COUNCIL REPORT

CITY OF MOUNTAIN VIEW

DATE: February 13, 2018

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Fiscal Year 2017-18 Midyear Budget Status Report, Fiscal Year 2018-19 Preliminary General Operating Fund Forecast, and Fiscal Year 2017-18 Performance/Workload Measures**

RECOMMENDATION

1. Acknowledge and file the Fiscal Year 2017-18 Midyear Budget Status Report, the Fiscal Year 2018-19 Preliminary General Operating Fund Forecast, and the six-month status of the Fiscal Year 2017-18 Performance/Workload Measures (Attachment 1 to the Council report).

2. Approve funding source reallocations for Information Technology CIPs 08-18, 10-18, 12-18, 14-18, 18-61, 18-62, 18-63, and 18-64 to reflect fixed asset allocations.

3. Increase appropriations $464,439 in the Rengstorff Park Community Center Construction Project (CIP 17-32) for Housing-Related Parks Program (HRP) grant funds received. (Five votes required)

4. Appropriate and transfer $200,000 from the Construction Tax—Real Property Conveyance Tax Fund to the Fire Station Alerting System (CIP 14-50) for design and replacement of the existing Fire Station Alert System. (Five votes required)

5. Increase appropriations $450,000 in the Shorebird Way/Charleston Road Recycled Water Extension and Water System Improvements Design Project (CIP 18-42) for a donation received from Google LLC. (Five votes required)

BACKGROUND AND ANALYSIS

This report is intended to provide the City Council, public, and employees with an update of the City's budgetary position at midyear as well as a preliminary General Operating Fund (GOF) forecast for the upcoming fiscal year. The six-month status of Fiscal Year 2017-18 Performance/Workload Measures is also attached to this report (see Attachment 1). A separate agenda item provides a midcycle update on the City Council's two-year major goals.

I. FISCAL YEAR 2017-18 MIDYEAR BUDGET STATUS

The Midyear Budget Status Report represents staff's best estimate of the City's budgetary position at this time, taking into consideration data at approximately midway through the fiscal year and certain assumptions regarding revenues and expenditures for the remainder of the fiscal year. This section of the report includes a discussion of Fiscal Year 2017-18 revenue and expenditure estimates compared to budget for major funds.

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

	2016-17 Audited	2017-18 Adopted Budget	2017-18 Adjusted	**2017-18 Estimated**	Variance of 2017-18 Estimated to 2017-18 Adjusted
Revenues	$126,689	128,022	128,262	**132,049**	3,787
Expenditures[1]	(104,436)	(117,687)	(120,139)	**(116,353)**	3,786
Rebudgets[2]	(697)	-0-	2,260	**-0-**	(2,260)
Operating Balance	21,556	10,335	10,383	**15,696**	5,313
Transfer to GNOF	(15,556)	-0-	-0-	**-0-**	-0-
CalPERS Contribution	(2,000)	(4,000)	(4,000)	**(4,000)**	-0-
OPEB Contribution	(2,000)	(2,000)	(2,000)	**(2,000)**	-0-
Transfer to SPAR	(2,000)	(2,000)	(2,000)	**(2,000)**	-0-
Ending Balance	$ -0-	2,335	2,383	**7,696**	5,313

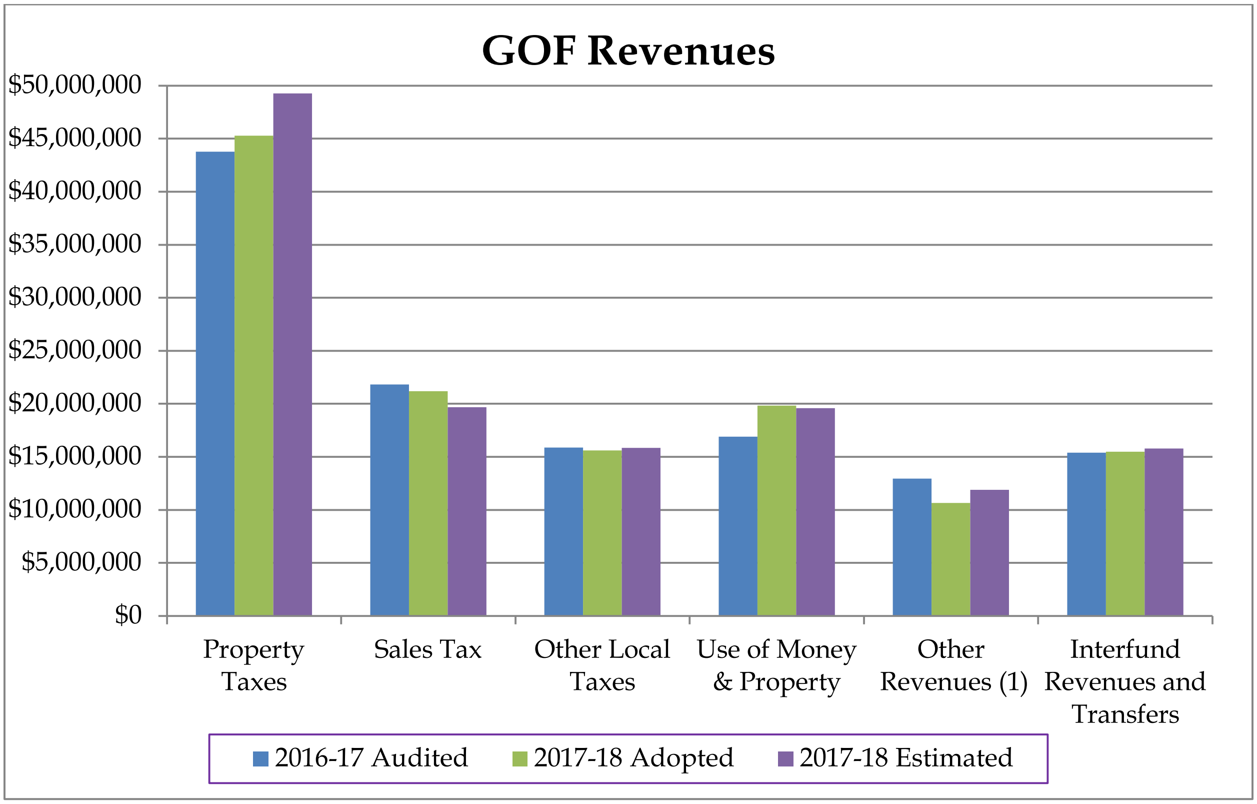
(1) Adopted and Adjusted Budgets include $2.3 million in estimated budget savings.

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

GENERAL OPERATING FUND

Revenues

The chart below is a comparison of the Fiscal Year 2016-17 Audited, and Fiscal Year 2017-18 Adopted and Estimated for GOF major revenue categories.



