



**DATE:** November 16, 2021

**CATEGORY:** Consent

**DEPT.:** City Manager's Office,  
Finance and Administrative Services

**TITLE:** **Fiscal Year 2021-22 Budget Update**

### **RECOMMENDATION**

1. Receive the Fiscal Year 2021-22 Budget Update.
2. Approve a new limited-period Human Resources Analyst position for the remainder of Fiscal Year 2021-22.
3. Approve the reclassification of the Chief Sustainability and Resiliency Officer position.
4. Adopt a Resolution of the City Council of the City of Mountain View Amending the Salary Plan for Regular Employees for Fiscal Year 2021-22, to be read in title only, further reading waived (Attachment 1 to the Council report).

### **BACKGROUND**

Due to the continuing uncertainty surrounding the COVID-19 pandemic, staff is providing this Budget Update to keep Council informed of any significant changes or fluctuations in the City's financial situation since the Fiscal Year 2021-22 budget was adopted in June 2021. This report contains first-quarter updates for the following major funds: General Operating Fund (GOF); Development Services Fund; Shoreline Golf Links/Michaels at Shoreline Restaurant Fund; Shoreline Regional Park Community Fund; and the Water, Wastewater, and Solid Waste Management Enterprise Funds.

The GOF is the single largest City fund and provides funding for core services, including Police, Fire, Parks, Recreation, Library, Planning, Public Works, and all City administration functions. The City's financial health, and the GOF in particular, are shaped in large part by positive and negative economic forces. Many of the City's revenues are driven by the economic climate of Silicon Valley, the greater Bay Area, and the State.

The City declared a local emergency on March 12, 2020, and a Countywide Shelter-in-Place Order began on March 17, 2020. A Statewide Shelter-in-Place Order began on March 19, 2020. As a result of increased vaccinations and lower positive case rates, most State restrictions were lifted in mid-June 2021, and the economy began to reopen. Shortly after, a new variant was discovered, and breakthrough positive cases began to rise. Although the State was cautious on reissuing Shelter-in-Place Orders, certain restrictions, such as mask wearing and social distancing, were reinstated.

The economic impacts of COVID-19 have been significant, but the economy is slowly showing signs of improvement. However, as with most local governments, the City has experienced a loss in revenue since the pandemic began. Most notable is the loss of Transient Occupancy Tax (TOT) revenue, which was \$5.1 million lower in Fiscal Year 2020-21 compared to Fiscal Year 2018-19, the last full year prior to the pandemic. Sales Tax and Service Charge revenues were also hit hard with some stores closed, the Center for the Performing Arts closed, and Recreation classes, camps, and rentals canceled. Despite the revenue losses, the City's budget was able to remain balanced, primarily due to expenditure savings. The Fiscal Year 2020-21 external annual audit of the City's financial transactions for all funds is substantially complete, and the Annual Comprehensive Financial Report (ACFR) is scheduled to be reviewed and accepted by the City Council on December 7, 2021. Additional details will be provided once the audit is completed and the full report is ready for acceptance by Council.

## ANALYSIS

### Fiscal Year 2021-22 First Quarter Budget Status

Although projections assumed that most of the general public would be vaccinated by fall 2021, there is still a significant amount of uncertainty as to how long it will take the economy to fully recover from the pandemic. As staff continually monitors GOF revenues and expenditures throughout the fiscal year, estimates for the first quarter are difficult to project due to the timing of when revenues are received. For example, the first Property Tax payment from the County was not received until November 2021, first-quarter TOT remittances were not due until October 31, 2021, and Business License Taxes are not due until January 2022. For these reasons, first-quarter results are compared against an Estimated Budget for the first quarter in order to analyze if revenues are coming in as expected. For this update, staff used best estimates and will continue to modify assumptions over the next several months as additional information becomes available.

Additional information on the City’s financial status will be available after the first half of the fiscal year when staff will provide another update with the midyear budget report in February 2022.

*Definitions*

The following definitions are used to describe amounts in this section of the report.

**2021-22 Adopted Annual Budget or Adopted Budget** represents the budget adopted by the City Council on June 22, 2021.

**2021-22 Estimated Q1 Budget or Estimated Q1 Budget** represents the estimated budget calculated for the first quarter of the current fiscal year, which is based on the first quarter of the prior fiscal year, taking into consideration the timing of certain revenues and expenditures when possible.

