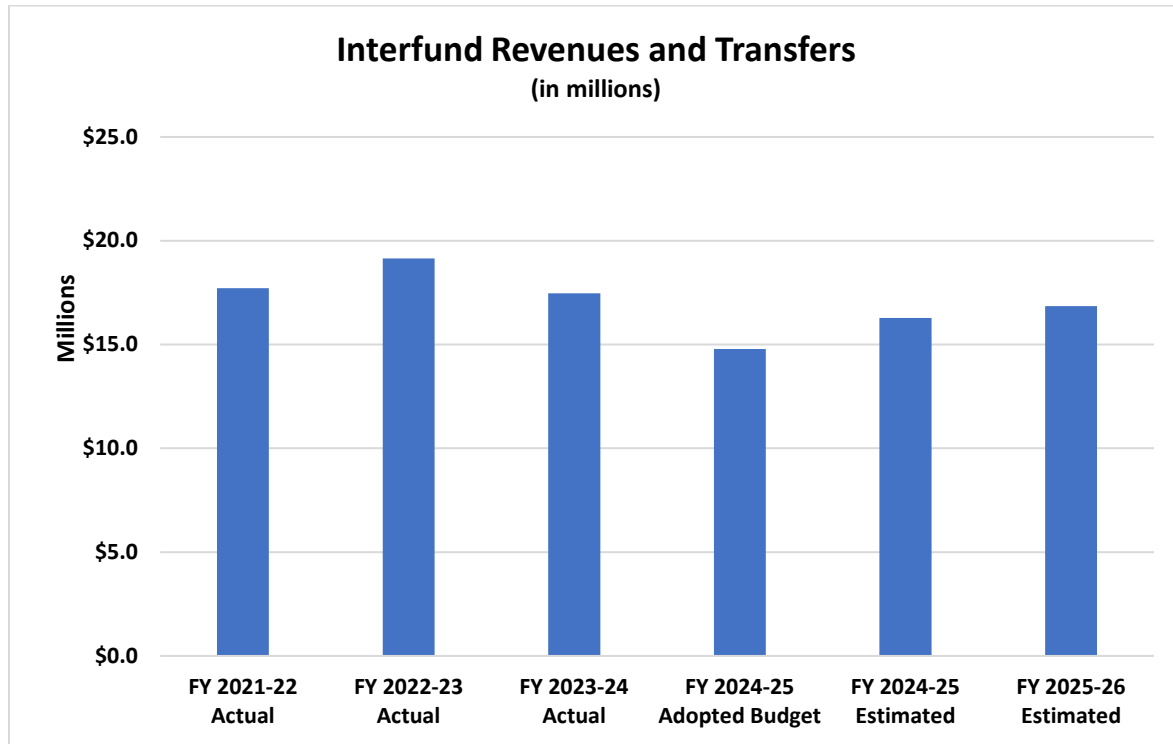
Intergovernmental revenue is projected to be \$24,000 higher than the current fiscal year Adopted Budget and \$72,000 lower than Estimated. The projected budget does not include any mandated reimbursement funding or intergovernmental grants and reimbursements as the amounts are variable.

Charges for Services revenue is projected to be essentially the same as the current fiscal year Adopted Budget and \$148,000 (4.5%) higher than Estimated.

Miscellaneous Revenues are projected to be \$73,000 (3.3%) higher than the current fiscal year Adopted Budget. The projection is \$1.8 million (43.7%) below the current fiscal year Estimated, primarily because some grants, donations, and reimbursements cannot be anticipated and, therefore, are not budgeted.

Interfund Revenues and Transfers are projected at \$16.9 million (or 8.7% of total GOF revenue), \$2.1 million and \$575,000 higher than the current fiscal year Adopted Budget and Estimated, respectively. This is primarily due to temporarily suspending the Fiscal Year 2024-25 overhead transfer from DSF as there is a large deficit and estimated higher-than-budgeted CIP overhead in the current fiscal year, respectively.

Recent and interfund and transfer revenue data is included below.