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

Estimated results of revenue categories are mixed with the majority trending higher than budget, but others trending below budget. A detailed discussion of major revenue categories is as follows:

Property Taxes revenue is estimated at $49.3 million, $4.0 million (8.8 percent) higher than budget. The Fiscal Year 2017-18 Adopted Budget included growth in both secured and unsecured General Fund assessed values (AV) compared to the July 1, 2016 tax roll. The growth is based on a positive 2.0 percent California Consumer Price Index (CCPI) applied to the majority of properties, plus increased values related to changes in ownership and new development. The Fiscal Year 2017-18 Adopted Budget assumed net AV growth of 2.4 percent compared to the July 1, 2016 AV. The information provided by Santa Clara County after the beginning of the current fiscal year indicates the total July 1, 2017 General Fund AV increased 12.7 percent compared to the July 1, 2016 AV. This is the fifth year of double-digit growth in Property Taxes revenues and the first time this has occurred dating as far back as records are available to Fiscal Year 1980-81.

Sales Tax revenue is currently estimated at $19.7 million, $1.5 million (7.1 percent) below budget, resulting from business closures, relocations, and lower than projected receipts from some existing sources. Fiscal Year 2017-18 Sales Tax was adopted at 2.9 percent below Fiscal Year 2016-17 Audited, but the decline was greater than anticipated. This is the second year that Sales Tax revenue has either declined or seen little growth.

Other Local Taxes revenue is estimated at $15.8 million in total, $246,000 (1.6 percent) higher than budget. Transient Occupancy Tax (TOT) revenue is estimated to be $203,000 (2.9 percent) higher than budget and 1.6 percent higher than the prior fiscal year audited. TOT revenue continues the quarterly growth exhibited since mid-Fiscal Year 2009-10, and growth is estimated to continue through the remainder of the current fiscal year, but at a lower rate than the prior fiscal year. Overall, Utility Users Tax (UUT) revenue is estimated essentially on target with budget.

Use of Money and Property revenue is comprised of Investment Earnings and Rents and Leases and is estimated at $19.6 million, $248,000 (1.3 percent) lower than budget. Investment Earnings revenue is estimated $96,000 (5.4 percent) higher than budget and Rents and Leases revenue is estimated $344,000 (1.9 percent) lower than budget.

As previously discussed with the City Council, the first decennial revaluation for the Charleston East (Lot 1) lease between the City and Google LLC (Google) was effective February 1, 2018. In anticipation of this decennial revaluation, the Fiscal Year 2017-18 Adopted Budget included a calculation of the projected increase based on a value per square foot resulting from the previous decennial revaluations of the other two land leases. However, during the Charleston East lease revaluation process, staff was reminded this lease includes a cap on the revalued rent that is not included in the other two land leases. The cap is 165.0 percent of the monthly rent payable during the initial year of the prior 10-year period. In this case, the rent for the period beginning February 1, 2018 is capped at 165.0 percent of the rent paid in February 2008. The total annualized revalued rent is $1.9 million, an increase of $387,000 (26.5 percent) compared to the prior year annualized rent. This is a decrease of $397,000 compared to budget. In addition, there is estimated to be $432,000 less revenue from Ameswell (Moffett Gateway) rent resulting from the longer than anticipated development processing time frame. These are offset by a $300,000 payment from the Amphitheatre for additional events and smaller leases estimated to generate $185,000 more than budget.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is estimated to be essentially on target with budget.

Intergovernmental revenue is estimated at $193,000 (33.7 percent) higher than budget. Approximately half of the difference is related to unbudgeted grants and reimbursements from other governmental agencies.

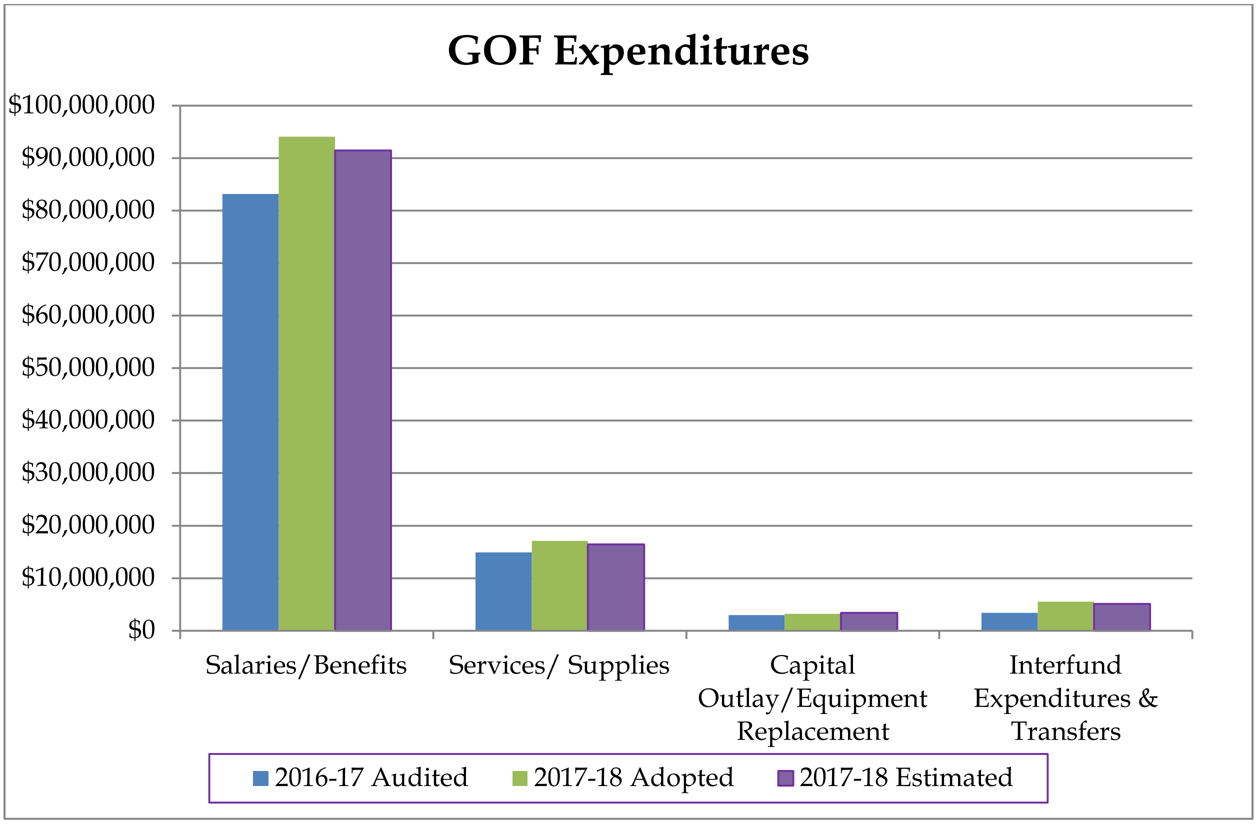
Charges for Services revenue is generated by fees assessed for Recreation and other types of services and is estimated to be on target with budget.

Miscellaneous Revenues are estimated to be $1.0 million (63.2 percent) higher than budget resulting from grants, donations, and expenditure reimbursements received that are not budgeted as they are uncertain. There will likely be additional reimbursements by the end of the fiscal year, particularly overtime for Fire mutual aid, but full fiscal year estimates are not calculated as the amounts can vary greatly.