**2021-22 First-Quarter Actual or Q1 Actual** represents actual revenues or expenditures recorded during the first quarter of the current fiscal year.

GENERAL OPERATING FUND

A review of Fiscal Year 2021-22 first-quarter actual amounts compared to Estimated Budget for the General Operating Fund follows (dollars in thousands):

	2021-22 Adopted <u>Budget</u>	2021-22 Estimated <u>Q1 Budget</u>	2021-22 Q1 <u>Actual</u>	Variance of Estimated Q1 Budget <u>to Actual</u>
Revenues	\$146,412	\$15,257	\$16,843	\$1,586
Expenditures	\$150,804*	\$32,480	\$30,200	\$2,280

\* The Fiscal Year 2021-22 Adopted Budget is net of \$4.0 million of estimated budget savings.

As of the first quarter of Fiscal Year 2021-22, both revenues and expenditures are trending favorably with the Estimated Budget. Revenues are calculated with a favorable variance of \$1.6 million, mainly due to Sales Tax revenue being higher than expected for the first quarter as the economy slowly recovers. TOT, Utility Users Tax (UUT), rents and leases, and service charge revenue are also higher than expected for the first quarter, providing potential signs the economy is moving past the impacts of COVID-19. However, supplemental property taxes, interest earnings, licenses, permits and franchise fees, fines

and forfeitures, and intergovernmental revenue are all lower than expected for the first quarter.

Expenditures are \$2.3 million below the Estimated Budget for the first quarter, reflecting a \$1.4 million favorable variance in salaries and benefits, due to position vacancies, and an \$894,000 favorable variance in supplies and services. These estimates are for the first quarter only and do not necessarily represent a trend as every quarter varies.

A more detailed discussion of revenues and expenditures follows.

*Revenues*

A review of Fiscal Year 2021-22 first-quarter actual amounts compared to Estimated Budget for General Operating Fund revenues follows (dollars in thousands):

	2021-22 Adopted <u>Budget</u>	2021-22 Estimated <u>Q1 Budget</u>	2021-22 Q1 <u>Actual</u>	Variance of Estimated Q1 Budget <u>to Actual</u>
Revenues:				
Property Taxes	\$ 60,272	\$ 311	\$ 207	(\$ 104)
Sales Tax	18,477	1,376	2,526	1,150
Other Local Taxes	16,775	2,437	2,721	284
Use of Money and Property	23,014	7,553	7,817	264
Other Revenues	<u>27,874</u>	<u>3,580</u>	<u>3,572</u>	(8)
Total Revenues	<u>\$146,412</u>	<u>\$15,257</u>	<u>\$16,843</u>	<u>\$1,586</u>

As noted above, revenues are calculated with a favorable variance of \$1.6 million. This is primarily due to the first-quarter sales tax revenue being \$1.2 million higher than the Estimated Budget. The favorable variance is due to the City receiving more sales tax than anticipated this quarter. Staff will continue to monitor this revenue source throughout the fiscal year and will provide the City Council with an update in February 2022. Property tax revenue is lower than the Estimated Budget at this point in the fiscal year due to lower supplemental property taxes received. Other local tax revenue is higher than the Estimated Budget, primarily from higher TOT revenue than expected. Use of money and property revenue is higher than the Estimated Budget, the net effect of higher rents and leases offset by lower interest earnings.

*Expenditures*

A review of the Fiscal Year 2021-22 first-quarter actual amounts compared to Estimated Budget for GOF expenditures follows (dollars in thousands):

	2021-22 Adopted <u>Budget</u>	2021-22 Estimated <u>Q1 Budget</u>	2021-22 Q1 <u>Actual</u>	Variance of Estimated Q1 Budget <u>to Actual</u>
Expenditures:				
Salaries and Benefits	\$117,882	\$26,730	\$25,344	\$1,386
Supplies and Services	20,086	5,600	4,706	894
Capital Outlay/ Equipment Repl.	2,745	150	150	-0-
Interfund Expenditures and Transfers	13,091	-0-	-0-	-0-
Debt Service	<u>1,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Expenditures	<u>\$154,804</u>	<u>\$32,480</u>	<u>\$30,200</u>	<u>\$2,280</u>

As certain categories of expenditures (supplies and services, capital purchases) do not occur evenly throughout the year, it is not reasonable to assume the expenditures through the first quarter represent 25.0% of the total that will be expended by June 30, 2022. However, total expenditures appear to be trending below budget at this time.

