COUNCIL REPORT

City of Mountain View

DATE:	April 26, 2022
CATEGORY:	Consent
DEPT.:	Finance and Administrative Services
TITLE:	**Fiscal Year 2021-22 Third Quarter Budget Status Report and Fiscal Year 2022-23 Preliminary General Operating Fund Forecast Update**

RECOMMENDATION

1. Acknowledge and file the Fiscal Year 2021-22 Third Quarter Budget Status Report and the Fiscal Year 2022-23 Preliminary General Operating Fund Forecast Update.

2. Appropriate $570,000 in the Liability Self-Insurance Fund for additional Insurance premiums. (Five votes required)

3. Appropriate $69,000 in the Finance and Administrative Services Department, Water Fund, for utility bill online payment processing costs. (Five votes required)

4. Authorize the Finance and Administrative Services Department to repurpose $120,000 in limited-period funding from the General Non-Operating Fund, previously approved for a Transient Occupancy Tax ballot measure study, to the Cost Allocation Plan and Fee Study project. (Five votes required)

INTRODUCTION

The City Council was presented with a First Quarter update of the Fiscal Year 2021-22 budget on November 16, 2021 and the Midyear Report on February 22, 2022. This report provides an update of the City's budgetary position at approximately the three-quarter point in the fiscal year as well as an updated preliminary General Operating Fund (GOF) forecast for the upcoming fiscal year. The Fiscal Year 2022-23 Recommended Budget will be presented to Council on June 14, 2022 along with an updated forecast.

The Third Quarter budget status of the Fiscal Year 2021-22 GOF estimates revenues at $159.1 million, $12.7 million (8.7%) higher than the Adopted Budget. Including estimated budget savings, operating expenditures are estimated at $148.6 million, $2.2 million (1.4%) below the Adopted Budget and $5.9 million (3.8%) below the Adjusted Budget. The GOF is currently estimated to end the fiscal year with a $10.5 million operating balance. The estimated $5.8 million in Excess Educational Revenue Augmentation Fund (ERAF) revenue that was originally planned to balance the current fiscal year's budget has been moved to the General Non-Operating Fund, as discussed at the Midyear Update in February, as it is no longer needed to balance the budget. This revenue is considered to be one-time in nature and was used in Fiscal Year 2020-21 in order to smooth the impacts of lost revenue due to the COVID-19 pandemic.

As noted at the Midyear Update, the global COVID-19 pandemic has continued much longer than anticipated due to new variants, including Delta and Omicron, leading to a prolonged recovery period. However, more recently, most of the mandated restrictions have now been lifted, and California has been able to, essentially, fully reopen its economy. Consequently, certain revenue categories have continued to realize greater improvement than originally anticipated in the Adopted Budget.

Development Services Fund revenues and expenditures are trending below budget but have improved somewhat since the Midyear Update. The revenues and expenditures of Shoreline Golf Links and Michaels at Shoreline Restaurant are also below budget. While Shoreline Golf Links is performing well, Michaels at Shoreline Restaurant was significantly impacted by pandemic restrictions and renovations in the first half of the fiscal year. The Shoreline Regional Park Community (SRPC) revenues are trending higher than budget, primarily due to higher property tax revenue, and expenditures are trending higher than budget, primarily due to increased funding for capital projects. Water Fund revenues are currently trending slightly higher than budget. Revenues for the Wastewater and Solid Waste Funds are trending below budget. Expenditures for all three funds are currently trending below budget.

The preliminary Fiscal Year 2022-23 GOF Forecast projects revenues at $162.9 million, $16.5 million (11.3%), and $3.9 million (2.4%) higher than the Adopted Budget and Estimated Actual, respectively. There is anticipated revenue growth from increasing property tax revenue (from changes in ownership, new development, and a 2.0% California Consumer Price Index (CCPI)), the approval of one cannabis permit, Consumer Price Index increases on the City's leases, and higher service charge and franchise fee revenues. Although revenue from Sales Tax, Transient Occupancy Tax, and Utility Users Tax are estimated higher for the current fiscal year, they are projected essentially the same or slightly lower for Fiscal Year 2022-23. All other revenues are projected to be either flat or show a slight decline. The projected revenues are sufficient to meet currently projected expenditures, resulting in a preliminary projected balance of $1.5 million. **This balance includes preliminary expenditure recommendations for Fiscal Year 2022-23 that will be considered as part of the upcoming budget process and estimates for potential changes to labor agreements that are currently being negotiated. Staff's final recommendations for next year's budget will be considered by Council on June 14, 2022.**

BACKGROUND AND ANALYSIS

I. Fiscal Year 2021-22 Third Quarter Budget Status Summary

The Third Quarter Budget Status Report represents staff's best estimate of the City's budgetary position at this point in time, approximately three-quarters through the fiscal year, and making certain assumptions regarding revenues and expenditures for the remainder of the fiscal year. This section of the report includes a discussion of Fiscal Year 2021-22 revenue and expenditure estimates compared to budget for major funds. Since the Midyear Update report, the Estimated Ending Balance improved by $2.8 million from previous estimates.