Interfund Revenues and Transfers are estimated to be $301,000 (1.9 percent) higher than budget, primarily as the Community Stabilization and Fair Rent Act (CSFRA) budget adopted in October 2017 included reimbursement of administrative overhead to the GOF which was not included in the GOF Adopted Budget.

Expenditures

The chart below is a comparison of the Fiscal Year 2016-17 Audited, and Fiscal Year 2017-18 Adopted and Estimated for GOF expenditures.



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

Salaries and Benefits expenditures are estimated at $91.4 million, $2.7 million (2.9 percent) below both the Adopted and Adjusted Budgets, the result of vacant positions and some personnel turnover during the first half of the fiscal year. There are currently 73 vacancies and 31 active recruitments to fill 45 current and anticipated vacancies. Savings are expected annually and included in the Adopted Budget.

Services and Supplies expenditures are estimated at $16.4 million, $671,000 (3.9 percent) and $2.9 million (15.1 percent) below the Adopted and Adjusted Budgets, respectively. Savings are expected annually, and this is comparable to prior fiscal years.

Capital Outlay/Equipment Replacement expenditures are estimated at $3.4 million, slightly higher than the Adopted Budget, but equal to the Adjusted Budget, and includes $2.7 million of annual funding for equipment replacement and $674,000 is currently estimated for new capital purchases.

Interfund Expenditures and Transfers are estimated at $5.1 million, $471,000 (8.5 percent) below both the Adopted and Adjusted Budgets. This is primarily related to the reduced estimate of revenue resulting from the delayed development processing time frame of the Ameswell (Moffett Gateway) development. The City Council has preliminarily been approved earmarking the annual revenue generated from the Ameswell development for the debt service related to the Police/Fire Administration Building Remodel and Expansion. Revenue received prior to the beginning of the debt service is to be transferred to the Budget Contingency Reserve and utilized for limited-period purposes.

Budget savings are expected each fiscal year and are included in the Adopted Budget. Including budget savings, total estimated expenditures indicate a $1.3 million (1.1 percent) and $3.8 million (3.2 percent) favorable variance compared to the Adopted and Adjusted Budgets, respectively.

Expenditures by Department

All departments, except for Fire, appear to be trending under budget for the current fiscal year. The Fire Department is currently estimated to be trending over budget by $732,000, related to overtime incurred due to several mutual-aid incidents that have not yet been reimbursed. The department is estimating overtime reimbursements totaling $754,000 to be received for the mutual-aid overtime incurred. The Fire Department will also be managing overtime and discretionary expenditures to ensure staying within budget. The variance detailed below does not take into consideration encumbrances that may be incurred as of the end of the fiscal year.

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

	2017-18 Adopted Budget	2017-18 Adjusted Budget	**2017-18 Estimated**	Variance of Estimated to Adjusted Budget	Percent Savings of Adjusted Budget
City Council	$ 421	423	**323**	100	23.6
City Clerk	643	644	**613**	31	4.8
City Attorney	1,999	2,043	**1,905**	138	6.8
City Manager	3,885	4,044	**3,592**	452	11.2
Information Technology	4,423	4,452	**3,959**	493	11.1
Finance and Admin. Services	6,434	6,757	**5,873**	884	13.1
Community Development	1,830	1,972	**1,728**	244	12.4
Public Works	9,891	10,263	**9,533**	730	7.1
Community Services	15,970	16,326	**14,494**	1,832	11.2
Library Services	5,789	6,059	**5,631**	428	7.1
Fire	22,991	23,078	**23,810**	(732)	(3.2)
Police	37,284	37,951	**36,939**	1,012	2.7
Nondepartmental[(1)]	8,427	8,427	**7,953**	474	5.6
Projected Budget Savings	(2,300)	(2,300)	**Included**	(2,300)	0.0
Total Operating Expenditures	$117,687	120,139	**116,353**	3,786	3.2

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

In summary, revenues are currently estimated at $132.0 million, $4.0 million (3.1 percent and $3.8 million (3.0 percent), higher than both the Adopted and Adjusted Budgets, respectively. Including estimated budget savings, expenditures for the current fiscal year are estimated at $116.4 million, $1.3 million (1.1 percent) below the Adopted Budget and $3.8 million (3.2 percent) below the Adjusted Budget. The ending balance is estimated at $7.7 million after the $4.0 million contribution to CalPERS, $2.0 million toward the Retirees' Health Unfunded Actuarial Accrued Liability (UAAL), and $2.0 million transfer to the Strategic Property Acquisition Reserve (SPAR) as included in the Adopted Budget. This balance will be available to fund limited-period expenditures for Fiscal Year 2018-19, replenish reserves and provide additional contributions toward the City's unfunded liabilities and/or capital improvement projects.

DEVELOPMENT SERVICES

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

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

	2017-18 Adopted Budget	2017-18 Adjusted Budget	**2017-18 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$12,250	12,695	**13,128**	433
Expenditures	(14,370)	(22,581)	**(18,655)**	3,926
Operating Balance (Deficit)	(2,120)	(9,886)	**(5,527)**	4,359
Land Use Documents	800	800	**1,344**	544
CalPERS Contribution	(689)	(689)	**(689)**	-0-
Transfer to Comp Absences	(22)	(22)	**(22)**	-0-
Capital Projects	(40)	(40)	**(40)**	-0-
Excess (Deficiency) of Revenues	(2,071)	(9,837)	**(4,934)**	4,903
Beginning Balance	16,138	16,138	**16,138**	-0-
Land Use Doc Reserve	(5,523)	(5,523)	**(5,916)**	(393)
Ending Balance	$ 8,544	778	**5,288**	4,510

The level of development activity continues to be very strong and as of midway through the current fiscal year, estimated operating revenues of $13.1 million are $433,000 (3.4 percent) higher than budget. Estimated operating expenditures of $18.7 million are $3.9 million (17.4 percent) below the Adjusted Budget, reflecting salary and benefit savings from vacancies, plus savings in supplies and contractual services.

It is estimated that operating expenditures will exceed operating revenues by $5.5 million. Revenue from the Land Use Document Fee is currently $544,000 (68.0 percent) higher than budget and after total contributions and transfers of $751,000, including a $689,000 CalPERS contribution, $22,000 to fund Compensated Absences, and $40,000 for Capital Projects, the ending balance is estimated at $5.3 million. This ending balance, which has continued to decline over the last few years, will be necessary to continue funding operations during the next slowdown in development activity. In addition, fees are paid in advance of the services provided, including long-term existing development projects. A Development Services cost of services study is included in the work plan for Fiscal Year 2017-18, but will be deferred until next fiscal year due to the additional work associated with the exploration of revenue measures.

SHORELINE GOLF LINKS

Shoreline Golf Links is an 18-hole course designed by Robert Trent Jones II & Associates that was completed in 1983. The course is owned by the City and 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. The five-year extension with Touchstone commenced January 2016. Prior to contracting with Touchstone, Shoreline Golf Links had annual operating deficits over a five-year period totaling $2.1 million.