*Conclusion*

In total, revenues for the first quarter are \$1.6 million higher than the Estimated Budget, and first-quarter expenditures are \$2.3 million below the Estimated Budget. Staff will continue to monitor the financial status of the GOF, and revised estimates will be prepared for the Midyear Report presented to the City Council in February.

## DEVELOPMENT SERVICES FUND

A review of the Fiscal Year 2021-22 first-quarter actual amounts compared to Estimated Budget for the Development Services Fund follows (dollars in thousands):

	<u>2021-22 Adopted Budget</u>	<u>2021-22 Estimated Q1 Budget</u>	<u>2021-22 Q1 Actual</u>	<u>Variance of Estimated Q1 Budget to Actual</u>
Revenues	\$16,060	\$3,878	\$4,050	\$172
Expenditures	\$17,954	\$4,212	\$2,988	\$1,224

Actual revenue received to date is \$172,000 higher than the Estimated Budget. Revenue related to development fluctuates throughout the fiscal year, and this quarter may not necessarily be an indication of the trend for the remainder of the fiscal year.

Expenditures are \$1.2 million below the Estimated Budget, primarily due to a significant number of vacant positions during the first quarter. The Development Services Fund is structured to weather the cyclical nature of development. Revenues on development activity are collected in advance of the services provided and corresponding expenditures, and the available balance is to provide funding for a continued desired level of development services even during a revenue decline.

### *Conclusion*

First-quarter revenues appear to be on target, and expenditures are below budget estimates. The fund is structured to weather the cyclical nature of development.

SHORELINE GOLF LINKS/MICHAELS AT SHORELINE RESTAURANT FUND

A review of the Fiscal Year 2021-22 first-quarter actual amounts compared to Estimated Budget for the Shoreline Golf Links/Michaels at Shoreline Restaurant Fund follows (dollars in thousands):

	2021-22 Adopted <u>Budget</u>	2021-22 Estimated <u>Q1 Budget</u>	2021-22 Q1 <u>Actual</u>	Variance of Estimated Q1 Budget <u>to Actual</u>
Revenues	\$3,802	\$776	\$740	(\$36)
Expenditures	\$3,643	\$919	\$887	\$32

For the first quarter, revenues and expenditures for Shoreline Golf Links and Michaels at Shoreline Restaurant are \$36,000 and \$32,000 below the Estimated Budget, respectively, essentially on target.

*Conclusion*

First-quarter revenues and expenditures are close to the budget estimates.

SHORELINE REGIONAL PARK COMMUNITY FUND

A review of the Fiscal Year 2021-22 first-quarter actual amounts compared to Estimated Budget for the Shoreline Regional Park Community Fund follows (dollars in thousands):

	2021-22 Adopted <u>Budget</u>	2021-22 Estimated <u>Q1 Budget</u>	2021-22 Q1 <u>Actual</u>	Variance of Estimated Q1 Budget <u>to Actual</u>
Revenues	\$50,971	\$742	\$802	\$60
Expenditures	\$47,426	\$28,580	\$28,035	\$545

Actual revenues received to date are \$60,000 higher than the Estimated Budget, primarily due to the rental activity. Property tax revenue is this fund’s major revenue source, and during the first quarter, the City only receives monthly supplemental property tax payments. The County will begin remitting secured property tax payments in November, which are expected to exceed budget based on the Certificate of Assessed Values provided by the County in August. Expenditures are \$545,000 below the Estimated Budget as a result of savings due to vacant positions as well as in supplies and services. It should be noted that development impact fees and bond proceed interest are not budgeted. Consequently, for the purposes of this report, any actual revenues received during the first quarter from these sources is offset by an equal amount in the Estimated Q1 Budget.

*Conclusion*

Revenues are slightly higher than the Estimated Budget and expenditures are below the Estimated Budget at this point in the fiscal year.