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

Expenditures

A comparison of the Preliminary Forecast to current fiscal year Estimated and Adopted Budget and prior fiscal year Audited for the GOF follows (dollars in thousands). **As stated previously, the Fiscal Year 2025-26 department budgets are currently under review, and any new ongoing recommendations are not included in the Preliminary Forecast.**

	2023-24 <u>Audited</u>	2024-25 Adopted <u>Budget</u>	2024-25 <u>Estimated</u>	2025-26 Preliminary Forecast	Variance of 2025-26 Forecast to 2024-25 <u>Adopted</u>
Salaries and Benefits	\$125,538	\$148,157	\$135,557	\$155,836	\$7,679
Services and Supplies	23,862	28,047	27,500	29,216	1,169
Capital Outlay/Equipment Replacement	3,152	1,655	1,721	2,070	415
Interfund Expenditures and Transfers	13,970	13,485	14,405	14,075	590
Vacancy Factor	<u>Included</u>	<u>(8,500)</u>	<u>Included</u>	<u>(10,100)</u>	<u>(1,600)</u>
Total Operating Expenditures	<u>\$166,522</u>	<u>\$182,844</u>	<u>\$179,183</u>	<u>\$191,097</u>	<u>\$8,253</u>

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

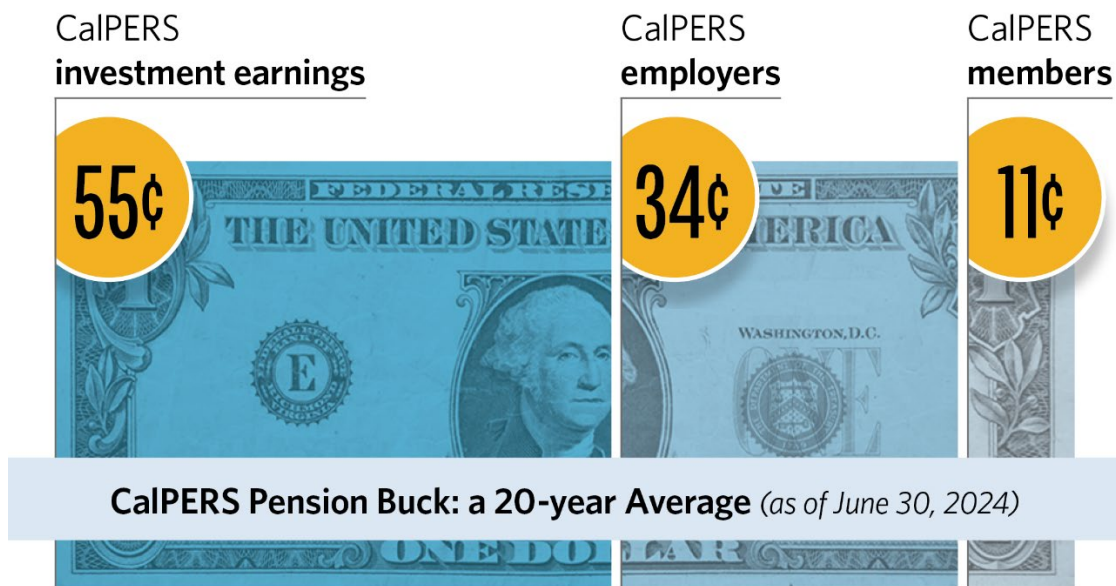
Salaries and Benefits expenditures are projected \$7.7 million (5.2%) higher than the current fiscal year Adopted. The forecast includes a cost-of-living adjustment for all employee groups. All labor agreements expire as of June 30, 2027. When compared to the prior fiscal year, the City's Normal Cost rates for Miscellaneous have increased by 0.01% and Normal Cost rates for Safety have decreased by 0.45%. The City's Unfunded Actuarial Liability has increased. The Miscellaneous rate based on the City's projected payroll, adjusted for salary savings due to vacant positions, has increased 0.23% while the Safety rate has increased 0.38%. Health benefit costs are projected with increases based on historical trends.

Rising employee-related costs, such as medical cost increases, and costs related to additional positions that were added in the past two years are the most significant contributor to rising expenditures. As shown below, pension benefits are funded by a combination of employer contributions, employee contributions, and investment earnings on those contributions.

Based on data over the past 20 years ending June 30, 2024, for every dollar CalPERS pays in pensions:

- 55 cents comes from investment earnings;
- 34 cents comes from employer contributions; and
- 11 cents comes from employee contributions.