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

	2017-18 Adopted Budget	2017-18 Adjusted Budget	**2017-18 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$2,538	2,538	**2,372**	(166)
Expenditures	(2,415)	(2,419)	**(2,300)**	119
Operating Balance	123	119	**72**	(47)
Transfer to GOF	(125)	(125)	**(90)**	35
Excess (Deficiency) of Revenues	(2)	(6)	**(18)**	(12)
Beginning Balance	23	23	**23**	-0-
Ending Balance	$ 21	17	**5**	(12)

Paid rounds of golf played in Fiscal Year 2016-17 totaled 64,612, an 8.9 percent decrease from the prior fiscal year and a 17.6 percent decrease from the record high in Fiscal Year 2014-15. Based on financial information midway through the fiscal year, activity at the course is estimated to generate $2.4 million in revenues, $166,000 (6.5 percent) below budget. However, revenues are estimated to be 5.0 percent higher than the prior fiscal year audited. Due to fee increases adopted with the Fiscal Year 2017-18 budget, revenues are trending higher than last fiscal year. In addition, consistently better weather September through December allowed for higher rounds to be played compared to last fiscal year. However, revenue is below budget due to an unusually slow July and August resulting from very hot temperatures and the increased popularity of Moffett Golf Course since being open to the public.

In total, expenditures for the current fiscal year are estimated at $2.3 million, $119,000 (4.9 percent) below budget. All expenditures, except Water costs, are trending lower than budget. Water costs are trending higher than budget due to less rainfall compared to last year, and very warm weather during August and September. After allowing for a minimum ending balance of $5,000, there is $90,000 available to transfer to the GOF, less than the budgeted transfer of $125,000.

SHORELINE REGIONAL PARK COMMUNITY (SHORELINE COMMUNITY)

The Shoreline Community is a separate legal entity that was created by legislation in 1969 to fund a regional park, develop the surrounding North Bayshore Area economically and environmentally, and provide a means of financing the short- and long-term responsibilities of the Shoreline Community. The Shoreline Community is considered a blended component unit of the City and its financial activities are included with the City’s.

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

	2017-18 Adopted Budget	2017-18 Adjusted Budget	**2017-18 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$40,623	40,623	**43,570**	2,947
Expenditures	(28,290)	(28,507)	**(28,216)**	291
Operating Balance	12,333	12,116	**15,354**	3,238
Development Impact Fees	-0-	-0-	**13,784**	13,784
CalPERS Contribution	(302)	(302)	**(302)**	-0-
Transfer to Comp Absences	(20)	(20)	**(20)**	-0-
Retirees' Health UAAL	(995)	(995)	**(995)**	-0-
Capital Projects	(28,175)	(28,239)	**(28,239)**	-0-
Excess (Deficiency) of Revenues	(17,159)	(17,440)	**(418)**	17,022
Beginning Balance	62,188	62,188	**62,188**	-0-
Reserve	(4,600)	(4,600)	**(4,600)**	-0-
Landfill Reserve	(6,000)	(6,000)	**(6,000)**	-0-
Dev Impact Fee Reserve	(6,578)	(6,578)	**(20,546)**	(13,968)
Ending Balance	$27,851	27,570	**30,624**	3,054

Operating revenues, primarily property taxes, for the current fiscal year are estimated at $43.6 million, $2.9 million (7.3 percent) higher than budget. Property Taxes revenue is estimated to be $2.2 million (5.7 percent) higher than budget. Subsequent to adopting the budget, the County provided the July 1, 2017 tax roll information for the Shoreline Community indicating a net 2.5 percent increase compared to the July 1, 2016 tax roll.

Operating expenditures for the current fiscal year are estimated at $28.2 million, essentially on target with budget. Included in operating expenditures are $10.2 million for the combined annual interagency payments to the school districts and the County, and $5.0 million for debt service.

It is estimated that operating revenues will exceed operating expenditures by $15.4 million, which will partially fund the contributions of $302,000 to CalPERS and $995,000 toward the Retirees' Health UAAL, the transfer of $20,000 to the Compensated Absences Fund, and $28.2 million of Capital Projects. North Bayshore Development Impact Fee (NBSDIF) revenue totaling $13.8 million has been received as of November 2017. This revenue is not budgeted as both the timing of each development process and payment of fees are uncertain. The NBSDIF revenue is designated for transportation improvements in the Shoreline Community. After reserving $10.6 million for the General Reserve and the Landfill Reserve, and $20.5 million for the Development Impact Fee Reserve, the fund is estimated with a $30.6 million ending balance.

Also on Council's agenda this evening, the City is currently in negotiations with Google LLC for the purchase of property for the proposed Plymouth Street and Space Park Way realignment project. If the City Council approves this purchase, it will be funded from the Development Impact Fee Reserve and the available balance, and is not currently reflected in the numbers above. The proposed future debt issue for transportation projects may also be a funding source for this purchase.

ENTERPRISE UTILITY FUNDS

The City's three enterprise utility funds are fully funded by the rates charged to customers; there is no General Fund support to the utility funds. In a July 2006 California Supreme Court decision (*Bighorn*), the Court ruled that utility rates charged by governmental entities for water, sewer, and trash and recycling services are considered property-related fees and are subject to the procedural requirements of Proposition 218, Article XIII, of the California Constitution. The City has complied with Proposition 218 and will be reviewing the revenues and expenditures for each of the utility funds and returning to City Council with rate recommendations in the Narrative Budget Report in May.

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 water service to approximately 96.0 percent of water customers within the City limits while California Water Service (a private company) provides service to the remaining 4.0 percent of water customers in a few previously unincorporated neighborhoods. Water for the City's system is obtained primarily from the San Francisco Public Utilities Commission (SFPUC) regional Hetch Hetchy water system (88.0 percent). Water is also purchased from the Santa Clara Valley Water District (SCVWD) (10.0 percent) and well production (2.0 percent). The primary costs associated with water service are the purchase of water, staffing to operate and maintain the system, ongoing maintenance, and major capital replacement and improvement projects. Charges for services are designed to fully fund ongoing annual costs and a base level of annual capital projects as well as to maintain an adequate reserve.