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

	2020-21 Audited	2021-22 Adopted Budget	2021-22 Adjusted	**2021-22 Estimated**	Variance of 2021-22 Estimated to 2021-22 Adjusted
Revenues	$143,706	$146,412	$146,688	**$159,090**	$12,402
Expenditures[1]	(136,811)	(150,804)	(154,542)	**(148,626)**	5,916
Rebudgets[2]	(5,235)	-0-	3,165	**-0-**	(3,165)
Operating Balance	1,660	(4,392)	(4,689)	**10,464**	15,153
Transfer to GNOF	(8,501)	-0-	-0-	**-0-**	-0-
Excess ERAF	6,841	5,836	5,836	**-0-**	(5,836)
Ending Balance	$ -0-	$ 1,444	$ 1,147	**$ 10,464**	$ 9,317

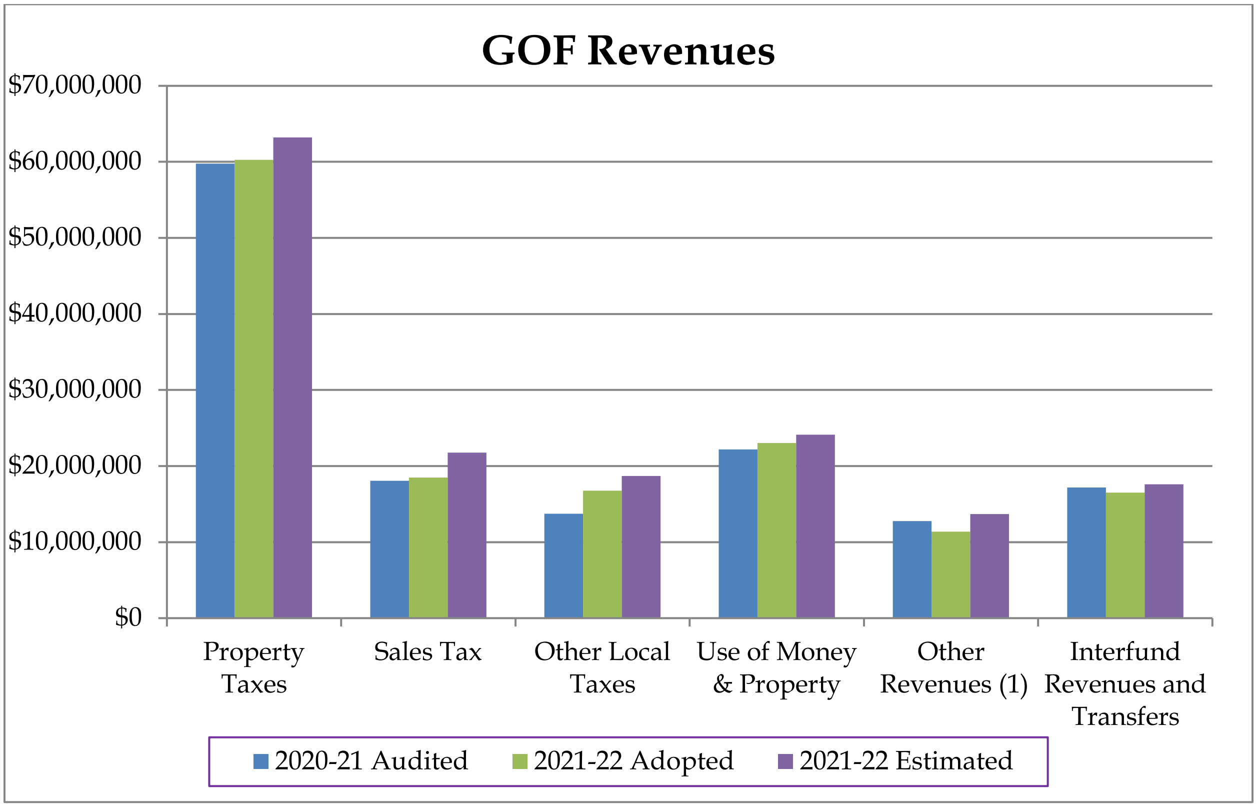
(1) Adopted and Adjusted Budgets include $4.0 million in projected budget savings.

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

General Operating Fund

Revenues

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



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

Estimated results of revenue categories are mixed, with some trending higher than budget and others trending at or below budget. A detailed discussion of major revenue categories is as follows:

Property Tax revenue is estimated at $63.2 million, $2.9 million (4.9%) higher than budget. This is essentially the same as the midyear estimate. The Fiscal Year 2021-22 Adopted Budget included projected growth based on a positive 1.036% CCPI applied to a majority of properties plus increased values related to changes in ownership and new development. It also included projected assessment reductions from appeals on commercial properties due to Shelter-in-Place restrictions and remote work. The information provided by the Santa Clara County Assessor after the beginning of the current fiscal year indicates the total actual July 1, 2021 General Fund Assessed Value (AV) increased a net 6.1% compared to the July 1, 2020 AV, reflecting growth in both secured and unsecured AV. Overall, AV in the City increased a net 8.1%, which is the highest among the 15 cities in the County. This presented a better outlook than staff originally expected as developers showed continued interest in constructing commercial and residential buildings. However, the County continues to process appeals and refunds, and the estimated revenue takes into consideration anticipated additional refunds by the end of the current fiscal year.

Sales Tax revenue is currently estimated at $21.8 million, $3.3 million (17.9%) higher than budget, primarily due to strength in new automobile sales, fuel/service stations, and quicker-than-expected rebound from restaurants as the economy continued to recover. This is essentially the same as the midyear estimate. The estimate includes $526,000 in additional sales tax the City received for Quarter 2 (Q2) 2021, which was not accrued at Fiscal Year 2020-21 year-end. The additional tax is offset by the current fiscal year corrections to prior reporting errors.