WATER FUND

A review of the Fiscal Year 2021-22 first-quarter actual amounts compared to Estimated Budget for the Water Fund follows (dollars in thousands):

	2021-22 Adopted <u>Budget</u>	2021-22 Estimated <u>Q1 Budget</u>	2021-22 Q1 <u>Actual</u>	Variance of Estimated Q1 Budget <u>to Actual</u>
Revenues	\$37,326	\$11,518	\$11,530	\$12
Expenditures	\$38,947	\$12,558	\$11,417	\$1,141

Fiscal Year 2021-22 first-quarter actual revenues are \$12,000 higher than the Estimated Budget. The water rate increase of 1.0% was effective as of July 1, 2021 and water usage appears to be generating water sales revenue as anticipated. There are several variables that impact water sales revenue, such as weather, amount of customers, and service utilization; therefore, this trend could change as the fiscal year progresses, especially if the ongoing Statewide drought continues to worsen. Expenditures are \$1.1 million below the Estimated Budget, primarily as a result of savings in supplies and services accounts, and a smaller amount attributable to salary and benefit savings. It should be noted that capacity and development impact fees are not budgeted. Consequently, for the purposes



of this report, any actual revenues received during the first quarter from these sources is offset by an equal amount in the Estimated Q1 Budget.

*Conclusion*

A rate increase of 1.0% was adopted for Fiscal Year 2021-22 effective July 1, 2021. First-quarter actual revenues are on target with the Estimated Budget and expenditures are below the Estimated Budget.

WASTEWATER FUND

A review of the Fiscal Year 2021-22 first-quarter actual amounts compared to Estimated Budget for the Wastewater Fund follows (dollars in thousands):

	2021-22 Adopted <u>Budget</u>	2021-22 Estimated <u>Q1 Budget</u>	2021-22 Q1 <u>Actual</u>	Variance of Estimated Q1 Budget <u>to Actual</u>
Revenues	\$25,916	\$7,557	\$7,639	\$82
Expenditures	\$30,138	\$11,101	\$10,223	\$878

With the adoption of the Fiscal Year 2021-22 budget, Council approved a 6.0% rate increase effective July 1, 2021. In total, revenues are \$82,000 above the Estimated Budget. Expenditures are \$878,000 lower than the Estimated Budget at this point in the fiscal year, primarily as a result of savings in supplies and services accounts and a smaller amount attributable to salary and benefit savings. It should be noted that capacity and development impact fees are not budgeted. Consequently, for the purposes of this report, any actual revenues received during the first quarter from these sources is offset by an equal amount in the Estimated Q1 Budget.

*Conclusion*

A rate increase of 6.0% was adopted for Fiscal Year 2021-22 effective July 1, 2021. First-quarter revenues are higher than the Estimated Budget, and expenditures are below the Estimated Budget.

SOLID WASTE MANAGEMENT FUND

A review of the Fiscal Year 2021-22 first-quarter actual amounts compared to Estimated Budget for the Solid Waste Management Fund follows (dollars in thousands):

	2021-22 Adopted Budget	2021-22 Estimated Q1 Budget	2021-22 Q1 Actual	Variance of Estimated Q1 Budget to Actual
Revenues	\$15,390	\$3,825	\$3,722	(\$103)
Expenditures	\$16,354	\$3,864	\$3,195	\$669

The amounts detailed above are exclusive of service charge revenues collected and remitted to Recology.

The trash and recycling rate increase of 4.0% for Fiscal Year 2021-22 was effective as of July 1, 2021. Overall revenues for the first quarter indicate an unfavorable variance due to lower service charge revenue received compared to the prior fiscal year. This is primarily the result of lower debris box revenue from construction activity and lower bin rental revenue from commercial business activities, primarily restaurants, because of COVID-19. Actual first-quarter expenditures are \$669,000 less than the Estimated Budget as a result of savings in supplies and services and a smaller amount attributable to salary and benefit savings.

*Conclusion*

A rate increase of 4.0% was adopted for Fiscal Year 2021-22 effective July 1, 2021. First-quarter actual revenues and expenditures are below the Estimated Budget.