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

	2017-18 Adopted Budget	2017-18 Adjusted Budget	**2017-18 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$32,647	32,647	**36,089**	3,442
Expenditures	(32,188)	(32,273)	**(31,598)**	675
Operating Balance	459	374	**4,491**	4,117
Capacity/Development Impact Fees	2,303	2,303	**6,449**	4,146
Water Transfer	-0-	-0-	**5,000**	5,000
CalPERS Contribution	(590)	(590)	**(590)**	-0-
Retirees' Health UAAL	(294)	(294)	**(294)**	-0-
Capital Projects from Fees	(2,287)	(2,287)	**(2,287)**	-0-
Capital Projects	(2,942)	(2,942)	**(2,942)**	-0-
Excess (Deficiency) of Revenues	(3,351)	(3,436)	**9,827**	13,263
Beginning Balance	21,320	21,320	**21,320**	-0-
Capacity/Dev Impact Fees Reserves	(3,756)	(3,756)	**(7,902)**	(4,146)
Water Transfer Reserve	-0-	-0-	(5,000)	(5,000)
Reserves	(10,830)	(10,830)	(10,830)	-0-
Ending Balance	$ 3,383	3,298	**7,415**	4,117

A 7.0 percent increase for the average cost of water and meter rates, and a 3.0 percent increase for recycled water rates were adopted for Fiscal Year 2017-18. Operating revenues are estimated at $36.1 million, $3.4 million (10.5 percent) higher than budget. For Fiscal Years 2014-15 and 2015-16, year-over-year water usage through November was 16.0 percent and 19.0 percent lower, respectively. For Fiscal Year 2016-17, water usage year over year through November was approximately 10.0 percent higher. For Fiscal Year 2017-18, water usage year over year through November is again trending higher, by approximately 6.0 percent. After years of revenues being severely impacted by reduced water usage as a result of conservation due to the drought, the financial condition of the fund is now benefiting from the increased water usage. However, usage is still approximately 24.0 percent below the 2013 drought baseline. Recycled water sales are also trending higher comparing usage through November in the current fiscal year to last fiscal year.

Operating expenditures are estimated at $31.6 million, $675,000 (2.1 percent) below budget, primarily as a result of savings in operations offset by slightly higher retail water costs than budgeted. The City has a required minimum water purchase; however, the SFPUC waived the minimum purchase requirement during the drought due to their call for voluntary 10.0 percent conservation. With the increased rainfall last year, the SFPUC is no longer waiving the City's minimum water purchase and the Fiscal Year 2017-18 budget reflects full funding of the minimum purchase requirement.

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 (EPA) was approaching their individual water supply guarantee (ISG) with the SFPUC which precluded approval of large development projects in EPA. The City of Mountain View is not anticipated to reach its ISG through 2040. Therefore, staff worked with EPA to transfer 1.0 million gallons of the City's ISG to EPA in return for $5.0 million. The agreement was approved in 2017, and this $5.0 million is reserved to use toward potential future minimum water purchase penalties.

The estimated operating balance is $4.5 million, which is sufficient to fund the CalPERS contribution of $590,000, Retirees' Health UAAL of $294,000, and the current fiscal year's $2.9 million for capital projects.

Capacity fees were adopted by City Council effective July 1, 2015. The Fiscal Year 2017-18 Adopted Budget includes Capacity fees of $2.3 million based on projected building permits to be issued during the fiscal year. The Capacity fees are currently estimated at $1.8 million. Various development impact fees have been adopted by City Council, and for Fiscal Year 2017-18, $4.6 million of North Bayshore Development Impact Fee revenue has been received. These fees are designated for specific projects which will be identified in the Five-Year Capital Improvement Program (CIP). Capacity and Development Impact Fees received are sufficient to fund the $2.3 million in additional capital projects. The Water Fund is estimated with a $7.4 million ending balance and $23.7 million in reserves.

WASTEWATER FUND

The Wastewater Enterprise Fund is a utility fund that accounts for the costs and revenues associated with the collection, transportation, and treatment of wastewater generated by all residents and businesses in the City. Expenditures in this fund include the construction and maintenance of sanitary sewer lines, stormwater lines, and pump stations; the City's costs associated with the operation of the Palo Alto Regional Water Quality Control Plant (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):

	2017-18 Adopted Budget	2017-18 Adjusted Budget	**2017-18 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$21,268	21,268	**21,745**	477
Expenditures	(17,909)	(18,042)	**(15,442)**	2,600
Operating Balance	3,359	3,226	**6,303**	3,077
Capacity/Development Impact Fees	4,050	4,050	**3,195**	(855)
CalPERS Contribution	(349)	(349)	**(349)**	-0-
Retirees' Health UAAL	(246)	(246)	**(246)**	-0-
Capital Projects from Fees	(2,103)	(2,103)	**(2,103)**	-0-
Capital Projects	(627)	(627)	**(627)**	-0-
Excess (Deficiency) of Revenues	4,084	3,951	**6,173**	2,222
Beginning Balance	13,476	13,476	**13,476**	-0-
Capacity/Dev Impact Fees Reserves	(6,359)	(6,359)	**(5,504)**	855
Treatment Plant Reserve	(2,077)	(2,077)	**(3,844)**	(1,767)
Reserves	(5,647)	(5,647)	**(5,647)**	-0-
Ending Balance	$ 3,477	3,344	**4,654**	1,310

A 10.0 percent overall rate increase was adopted for Fiscal Year 2017-18. This includes a 2.0 percent rate increase for operations, a 2.0 percent rate increase for future Treatment

Plant capital costs, and 6.0 percent for unanticipated Treatment Plant costs in Fiscal Year 2015-16 (rate impact phased in over three fiscal years). As previously outlined, there are future capital expenditures forecast 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 percent is projected and City Council approved a gradual phase-in of 2.0 percent annually for 10 years to fund these long-term capital costs, of which Fiscal Year 2017-18 is the fourth year.

Unforeseen Treatment Plant costs in Fiscal Year 2015-16 caused the fund to be in a distressed financial condition. To fully fund the impact of the increases in Treatment Plant costs, the rate increase for Fiscal Year 2016-17 would have needed to be 26.0 percent. City Council approved staff's recommendation to spread the increase needed to stabilize the financial position of this fund over three years (6.0 percent in each of Fiscal Years 2016-17, 2017-18, and 2018-19) and utilize half of the rate stabilization reserve for Fiscal Years 2016-17 and 2017-18 to balance the fund. Staff will review the financial condition of the fund with the rate recommendation for the Narrative Budget Report in May.

Operating revenues are estimated at $21.7 million, approximately $447,000 (2.2 percent) higher than budget. Estimated operating expenditures of $15.4 million are trending $2.6 million (14.4 percent) below budget. This is primarily due to a $1.8 million credit for prior year Treatment Plant expenses and 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 were $1.8 million lower than budgeted, resulting in a credit that is applied towards the current fiscal year's treatment costs. The credit from the Treatment Plant is related to obligations encumbered but not spent and, therefore, is being reserved in anticipation the expenditures will be included in the reconciliation for Fiscal Year 2017-18. The estimated operating balance of $6.3 million will fund the CalPERS contribution of $349,000, Retirees' Health UAAL of $246,000, and $627,000 for capital projects.

Capacity fees were adopted by City Council effective July 1, 2015. The Fiscal Year 2017-18 Adopted Budget includes Capacity fees of $4.1 million based on projected building permits to be issued during the fiscal year. The Capacity fees are currently estimated at $2.3 million. Various Development Impact fees have been adopted by City Council, and for Fiscal Year 2017-18, $849,000 of North Bayshore Development Impact Fee revenue has been received. These fees are designated for specific projects which will be identified in the Five-Year CIP. Capacity and Development Impact Fees received are sufficient to fund the $2.1 million in additional capital projects.