Other Local Taxes revenue is estimated at $18.7 million in total, $1.9 million (11.3%) higher than budget. This is $460,000 higher than the midyear estimate, with all three categories estimated slightly higher than at midyear.

- Transient Occupancy Tax (TOT) revenue is estimated to be $1.1 million (32.7%) higher than budget. Although revenues are higher than anticipated, travel and, in particular, business travel, remains impacted by the pandemic affecting hotel occupancy and the resulting revenue.

- Utility Users Tax (UUT) revenue is estimated to be $667,000 (8.9%) higher than budget. UUT generated from telecommunications services increased this fiscal year due to remittances from new service providers for audio and video streaming services. Previously, it had been steadily declining since Fiscal Year 2015-16. UUT generated from energy services is trending higher than budget, primarily from an increase in PG&E and smaller energy providers, offset by lower-than-projected revenue from Silicon Valley Clean Energy (SVCE).

- Business License revenue is estimated to be $159,000 (2.7%) higher than budget based on recent billings.

Use of Money and Property revenue is comprised of Investment Earnings and Rents and Leases and is estimated at $24.1 million, $1.1 million (4.8%) higher than budget and on track with the midyear estimate. Investment Earnings revenue is essentially the same as the Adopted Budget. Since March 2020, the Federal Open Market Committee (FOMC) maintained a target benchmark rate of 0.0% to 0.25%. In March 2022, the FOMC raised rates by 25 basis points, increasing its target benchmark to 0.25% to 0.50% and signaled its intent to raise rates up to six more times this year to combat inflation, which has risen significantly over the past several months. Rents and Leases revenue is estimated to be $1.1 million (5.5%) higher than budget, primarily due to unbudgeted percentage rent revenue for the Ameswell office lease and three months of Amphitheatre rent collected rather than partially waived as previously projected.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is estimated at $5.9 million, $843,000 (12.5%) below budget. This is $115,000 lower than the midyear estimate, primarily due to no cannabis permit revenue estimated now. Licenses, Permits, and Franchise Fee revenue is estimated to be $435,000 (7.1%) below budget, primarily due to less franchise revenue from Recology and no cannabis permit revenue. Fines and Forfeiture revenue is estimated $408,000 (61.3%) below budget, primarily due to less collections from parking violations, bail/fine payments from the County, and false alarm response fees.

Intergovernmental revenue is estimated at $2.0 million, $1.2 million (165.8%) higher than budget and $335,000 higher than the midyear estimate. This is related to unbudgeted and higher-than-expected reimbursements from governmental agencies and a grant awarded to the Center for the Performing Arts (CPA), of which additional funds were received since midyear.

Charges for Services revenue is generated by fees assessed for Recreation and other types of services and is estimated at $2.4 million, $317,000 (15.1%) higher than budget. This is $61,000 higher than the midyear estimate, primarily based on additional CPA revenue receipts than anticipated at that time. In general, Recreation and CPA revenues are on track and slowly recovering. In addition, Short-Term Rental (STR) registration revenue is estimated to be $145,000 lower than budget.

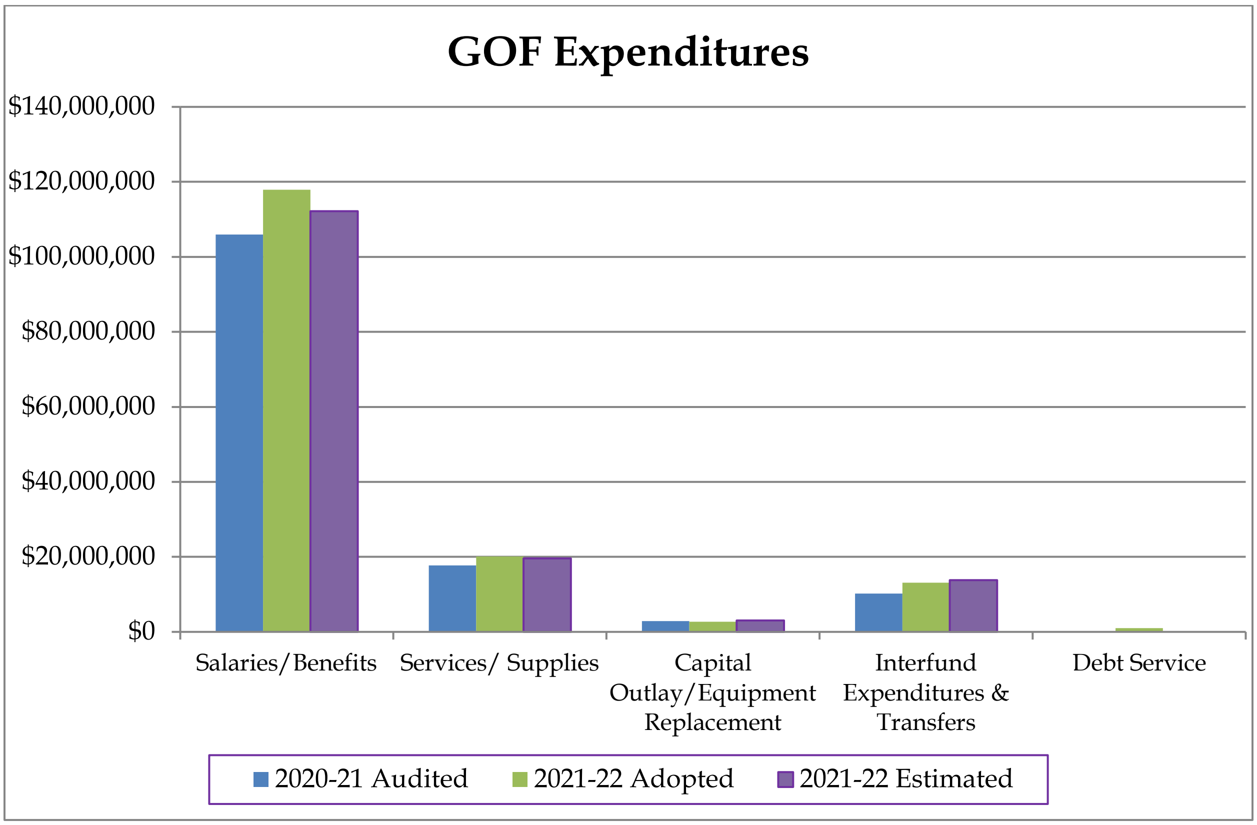
Miscellaneous Revenues are estimated at $3.4 million, $1.6 million (90.5%) and $1.3 million (65.0%) higher than the Adopted and Adjusted Budget, respectively. This is $135,000 higher than the midyear estimate due to more reimbursements received than anticipated at midyear. Included in the estimate are reimbursements for Fire mutual-aid overtime, including administration, of which $1.4 million has been received through February and $58,000 that has not been received, but invoices have been approved, and funds are expected to be received during this fiscal year. There are other smaller grants, donations, and expenditure reimbursements received that are not budgeted due to the uncertainty of receipt, and full fiscal year estimates are not calculated for these revenues as the amounts can vary greatly.