Essentially, 66 cents out of every public employee pension dollar is funded by CalPERS' investment earnings and employee contributions, with employers making up the difference of 33 cents. For the fiscal year ended June 30, 2024, CalPERS paid out more than \$32 billion in pension benefits.



When there is a gap between the assets available to fund benefits and the assets needed to fund benefits, the City must make up the difference.

The City's most recent actuarial report from CalPERS (released in August 2024) indicates that the City has an unfunded pension liability of \$149.3 million in the Safety Plan and \$149.6 million in the Miscellaneous Plan, for a total of \$298.9 million as of June 30, 2023, up from \$283.6 million a year prior, an increase of 5.4%. This increase is primarily attributable to CalPERS realizing an investment gain of approximately 5.8% in Fiscal Year 2021-23, which is actually 1.0% less than the assumed investment return of 6.8%. As of June 30, 2023, the City's funded status was 69.3% for its Safety Plan and 73.2% for its Miscellaneous Plan, essentially unchanged from the prior year. Overall, the combined funded status on June 30, 2024 was 71.4%, unchanged from a year earlier.

Services and Supplies expenditures are currently projected to increase \$1.2 million over the current fiscal year Adopted Budget, primarily related to projected increases for City utility costs and maintenance and operations. The forecast does not include the adjustments recommended in this midyear report. Any recommended increases will be included with the Recommended Budget in June.

Capital Outlay/Equipment Replacement expenditures include \$644,000 for Capital Outlay. The annual equipment replacement funding amount is projected at \$1.4 million, 3.6% higher than the current fiscal year Adopted, due to inflation for replacement cost and some adjustments to quantity of items and life expectancy.

Interfund Expenditures and Transfers are projected to increase \$590,000 (4.4%) over the current fiscal year Adopted. This is mainly due to higher-than-expected TOT revenue from the Ameswell Hotel which continues to be transferred to the Budget Contingency Reserve.

V. FISCAL YEAR 2023-24 GENERAL FUND REMAINING BALANCE

As discussed in the Analysis of Fiscal Year 2023-24 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 17, 2024 Council Agenda, the City's General Fund ended the 2023-24 fiscal year with an unallocated balance of \$9.8 million.

The table below details the General Fund balance, including one-time revenues and expenditure savings, budgeted transfers, limited-period expenditure allocations, and the midyear adjustments contained in this Council report (dollars in thousands):

GOF Balance from Fiscal Year 2023-24	\$ 7,084
Remaining Available Balance from Prior Fiscal Years	19,297
Fiscal Year 2023-24 Midyear Allocations Approved by City Council	(1,581)

Additions:

One-Time Revenues and Expenditure Savings in Fiscal Year 2023-24:

Property Taxes—Excess ERAF	6,461
Unspent Limited-Period Expenditures	1,751
Miscellaneous Revenues	84
Child-Care Center Rent	<u>206</u>

Subtotal	<u>\$33,301</u>
----------	-----------------

Subtractions:

Allocations in the Fiscal Year 2024-25 Adopted Budget:

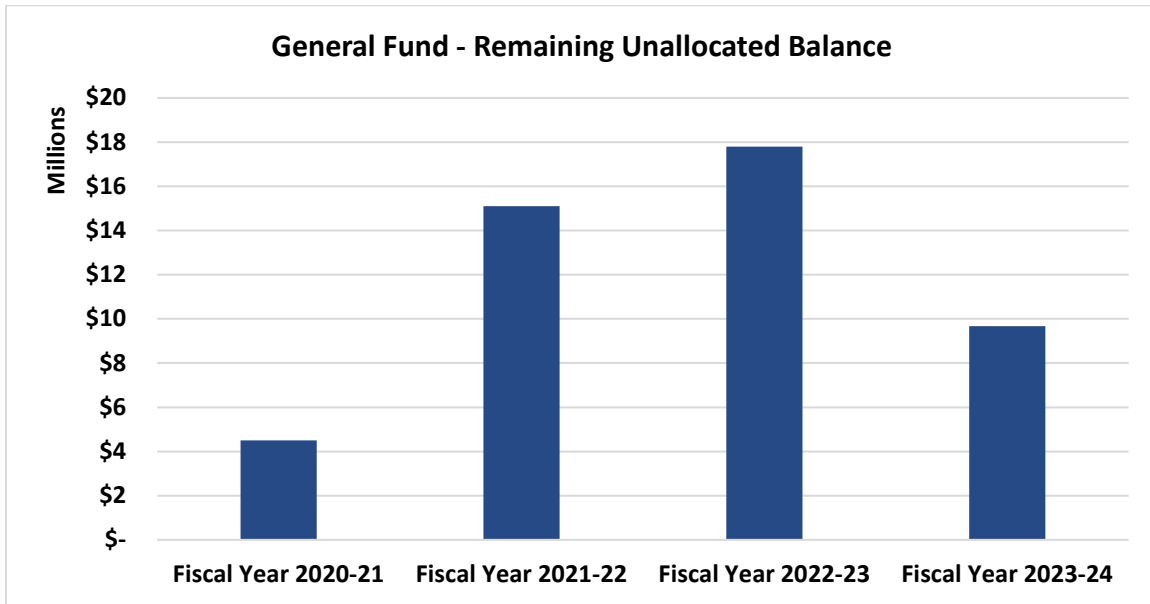
Limited-Period Expenditures	(10,829)
CIP Reserve	(5,000)
General Fund Reserve	(2,500)
Development Services Fund	(2,000)
Compensated Absences Reserve	(1,167)
Parental Leave Reserve	(1,000)
General Liability Fund	<u>(1,000)</u>

Subtotal of Allocations	<u>(23,496)</u>
-------------------------	-----------------

Remaining Unallocated Balance at June 30, 2024	\$ 9,805
--	----------

Fiscal Year 2024-25 Midyear Council Actions	-0-
Recommendations in this Midyear Report from GNOF	<u>(147)</u>
Remaining Available Balance	<u>\$ 9,658</u>

As shown in the chart below, the current remaining available balance is \$8.1 million less than it was a year ago, resulting in less available funding for limited-period (one-time) expenditures and reserves for the Fiscal Year 2025-26 budget.



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, similar to prior years, there are multiple funding needs in other areas currently under review as part of the budget development process, and staff will provide recommendations for the use of the remaining unallocated balance with the Fiscal Year 2025-26 Recommended Budget in June.

VI. FISCAL YEAR 2024-25 MIDYEAR PERFORMANCE MEASURES UPDATE

Departments review and revise their performance measures from time to time to ensure measures provide relevant and clear information about department operations. Attachment 2 includes the Fiscal Year 2024-25 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 2024-25 will be reported in the Fiscal Year 2025-26 Adopted Budget.

FISCAL IMPACT

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

LEVINE ACT

California Government Code Section 84308 (also known as the Levine Act) prohibits city officials from participating in any proceeding involving a “license, permit, or other entitlement for use” if

the official has received a campaign contribution exceeding \$500 from a party, participant, or agent of a party or participant within the last 12 months. The Levine Act is intended to prevent financial influence on decisions that affect specific, identifiable persons or participants. For more information see the Fair Political Practices Commission website: www.fppc.ca.gov/learn/pay-to-play-limits-and-prohibitions.html

Please see below for information about whether the recommended action for this agenda item is subject to or exempt from the Levine Act.

EXEMPT FROM THE LEVINE ACT

☒ General policy and legislative actions

ALTERNATIVES

1. Do not approve the recommendations.
2. Provide other direction.

PUBLIC NOTICING—Agenda posting.

Prepared by:

Natalie Poon
Financial Analyst

Ann Trinh
Senior Financial Analyst

Grace Zheng
Assistant Finance and Administrative
Services Director

Approved by:

Derek Rampone
Finance and Administrative Services Director

Arn Andrews
Assistant City Manager

Kimbra McCarthy
City Manager

NP-AT-GZ/4/CAM/574-02-25-25CR
204540

- Attachments:
1. Fiscal Year 2024-25 Six-Month Performance Measures Update
 2. City of Mountain View Resolution Approving Midyear Budget Requests
 3. Shoreline Regional Park Community Resolution Approving Midyear Budget Requests
 4. Park Land Dedication Fund Commitment