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. The possibility of issuing debt for these projects, with a corresponding recommendation to phase-in rate increases to fund the debt, was identified as an option. Capacity fees are providing a source of funding and could reduce future rate increases or any debt needed for these additional capital projects. Staff is also reviewing the current major sewer capacity upgrades needed due to the increased density allowed in the City in the General Plan Update, Precise Plan adoptions, and Gatekeeper approvals. Staff will continue to monitor the amount of fees collected and review if there will be a need to issue debt, and any potential associated rate increase necessary, for additional capital improvement projects related to these sewer capacity upgrades.

The fund is estimated with a $4.7 million ending balance and $15.0 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, the $1.8 million Treatment Plant credit for Fiscal Year 2016-17, the Capacity and Development fees balance, and using half of the rate stabilization reserve.

SOLID WASTE MANAGEMENT FUND

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

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

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

	2017-18 Adopted Budget	2017-18 Adjusted Budget	**2017-18 Estimated**	Variance of Estimated to Adjusted Budget
City Revenues	$14,171	14,171	**14,407**	236
Recology Revenues[1]	15,052	15,052	**15,097**	45
Total Revenues	29,223	29,223	**29,504**	281
City Expenditures	(12,573)	(13,041)	**(12,111)**	930
Recology Payments[1]	(15,052)	(15,052)	**(15,097)**	(45)
Total Expenditures	(27,625)	(28,093)	**(27,208)**	885
Operating Balance (Deficit)	1,598	1,130	**2,296**	1,166
CalPERS Contribution	(241)	(241)	**(241)**	-0-
Retirees' Health UAAL	(876)	(876)	**(876)**	-0-
Capital Projects	(338)	(338)	**(338)**	-0-
Excess (Deficiency) of Revenues	143	(325)	**841**	1,166
Beginning Balance	9,596	9,596	**9,596**	-0-
Reserves	(3,186)	(3,186)	**(3,186)**	-0-
Ending Balance	$ 6,553	6,085	**7,251**	1,166

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

For Fiscal Year 2017-18, a 10.0 percent rate increase was adopted for carts, incorporating the third and final year of the Cost of Service (COS) Study for phase-in of cart rates, and a 2.0 percent rate increase was adopted for all other services. With this final year of implementation, the COS Study to review the rate structure to realign rates to reflect the true cost of collection and disposal is complete.

The City's Solid Waste Fund operating revenues are estimated at $14.4 million, $236,000 (1.7 percent) higher than budgeted. City operating expenditures are estimated at $12.1 million, $930,000 (7.1 percent) below budget, as a result of savings in operations and lower SMaRT Station costs due to the prior fiscal year SMaRT Station reconciliation. The SMaRT Station performs an annual reconciliation of the prior fiscal year's costs and an adjustment is provided to each member agency. For Fiscal Year 2016-17, the City received a credit of $133,000 which has been applied against payments in the current fiscal year.

In December 2016, City Council approved a residential food scraps collection program. Under this program, all residents with curbside (cart) trash services can place all food scraps in their yard trimmings cart for weekly collection. Trash collection will remain weekly and recycling collection will continue on an every-other-week schedule. Trash cart customers who do not currently have a yard trimmings cart (e.g., rowhouses and townhomes) will be provided a 24-gallon cart if they wish to participate in the program. The cost of the program is estimated to have a cart rate impact of 5.0 percent. Due to the third-year impact of the COS Study in Fiscal Year 2017-18, City Council approved deferring this increase for cart rates to Fiscal Year 2018-19. Staff will review and will return in May with a rate recommendation with the Narrative Budget Report.

The estimated operating balance of $2.3 million will fund the CalPERS contribution of $241,000, Retirees' Health UAAL of $876,000, and $338,000 for capital projects. The fund is estimated with a $7.3 million ending balance and a reserve of $3.2 million.

OTHER RECOMMENDATIONS AND INFORMATION

Approve Funding Source Reallocations for Information Technology CIPs:

The Fiscal Year 2017-18 Five-Year CIP included transferring remaining balances in Information Technology CIPs 08-18, 10-18, 12-18, and 14-18 to CIPs 15-18, 18-61, 18-62, 18-63, and 18-64. Staff estimated the amount available from each source as reflected in the Five-Year CIP. However, after the year-end allocation of fixed assets, the amounts did not reconcile with the amounts remaining from each source in the CIP and, therefore, need to be adjusted. There is no change in total funding for each CIP or change in total funding for each source. This reflects a change in the balance of each source from one CIP to the other.

Community Center Construction:

In July 2017, the City of Mountain View was awarded a Housing-Related Parks Program Grant in the amount of $464,439 from the State of California Department of Housing and Community Development for construction costs associated with the Community Center expansion and rehabilitation project. The deadline to expend the grant funds is June 30, 2019, and the grant funding will be used to supplement construction costs associated with the project. Some of these costs associated with the project include additional structural retrofit work that was uncovered after the start of construction when the building was partially demolished. Project 17-32 is currently funded with $18,550,000 from the Park Land Dedication Fund and $5,000,000 from the Strategic Property Acquisition Reserve (SPAR). With the addition of the grant funds, the total project budget will be $24.0 million.

Fire Station Alerting System (CIP 14-50):

The existing Fire Station Alert System used for communication between the 9-1-1 Dispatch Center and the fire stations is in need of replacement. The current system has reached the end of its useful life, and parts and replacement equipment are not readily available. The City started the design of the new Fire Station Alerting System, Project 14-50, and, after further review, the replacement plan has been more clearly identified and additional funding is required. The original budget for this project did not include costs for project or construction management, prevailing wage, permitting/inspections, and a construction contingency. An additional $200,000 is needed to complete the project. Staff recommends appropriating and transferring $200,000 from the Construction/Conveyance Tax Fund to Project 14-50 for a total project funding of $618,000.

Shorebird Way/Charleston Road Recycled Water Extension and Water System Improvements (CIP 18-42):

In 2012, Google donated $450,000 to the City to fund the extension of the recycled water system in the Shoreline area. Google expressed a strong desire to incorporate recycled water use at their facility as part of their environmental sustainability programs and, therefore, donated funding to offset a portion of the cost of extending the system. At the time of the donation, funds were deposited into the existing recycled water project, Recycled Water Distribution System Construction (CIP 05-39). However that project was fully funded and the donation is recommended to be moved to CIP 18-42, the newest recycled water system construction project. Google will have no role in the construction or project management process.

II. FISCAL YEAR 2018-19 PRELIMINARY GENERAL OPERATING FUND FORECAST

This section of the report will focus on the preliminary Fiscal Year 2018-19 GOF forecast. This forecast is based on limited data and many assumptions are being made at this time. Departmental budget requests have not been reviewed yet. An updated forecast will be incorporated into the Narrative Budget scheduled for the May 1, 2018 City Council meeting.