Interfund Revenues and Transfers are estimated at $17.6 million, $1.1 million (6.8%) higher than budget and $674,000 higher than the midyear estimate. This is due to Capital Improvement Program (CIP) overhead trending higher than budget.

Expenditures

Budget savings are expected each fiscal year and are included in the Adopted Budget. Including the projected budget savings, total estimated expenditures indicate a $2.2 million (1.4%) and $5.9 million (3.8%) favorable variance compared to the Adopted and Adjusted Budgets, respectively.

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



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

Salaries and Benefits expenditures are estimated at $112.2 million, $5.7 million (4.8%) and $6.6 million (5.6%) below the Adopted and Adjusted Budgets, respectively. This is the result of vacant positions and personnel turnover during the fiscal year. There continue to be significantly higher savings in hourly wages in the Community Services Department related to Recreation and CPA, and the Library Services Department. For regular (nonhourly) positions, there are currently 82 vacancies and 33 active recruitments to fill 55 current and anticipated vacancies. Although some savings are expected annually and included in the Adopted Budget, it is not possible to precisely predict the level and impact of vacancies. While the number of current total vacancies is similar to the prior year, the City saw a significant increase in separations and retirements in the last three months of 2021. The City is monitoring labor market studies indicating high levels of workforce stress nationwide due to the pandemic and a trend being called "the Great Resignation" as workers seek job or career changes or even decide to leave the workforce.

Services and Supplies expenditures are estimated at $19.6 million, $510,000 (2.5%) and $3.0 million (13.3%) 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 $3.0 million, $298,000 higher than the Adopted Budget, but equal to the Adjusted Budget, and include $2.2 million of annual funding for equipment replacement and $798,000 currently estimated for new capital purchases.

Interfund Expenditures and Transfers are estimated at $13.8 million, $718,000 (5.5%) higher than budget, as a result of higher Business License Tax revenue, which increases the transfers to the Transportation Reserve and General Housing Fund, and higher revenue from the Ameswell development, which increases the transfer to the Budget Contingency Reserve.

Debt Service is budgeted at $1.0 million for the Hope Street Parking Certificates of Participation. However, the developer has requested an extension for the financing of this project and, therefore, there is no debt service payment estimated.

Expenditures by Department

All but one of the departments appears to be trending under budget for the current fiscal year. The Fire Department is currently trending $862,000 over budget at this time, primarily due to a higher level of overtime during the first eight months of the fiscal year due to pandemic-related causes. Due to COVID-19 protocols mandated by State law and public health officials, a number of Fire staff were frequently required to quarantine at the same time when COVID-19 positive cases or close contacts occurred, requiring overtime to backfill multiple shifts. There were also several retirements and unplanned resignations that caused additional overtime, as well as a number of Fire staff on Workers' Compensation leave that required backfill for the shifts using overtime. Since the Fire Department has a minimum staffing requirement, any unplanned absences require overtime to backfill these vacancies. The Fire Department will manage its expenditures closely for the remainder of the fiscal year to minimize costs where feasible. However, it may be necessary to return before fiscal year-end to request additional budget, which would be offset by overall budget savings from other departments. 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 Third Quarter estimated amounts to budget for the GOF department expenditures follows (dollars in thousands):