**Recommendations for Modifications to Budget**

*Authorize a New Limited-Period Human Resources Analyst Position for the Remainder of Fiscal Year 2021-22*

Staff is requesting the addition of a limited-period Human Resources Analyst position to assist with the increasing volume of recruitment requests. This position will focus on recruitment and assist the City to fill the vacancies as quickly as possible.

The annual cost of this position is estimated at \$201,000 and is not included in the Fiscal Year 2021-22 Adopted Budget. It is estimated this new position can be filled as early as December 2021. The additional cost, estimated at \$117,000 for the remainder of the fiscal year, will be absorbed by salary savings.

#### *Reclassify the Chief Sustainability and Resiliency Officer Position*

In July 2021, the City Manager's Office initiated an external recruitment in partnership with a third-party executive recruiter for the Chief Sustainability and Resiliency Officer (CSRO) position. This new and critical position, approved by Council as part of the adoption of the Sustainability Action Plan 4, will be responsible for managing the Division and serving as the Citywide officer on Council's sustainability priorities. Through the recruitment process, the City Manager's Office thoughtfully considered the needs of the Sustainability Division and concluded that the City's intention and needs for the position were not met by the recruitment. After reevaluating how to better align the position to attract candidates with the experience and skills to achieve Council goals and the needs of the Sustainability Division, staff recommends increasing the salary range for the position. This recommendation will better position the CSRO in the recruitment market to attract experienced professionals with senior managerial responsibility to provide high-level oversight and drive strategic direction to support new interdepartmental and regional collaboration. The importance of recruiting a CSRO with the ability to partner with, and provide leadership to, the executive team will be a focus of the relaunched recruitment and is critical to the success of the City's sustainability plans and initiatives. The estimated annual cost for the reclassification is \$30,200 salary only or \$40,500 in total compensation. The increase can be absorbed in the Sustainability Action Plan budget through Fiscal Year 2023-24 and, thereafter, will be included in the annual operating budget.

#### *Salary Plan Changes*

Salary for Chief Communications Officer: The salary range adjustment for the Chief Communications Officer, effective June 27, 2021, has been approved by the City Manager to align with the recommended CSRO as a Citywide chief officer position, partnering with and providing leadership to the City's executive team. The reclassification is within the City Manager's authority provided by the City Council on December 7, 2010; however, reflecting the reclassification on the salary plan requires Council adoption of a resolution (Attachment 1). The estimated cost for the reclassification in Fiscal Year 2021-22 is \$7,000. There is anticipated salary savings in the City Manager's Office that can be used to absorb this increase for Fiscal Year 2021-22. Ongoing cost impacts will be included in the Fiscal Year 2022-23 budget. The total increase in control point for this position presented in the salary plan is estimated to be \$17,800 for salary only.

Salary for Mayor and Councilmembers: The City's Salary Plan for regular employees, exhibit to Attachment 1 to this Council report, reflects the automatic annual adjustment of 3%, effective June 27, 2021, for the Mayor and Councilmembers. The adjustments are being made in accordance with the City of Mountain View's Charter, Part 1, Article V, Section 503. The cost of living adjustments were included in the Fiscal Year 2021-22 Adopted Budget.

### **FISCAL IMPACT**

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

### **CONCLUSION**

The Fiscal Year 2021-22 first-quarter results compared to the Estimated Budget indicate that the GOF is on target for the first quarter for both revenues and expenditures. It should be noted that sales tax revenue is showing signs of some recovery from the pandemic with higher revenue for the first quarter. A clearer picture of the GOF's financial position in the current and upcoming fiscal years will be presented to the City Council with the Midyear Budget Report in February 2022.

It is early in Fiscal Year 2021-22 but, at this point, revenues for the Development Services, Shoreline Golf Links/Michaels at Shoreline Restaurant, Shoreline Regional Park Community, Water, and Wastewater Funds are essentially on target. The Solid Waste Management Fund indicates revenues below the Estimated Budget. All fund expenditures are below the Estimated Budget. Staff will continue to monitor all major funds and return to the City Council with an update in the aforementioned Midyear Budget Report in February 2022.

### **ALTERNATIVES**

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

**PUBLIC NOTICING** – Agenda posting.

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Attachment: 1. Resolution Amending the City's Regular Salary Plan