The preliminary projection for Fiscal Year 2018-19 follows (dollars in thousands):

	2016-17 Audited	2017-18 Adopted Budget	2017-18 Estimated	**2018-19 Preliminary Forecast**	Variance of 2018-19 Forecast to 2017-18 Adopted
Revenues	$126,689	128,022	132,049	**136,253**	8,231
Expenditures[1]	(104,436)	(117,687)	(116,353)	**(124,141)**	(6,454)
Rebudgets[2]	(697)	-0-	-0-	**-0-**	-0-
Operating Balance	21,556	10,335	15,696	**12,112**	1,777
Transfer to GNOF	(15,556)	-0-	-0-	**-0-**	-0-
CalPERS Contribution	(2,000)	(4,000)	(4,000)	**(2,000)**	2,000
OPEB Contribution	(2,000)	(2,000)	(2,000)	**-0-**	2,000
Transfer to SPAR	(2,000)	(2,000)	(2,000)	**-0-**	2,000
Ending Balance	$ -0-	2,335	7,696	**10,112**	7,777

(1) Adopted Budget and Preliminary Forecast include $2.3 million in estimated budget savings.

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

The preliminary forecast projects total GOF revenues of $136.3 million, an increase of $8.2 million (6.4 percent) and $4.2 million (3.2 percent) compared to the current fiscal year Adopted Budget and Estimated, respectively.

Baseline expenditures are anticipated to increase $6.5 million (5.5 percent) to $124.1 million compared to the current fiscal year Adopted. For Fiscal Year 2018-19, there is a preliminary positive operating balance of $12.1 million, $10.1 million after the previously recommended contribution to CalPERS. Recommendations for this balance will be made with the Narrative Budget Report in May and will likely include additional contributions to CalPERS and funding of priority capital improvement projects. This forecast does not include any Fiscal Year 2018-19 recommendations requested by departments through the budget process. Any recommended expenditure changes will be included with the Narrative Budget Report.

A more detailed discussion of the projected General Operating Fund revenues and expenditures follows.

Revenues

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

	2016-17 Audited	2017-18 Adopted Budget	2017-18 Estimated	**2018-19 Preliminary Forecast**	Variance of 2018-19 Forecast to 2017-18 Adopted
Property Taxes	$ 43,774	45,285	49,278	**52,238**	6,953
Sales Tax	21,828	21,194	19,687	**19,937**	(1,257)
Other Local Taxes	15,866	15,589	15,835	**15,820**	231
Use of Money and Property	16,896	19,833	19,585	**21,470**	1,637
Licenses, Permits, and Fees/Fines and Forfeitures	5,743	5,839	5,865	**5,908**	69
Intergovernmental	741	573	766	**614**	41
Charges for Service	2,840	2,632	2,642	**2,697**	65
Miscellaneous Revenues	3,611	1,603	2,616	**1,695**	92
Interfund Revenues and Transfers	15,390	15,474	15,775	**15,874**	400
Total Operating Revenues	$126,689	128,022	132,049	**136,253**	8,231

A brief explanation of the assumptions and changes for Fiscal Year 2018-19 follows:

Property Taxes revenue is projected at $52.2 million, an increase of $7.0 million and $3.0 compared to the current fiscal year Adopted and Estimated, respectively. Compared to the July 1, 2017 tax roll, the Fiscal Year 2018-19 AV of secured property-generating tax revenues for the General Operating Fund is projected to grow, reflecting the following:

- A 2.0 percent increase in AV for most properties resulting from the annual CCPI inflation factor (October 2016 to October 2017).
- AV increases resulting from changes in ownership which occurred from January 1, 2016 through November 30, 2017 (information currently available).

- Increased AV related to new development anticipated to be included in the July 1, 2018 tax roll.

- Anticipated AV decreases resulting from the resolution of appeals.

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

Sales Tax revenue is projected at $19.9 million for Fiscal Year 2018-19, based on actual sales tax activity for the first half of the current fiscal year, plus estimates for the remaining two quarters, adjusted for the following:

- One-time payments;

- California Department of Tax and Fee Administration (CDTFA) (previously known as State Board of Equalization, SBOE) one-time audit adjustments; and

- Anticipated new businesses and business closures.

This results in a decline of $1.3 million compared to the current fiscal year Adopted Budget and growth of $250,000 compared to the current fiscal year Estimated. Based on recent Sales Tax performance, growth for next fiscal year is projected to be essentially flat compared to the current fiscal year Estimated.

Other Local Taxes revenue is projected at $15.8 million, $231,000 (1.5 percent) higher than the current fiscal year Adopted and at essentially the same level as the current fiscal year Estimated. There is a slight decline in TOT revenue due to the expected closure of Hotel Aria in April 2018 which is almost offset by the estimated additional revenue from the opening of the Hyatt Centric Hotel in 2019. Fiscal Year 2018-19 UUT revenue is projected at essentially the same level as both the current fiscal year Adopted and Estimated.

Use of Money and Property revenue is projected to increase by $1.6 million (8.3 percent) and $1.9 million (9.6 percent) compared to the current fiscal year Adopted and Estimated, respectively. The Federal Open Market Committee (FOMC) increased the benchmark interest rate four times from December 2016 to December 2017 for a total increase of 100 basis points. Additional interest rate increases are expected by the FOMC during 2018.

As discussed earlier in this report, the first monthly lease payment subsequent to the decennial revaluation for the Charleston East lease was remitted in February 2018 and Fiscal Year 2018-19 reflects a full year of the revaluation, along with standard annual increases in other leases.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is projected to be $69,000 (1.2 percent) higher than the current fiscal year Adopted Budget and at essentially the same level as the current fiscal year Estimated, reflecting general inflationary increases.

Intergovernmental revenue is projected to be $41,000 (7.2 percent) higher than the current fiscal year Adopted and $152,000 (19.8 percent) below the current fiscal year Estimated. The projected budget does not include any mandate reimbursement funding or intergovernmental grants as the amounts are variable and only assumes the City will receive $10,000 of Public Safety Realignment funding.

Charges for Services revenue is projected at $65,000 (2.5 percent) and $55,000 (2.1 percent) higher than the current fiscal year Adopted and Estimated, respectively, reflecting a general inflationary increase until there is preliminary information from spring registrations.

Miscellaneous Revenues are projected to be $92,000 (5.7 percent) higher than the current fiscal year Adopted and $921,000 (35.2 percent) below the current fiscal year Estimated. Some grants, donations, and reimbursements cannot be anticipated and, therefore, are not budgeted.

Interfund Revenues and Transfers are projected at $15.9 million, $400,000 (2.6 percent) higher than the current fiscal year Adopted and at essentially the same level as the current fiscal year Estimated. Fiscal Year 2018-19 includes inflationary increases to administrative overhead and transfers and includes the administrative overhead for CSFRA.

All revenue sources and projections will be reviewed and revised as appropriate for the Fiscal Year 2018-19 Narrative Budget Report.