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget	Percent Savings of Adjusted Budget
City Council	$ 424	$ 424	**$ 282**	$ 142	33.5
City Clerk	985	985	**909**	76	7.7
City Attorney	2,548	2,621	**2,446**	175	6.7
City Manager	4,539	4,707	**3,842**	865	18.4
Human Resources	2,522	2,638	**2,521**	117	4.4
Information Technology	6,490	6,721	**5,697**	1,024	15.2
Finance and Admin. Services	7,426	7,745	**6,190**	1,555	20.1
Community Development	1,874	2,020	**1,924**	96	4.8
Public Works	12,063	12,470	**12,312**	158	1.3
Community Services	18,719	19,139	**16,424**	2,715	14.2
Library Services	6,870	7,149	**6,188**	961	13.4
Fire	28,049	29,129	**29,991**	(862)	(3.0)
Police	45,519	46,019	**43,406**	2,613	5.7
Nondepartmental[1]	16,776	16,776	**16,494**	282	1.7
Projected Budget Savings	(4,000)	(4,000)	**Included**	(4,000)	100.0
Total Operating Expenditures	$150,804	$154,543	**$148,626**	$5,917	3.8

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

In summary, revenues are currently estimated at $159.1 million, $12.7 million (8.7%) higher than budget. Including projected budget savings, operating expenditures for the current fiscal year are estimated at $148.6 million, $2.2 million (1.4%) and $5.9 million (3.8%) below the Adopted Budget and Adjusted Budgets, respectively. The operating balance is currently estimated to be $10.5 million, excluding Excess ERAF revenue.

Development Services

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

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

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$15,260	$16,087	**$14,981**	($1,106)
Expenditures	(17,592)	(22,272)	**(17,286)**	4,986
Operating Balance (Deficit)	(2,332)	(6,185)	**(2,305)**	3,880
Land Use Documents	800	800	**602**	(198)
CalPERS Contribution	(177)	(177)	**(177)**	-0-
Transfer to Comp Absences	(160)	(160)	**(160)**	-0-
Capital Projects	(25)	(729)	**(729)**	-0-
Excess (Deficiency) of Revenues	(1,894)	(6,451)	**(2,769)**	3,682
Beginning Balance	23,155	23,155	**23,155**	-0-
Land Use Document Reserve	(10,558)	(9,854)	**(9,656)**	198
Ending Balance	$10,703	$ 6,850	**$10,730**	$3,880

The level of development activity is slightly below budget for the current fiscal year. Total permit Revenue is on target, but other revenue, such as Plan Checking, is under budget. Operating revenues of $15.0 million are estimated to be $1.2 million (6.9%) below budget with Plan Check revenue estimated to be $784,000 (18.2%) below budget. Estimated operating expenditures of $17.3 million are expected to be $5.0 million (22.4%) below the Adjusted Budget, reflecting salary and benefit savings from vacancies plus savings in supplies and contractual services.

Operating expenditures are estimated to exceed operating revenue by $2.3 million. This is primarily due to projects paid for in prior fiscal years requiring plan check and other services in the current fiscal year. Revenue from the Land Use Document Fee is currently estimated to be $198,000 (24.8%) lower than budget. There is also the CalPERS contribution of $177,000, proportionate to the General Fund's share, a transfer of $160,000 to fund Compensated Absences, and $729,000 for Capital Projects, of which $704,000 is funded from the Land Use Document Reserve. The ending balance is estimated at $10.7 million and will be necessary to continue funding operations during periods of slower development activity. In addition, fees are paid in advance of the services provided, including long-term existing development projects.

Shoreline Golf Links/Michaels at Shoreline Restaurant

Shoreline Golf Links is an 18-hole course designed by Robert Trent Jones II & Associates that was completed in 1983. 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. 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. A five-year extension with Touchstone for management of Shoreline Golf Links and Michaels at Shoreline Restaurant commenced January 2022.

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

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$3,802	$3,802	**$3,503**	($299)
Expenditures	(3,643)	(3,668)	**(3,289)**	379
Operating Balance	159	134	**214**	80
Transfer to GOF	(150)	(150)	**(150)**	-0-
Excess (Deficiency) of Revenues	9	(16)	**64**	80
Beginning Balance	98	98	**98**	-0-
Ending Balance	$ 107	$ 82	**$ 162**	$ 80

Paid rounds of golf played in Fiscal Year 2020-21 totaled 79,355, a 42.2% increase from the prior fiscal year and a record high since Fiscal Year 2014-15. Based on financial information about three-quarters through the fiscal year, activity at Shoreline Golf Links is estimated to generate $2.9 million in revenues, $387,000 (15.1%) higher than budget. Golf has become a popular activity as it was one of few activities allowed with SIP restrictions. Unfortunately, the same is not true for the restaurant, which is estimated to generate $555,000 in revenues, $686,000 (55.3%) below budgeted revenues of $1.2 million. While SIP restrictions have eased to allow indoor dining and banquets, the restaurant was under renovation for the first half of the fiscal year with limited hours and limited menu. With renovations now completed, the restaurant is expected to return to normal operations.

In total, golf expenditures for the current fiscal year are estimated at $2.3 million, essentially the same as budget. Restaurant expenditures are estimated at $966,000, $365,000 (27.4%) below budget, as there was minimal staffing for reduced operations; however, expenditures are trending higher than revenue as there are also fixed costs associated with restaurant operations.