Expenditures

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

	2016-17 Audited	2017-18 Adopted Budget	2017-18 Estimated	**2018-19 Preliminary Forecast**	Variance of 2018-19 Forecast to 2017-18 Adopted
Salaries and Benefits:					
Salaries and All Pays	$ 55,262	60,345	59,952	**62,806**	2,461
Retirement	13,606	16,649	16,649	**19,322**	2,673
Health Benefits	8,320	10,360	8,574	**10,557**	197
All Other Benefits	5,968	6,750	6,263	**6,988**	238
	83,156	94,104	91,438	**99,673**	5,569
Services and Supplies	14,926	17,110	16,439	**17,754**	644
Capital Outlay/Equipment Replacement	2,950	3,228	3,402	**3,310**	82
Interfund Expenditures and Transfers	3,404	5,545	5,074	**5,704**	159
Budget Savings	Included	(2,300)	Included	**(2,300)**	-0-
Total Operating Expenditures	$104,436	117,687	116,353	**124,141**	6,454

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

Salaries and Benefits expenditures are projected with a $5.6 million (5.9 percent) increase over the current fiscal year Adopted. The projection includes a cost-of-living adjustment (COLA) for all employees as agreed upon and approved by City Council and incorporates estimated steps and merits. The forecast also includes an estimated $200,000 for the second half-year impact of the minimum wage increase to $15.00 per hour effective January 2018. The cost for retirement benefits reflects the first year of the phased-in impact to the reduction of the discount rate from 7.5 to 7.375 percent (ultimately 7.0 percent). The rates are provided by CalPERS and reflect a 16.1 percent increase in costs compared to the Fiscal Year 2017-18 Adopted Budget. Health benefit costs are projected with increases based on historical trends.

CalPERS Discount Rate Change

On December 21, 2016, the CalPERS Board approved the lowering of the discount rate from 7.5 percent to 7.0 percent. The reduction is to be phased in for local governments over three years beginning in Fiscal Year 2018-19, with the full impact reached in Year 7 (Fiscal Year 2024-25) due to the five-year ramp-up and ramp-down methodology previously adopted.

The lowering of the discount rate means the City, as well as other CalPERS agencies, will see increases in our normal costs and unfunded actuarial liabilities (UAL) annual payments. The City's most recent CalPERS actuary report (as of June 2016) includes projected normal costs rate increases of 1.9 percent and 3.1 percent for miscellaneous and safety plans, respectively, to Fiscal Year 2024-25. This is similar with the previous preliminary estimates provided. As a result, the normal cost rate for the miscellaneous plan is projected to be 12.0 percent and the equalized normal cost rate for the safety plan is projected to be 24.3 percent in Fiscal Year 2024-25.

The UAL payment previous preliminary projection was a 30 percent to 40 percent increase and although the City's CalPERS 2016 report projects a doubling of UAL annual payments from the current fiscal year to Fiscal Year 2024-25, this valuation indicates increases of 11.5 percent and 14.2 percent for Miscellaneous and Safety, respectively. CalPERS is currently reviewing the amortization period for UAL. Staff will provide Council with an update in the Narrative Budget Report.

Services and Supplies expenditures are projected with a $644,000 increase over the current fiscal year Adopted Budget, related to projected inflationary increases for each type of service or supply and a $200,000 increase for potential City water, wastewater, and trash rate increases. This forecast does not include any additional appropriations requested by departments that may be recommended by the City Manager through the Fiscal Year 2018-19 budget process. Any recommended increases will be included with the Narrative Budget Report in May.

Capital Outlay/Equipment Replacement expenditures include $500,000 for Capital Outlay. The annual equipment replacement funding amount is projected to increase 3.0 percent due to inflation for replacement cost and some adjustments to quantity of items and life expectancy.

Interfund Expenditures and Transfers are projected with a $159,000 (2.9 percent) increase over the current fiscal year Adopted. Inflationary increases for liability insurance and the cost of the Retirees' Health UAAL amortization based on the actuarial valuation as of July 1, 2017 result in a net decrease of $501,000. The transfer for

"At-Risk" lease revenue is projected to increase $120,000 to $1.4 million. These funds are set aside to reduce the dependency on the significant increases that have resulted in the recent revaluation of City leases to Google and represent an estimate of annual lease revenue loss that could result from the potential secured AV decline in the Shoreline Community after a downturn in the economy. During previous economic slowdowns, the Shoreline Community experienced approximately 15 percent declines in secured AV. The lease revenue from the Ameswell (Moffett Gateway) property is projected to increase $540,000 to $1.3 million and, if approved by City Council, will be transferred to the Budget Contingency Reserve to be utilized for funding of limited-period items until the proposed debt service related to the Police/Fire Administration building remodel and expansion begins.

The Fiscal Year 2018-19 projection will be updated for the Narrative Budget Report in May, at which time budget recommendations will be presented to City Council.

III. FISCAL YEAR 2017-18 MIDYEAR PERFORMANCE/WORKLOAD MEASURE UPDATE

Departments review and revise their performance measures from time to time to ensure measures provide relevant and clear information about department operations. Attachment 1 includes the Fiscal Year 2016-17 actual results as well as the annual target and midyear (six-month) status of each measure for the current fiscal year.

The final results for Fiscal Year 2017-18 will be reported in the Fiscal Year 2018-19 Adopted Budget.

FISCAL IMPACT

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

CONCLUSION

The midyear budget status of the Fiscal Year 2017-18 General Operating Fund estimates revenues at $132.0 million, $4.0 million (3.1 percent) and $3.8 million (3.0 percent) higher than the Adopted and Adjusted Budgets, respectively. Including estimated budget savings, expenditures are estimated at $116.4 million, $1.3 million (1.1 percent), and $3.8 million (3.2 percent) below the Adopted and Adjusted Budgets, respectively. After the budgeted contributions to CalPERS and the OPEB Trust, and the transfer to the Strategic Property Acquisition Reserve, the General Operating Fund is estimated with a $7.7 million ending balance, which would be available to fund limited-period expenditures for Fiscal Year 2018-19, supplement reserves, provide funding for the CIP, or additional contributions to pay down unfunded liabilities.

Development Services Fund revenues are exceeding budget, expenditures are trending below budget, and development activity continues to be strong. However, the ending balance continues to decrease and funds need to be maintained for resources that will be needed for projects that have already paid fees, as well as the next slowdown in the economy. The revenues and expenditures of the Shoreline Golf Links are below budget. The Shoreline Regional Park Community revenues are trending significantly higher than budget, primarily resulting from higher property taxes estimated. Expenditures are trending essentially on target with budget. For the Water, Wastewater, and Solid Waste Funds, revenues are currently trending higher than budget and expenditures are currently trending lower than budget.

The preliminary Fiscal Year 2018-19 forecast for the General Operating Fund indicates revenues are growing, primarily the result of increasing property values, investment earnings, and the decennial revaluation of a long-term lease of City-owned land. However, Sales Tax revenues are tending below current fiscal year Adopted and are projected at essentially the same level as the current fiscal year Estimated. The revenues are sufficient to meet currently projected expenditures, before additional recommendations, creating a preliminary projected $10.1 million ending available balance after the preliminary recommended contribution towards the unfunded CalPERS liability. **Expenditure recommendations for Fiscal Year 2018-19 are not included in this preliminary projection, and staff will return to City Council with recommendations as part of the Narrative Budget Report.**

ALTERNATIVES

1. Do not approve the recommended transfers, appropriations, and position changes.

2. Provide other direction.

PUBLIC NOTICING—Agenda posting.

Prepared by:	Approved by:
Ann Trinh Financial Analyst	Patty J. Kong Finance and Administrative Services Director
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Attachment: 1. Performance/Workload Measures