The fund is trending to finish the fiscal year with an operational balance of $214,000; Shoreline Golf Links is trending with a positive balance of $625,000 while Michaels at Shoreline Restaurant is trending at a loss of $411,000. For Fiscal Year 2020-21, there was a transfer of $250,000 to the General Operating Fund, and the fund ended the fiscal year with a balance of $98,000. For the current fiscal year, an operating transfer to the General Operating Fund of $150,000 was included. With the prior fiscal year balance of $98,000 and estimated operating balance for the current fiscal year of $214,000, staff is estimating the budgeted transfer to the General Operating Fund of $150,000 is achievable. Staff will closely monitor the fund and will update this transfer, if needed, in the course of closing the fiscal year.

Shoreline Regional Park Community (Shoreline Community)

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

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

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$50,971	$50,971	**$57,514**	$6,543
Expenditures	(33,894)	(34,138)	**(33,546)**	592
Operating Balance	17,077	16,833	**23,968**	7,135
Development Impact Fees[(1)]	-0-	-0-	**203**	203
Bond Proceeds Interest	-0-	-0-	**38**	38
CalPERS Contribution	(71)	(71)	**(71)**	-0-
Transfer to Comp Absences	(89)	(89)	**(89)**	-0-
Capital Projects	(13,371)	(14,426)	**(14,426)**	-0-
Excess (Deficiency) of Revenues	3,546	2,247	**9,623**	7,376
Beginning Balance	53,666	53,666	**53,666**	-0-
Reserve	(5,400)	(5,400)	**(5,400)**	-0-
Reserve for Bond Proceeds	(26)	34	**(4)**	(38)
Site Contamination Reserve	-0-	-0-	**(5,000)**	(5,000)
Landfill Reserve	(10,000)	(10,000)	**(10,000)**	-0-
Sea Level Rise Reserve	(12,000)	(12,000)	**(12,000)**	-0-
Dev. Impact Fee Reserve	(158)	(158)	**(361)**	(203)
Ending Balance	$29,628	$28,389	**$30,524**	$2,135

(1) Includes interest earned on the balance.

Operating revenues, primarily property taxes, for the current fiscal year are estimated at $57.5 million, $6.5 million (12.8%) higher than budget. Property Tax revenue is trending higher than budget as, subsequent to adoption of the budget, the County provided the July 1, 2021 tax roll information for the Shoreline Community. After adjusting the assessment roll to remove a secured property tax bill that was incorrectly allocated to the Shoreline Community, the actual net increase is about 10.2%. It is important to note that Assessed Value in the Shoreline Community can be significantly impacted by economic conditions. Overall, the City tax roll increased a net 8.1%, which is the highest among the 15 cities in the County. The City estimated a 1.7% increase for Fiscal Year 2021-22 during the pandemic, which corresponds to an approximate $4.0 million difference compared to the tax roll actual increase. The remaining variance is primarily from the County's correction to the prior year tax roll, generating about $1.8 million of additional taxes this fiscal year.

Operating expenditures for the current fiscal year are estimated at $33.5 million, $592,000 (1.7%) below budget, primarily due to savings in operations offset by higher estimated interagency payments. Included in operating expenditures are $13.0 million for the combined annual interagency payments to the school districts and the County and $6.4 million for debt service.

It is estimated that operating revenues will exceed operating expenditures by $24.0 million, which will fund the CalPERS contribution of $71,000, proportionate to the General Fund's share, the transfer of $89,000 to the Compensated Absences Fund, and $10.9 million for Capital Projects. There are additional capital projects funded from bond proceeds of $733,000 and from the North Bayshore Development Impact Fees (NBSDIF), and interest earned on the fees, of $2.8 million. The NBSDIF revenue is designated for transportation improvements in the Shoreline Community and, because the timing of each development process and the payment of fees are uncertain, revenue is not budgeted. A portion of the NBSDIF revenue is for water and wastewater infrastructure improvement projects and is accounted for in those funds. After reserving $27.8 million for the General Reserve, the Landfill Reserve, the Sea Level Rise Reserve, bond proceeds (mainly residual interest earnings), and the Development Impact Fee Reserve, and a new $5.0 million reserve for a potential site contamination liability, the fund is estimated with a $30.5 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 identified sea level rise projects is $122.0 million. Staff is developing a feasibility analysis in order to prioritize the projects for funding, scheduling, and implementation. It is anticipated additional reserves will be needed to provide for increased mitigation over that which was recommended by the Initial Study.

Enterprise Utility Funds

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

A Proposition 218 hearing is not required for the recommended water and wastewater rate increases as the recommended increases for Fiscal Year 2022-23 are within the prescribed limits as noticed May 7, 2021 and approved at the June 22, 2021 public hearing. However, the recommended solid waste rate increase requires a Proposition 218 hearing, scheduled for June 28, 2022, prior to the adoption of any rate modifications. Staff will be mailing a notification of the recommended rate changes on or before May 13 to meet the 45-day prescribed noticing requirement of Proposition 218.

Water Fund

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

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

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$37,326	$37,326	**$35,921**	($1,405)
Expenditures	(34,787)	(35,099)	**(30,277)**	4,822
Operating Balance	2,539	2,227	**5,644**	3,417
Capacity/Development Impact Fees	-0-	-0-	**1,003**	1,003
CalPERS Contribution	(116)	(116)	**(116)**	-0-
Capital Projects from Fees	(1,600)	(1,600)	**(1,600)**	-0-
Capital Projects	(2,443)	(2,533)	**(2,533)**	-0-
Excess (Deficiency) of Revenues	(1,620)	(2,022)	**2,398**	4,420
Beginning Balance	35,134	35,134	**35,134**	-0-
Capacity/Dev. Impact Fees Reserves	(4,406)	(4,406)	**(5,409)**	(1,003)
Water Transfer Reserve	(5,000)	(5,000)	**(5,000)**	-0-
Reserves	(11,629)	(11,629)	**(11,629)**	-0-
Ending Balance	$12,479	$12,077	**$15,494**	$3,417

A 1.0% increase for the average cost of water, meter rates, and recycled water, effective July 1, 2021, was adopted for Fiscal Year 2021-22. Operating revenues are estimated at $35.9 million, $1.4 million (3.8%) lower than budget. Water usage year-over-year through February is trending almost 6.0% lower than the prior fiscal year as a result of conservation efforts due to the drought. In Fiscal Years 2014-15 and 2015-16, revenues were severely impacted by reduced water usage (16.7% and 14.2%, respectively) as a result of conservation due to drought. Although usage increased over the next five years, it was still approximately 18.0% below the 2013 drought baseline. Once again, due to drought, water usage is approximately 23.0% below the 2013 drought baseline and trending toward the lowest point of approximately 28.0%. Recycled water sales are trending up from budget as well as the prior fiscal year.

Operating expenditures are estimated at $30.3 million, $4.8 million (13.7%) below budget, primarily as a result of the SFPUC waiving the minimum water purchase requirement due to drought water conservation mandates and savings in operations.

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

The estimated operating balance is $5.6 million, which is sufficient to fund the $116,000 CalPERS contribution, proportionate the General Fund's share, and the current fiscal year's $2.5 million for Capital Projects.

Restructured capacity fees were adopted by the City Council effective July 1, 2015. The updated fee structure accounts for increased water and sewer infrastructure costs based on additional demands resulting from new development or changes to the type of development. Capacity fees are not included in the Adopted Budget as the fees are uncertain; funds are available for capital projects after the fees are actually received. The Capacity fees received through January 2022 total $780,000, and interest is estimated at $134,000. Various development impact fees have been adopted by the City Council, and for Fiscal Year 2021-22, no revenue has been received through January 2022, but interest is estimated at $89,000. Any fees received and interest earned will be designated for specific projects and will be identified in the Five-Year CIP. Capacity and Development Impact Fees received in prior fiscal years are sufficient to fund the $1.6 million in additional capital projects for Fiscal Year 2021-22. The Water Fund is estimated to have an ending balance of $15.5 million and $22.0 million in reserves.

For Fiscal Year 2022-23, the SFPUC has proposed a 15.9% rate increase, and the SCVWD has proposed a Groundwater rate increase of 15.6%, which corresponds to a 14.5% rate increase for Treated Water. Due to the SFPUC and SCVWD rate increases and City cost increases, potable water and meter rates are recommended with a 12.0% increase for Fiscal Year 2022-23. This results in a monthly increase of $13.17 for the average single-family residence. The Recycled Water rate is recommended with a 5.0.% rate increase corresponding to the CPI. There are significant capital improvement projects recommended for Fiscal Year 2022-23 that will draw from the $15.5 million estimated available balance. On March 22, 2022, the City Council approved the Recycled Water Feasibility Study Update Draft Report, which discussed future CIP needs ranging from $92.0 million to $102.0 million over approximately 25 years. The cost of these projects will most likely require a bond issue and will have a significant impact on the recycled water rate.

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 Third Quarter estimated amounts to budget for the Wastewater Fund follows (dollars in thousands):

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$25,916	$25,916	**$27,372**	$1,456
Expenditures	(24,017)	(24,378)	**(21,274)**	3,104
Operating Balance	1,899	1,538	**6,098**	4,560
Loan Proceeds and Interest	-0-	-0-	**16**	16
Capacity/Development Impact Fees	-0-	-0-	**1,116**	1,116
CalPERS Contribution	(70)	(70)	**(70)**	-0-
Capital Projects from Fees	(1,980)	(1,980)	**(1,980)**	-0-
Capital Projects	(4,071)	(4,161)	**(4,161)**	-0-
Excess (Deficiency) of Revenues	(4,222)	(4,673)	**1,019**	5,692
Beginning Balance	35,238	35,238	**35,238**	-0-
Capacity/Dev. Impact Fees Reserves	(7,689)	(7,689)	**(8,805)**	(1,116)
Treatment Plant Reserve	(10,751)	(10,751)	**(13,073)**	(2,322)
Reserve for Loan Proceeds	(222)	(222)	**(238)**	(16)
Reserves	(8,224)	(8,224)	**(8,224)**	-0-
Ending Balance	$ 4,130	$ 3,679	**$ 5,917**	$2,238

A 6.0% overall rate increase was adopted for Fiscal Year 2021-22 effective July 1, 2021, including a 4.0% rate increase for operations and a 2.0% rate increase for future Treatment Plant capital costs. As previously outlined in prior budget reports, 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 to be needed, and the City Council approved a gradual phase-in of 2.0% annually for 10 years to fund the City's share of these long-term capital costs, of which Fiscal Year 2021-22 is the eighth year.

Operating revenues are estimated at $27.4 million, $1.5 million (5.6%) higher than budget, due to trending higher service charge revenue. Estimated operating expenditures of $21.3 million are trending $3.1 million (12.7%) below budget. This is primarily due to savings in operations and a credit for current fiscal year Treatment costs, offset slightly by $282,000 owed for prior-year Treatment Plant expenses.

Each fall, an annual reconciliation of the prior fiscal year's actual treatment costs (based on volume) is performed by the Treatment Plant, and an adjustment is provided to each member agency. The City's share of audited expenditures of the Treatment Plant for last fiscal year was $282,000 more than budgeted, resulting in an additional amount due and paid in the current fiscal year. The additional Treatment Plant charge is applied against the Treatment Plant Reserve. The estimated operating balance of $7.7 million includes $2.7 million collected for future Treatment Plant Capital Costs, as stated above, and will fund the $70,000 CalPERS contribution, the proportionate General Fund share, and $4.2 million for Capital Projects.

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 February 2022 total $1.0 million, and interest is estimated at $123,000. Various Development Impact fees have been adopted by the City Council, and for Fiscal Year 2021-22, $6,000 has been received through February 2022, and interest is estimated at $24,000. Any fees and interest earned will be designated for specific projects and will be identified in the Five-Year CIP. Capacity and Development Impact Fees received in prior fiscal years are sufficient to fund the $2.0 million in additional capital projects for Fiscal Year 2021-22.

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

The fund is estimated with an ending balance of $5.9 million and $30.3 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, $2.9 million in Treatment Plant credits for prior fiscal years, and the Capacity and Development fees balance.

For Fiscal Year 2022-23, the Treatment Plant's budget is proposed to increase 6.8% and Treatment Plant costs make up approximately 60.0% of the Wastewater Budget. Due to the

Treatment Plant increase and City cost increases, wastewater rates are recommended with a 6.0% increase, in addition to the 2.0% increase (ninth year of the 10-year plan) for Treatment Plant Capital costs for a total recommended increase of 8.0% for Fiscal Year 2022-23. This results in a monthly increase of $3.70 in the flat residential sewer rate. There continue to be significant capital improvement projects above the annual $2.5 million funded annually from rates, of which $5.6 million is scheduled for Fiscal Year 2023-24, drawing from the available balance, and $36.1 million is unscheduled. While some can be funded from the capacity and development fees collected, there is not sufficient available balance to fund all the $36.1 million in unscheduled projects in the near future. In addition, Treatment Plant capital cost estimates have increased significantly, and it is likely that the additional 2.0% increase will need to continue past the original 10-year plan.

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, organics services, street sweeping, and the maintenance of two of the City's three closed landfill sites.

The City provides a variety of services through an outside contractor (Recology) for the collection and transportation of trash, organics, and recyclables generated in the City. Recology transports trash and residential recyclables to the SMaRT® Station (the City is one of two partners currently) for processing the removal of certain recyclables before the remaining trash is transported for final disposal at the Kirby Canyon Landfill in South San Jose. In order to maximize diversion, Recology transports commercial recyclables to the Zanker Recycling processing facility, construction and demolition debris to the GreenWaste Recovery processing facility, and organics to Recology's organics processing facilities. The City bills and collects all revenues for solid waste services.

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

	2021-22 Adopted Budget	2021-22 Adjusted Budget	**2021-22 Estimated**	Variance of Estimated to Adjusted Budget
City Revenues	$15,390	$15,390	**$14,949**	($ 441)
Recology Revenues[1]	20,305	20,305	**18,341**	(1,964)
Total Revenues	35,695	35,695	**33,290**	(2,405)
City Expenditures	(16,015)	(17,596)	**(15,099)**	2,497
Recology Payments[1]	(20,305)	(20,305)	**(18,341)**	1,964
Total Expenditures	(36,320)	(37,901)	**(33,440)**	4,461
Operating Balance (Deficit)	(625)	(2,206)	**(150)**	2,056
CalPERS Contribution	(48)	(48)	**(48)**	-0-
Capital Projects	(290)	(290)	**(290)**	-0-
Excess (Deficiency) of Revenues	(963)	(2,544)	**(488)**	2,056
Beginning Balance	15,793	15,793	**15,793**	-0-
Reserve for Future Facility Equipment	(2,200)	(2,200)	**(2,200)**	-0-
Reserves	(4,004)	(4,004)	**(4,004)**	-0-
Ending Balance	$ 8,626	$ 7,045	**$ 9,101**	$2,056

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

For Fiscal Year 2021-22, a 4.0% rate increase effective July 1, 2021 was adopted. The City's Solid Waste Fund operating revenues are estimated at $14.9 million, $441,000 (2.9%) lower than budget. This is the result of higher cart-service revenue offset by lower commercial account revenue. City operating expenditures are estimated at $15.1 million, $2.5 million (14.2%) below budget, as a result of operating savings. The SMaRT® Station performs an annual reconciliation of the prior fiscal year's costs, and an adjustment is provided to each member agency. The City has not received the reconciliation for Fiscal Year 2020-21 yet but is expected to receive a credit of approximately $1.1 million, which would be applied against the current fiscal year charges.

There is an estimated negative operating balance of $150,000, and the $48,000 CalPERS contribution, proportionate to the General Fund's share, and $290,000 for Capital Projects will come from the fund balance. The fund is estimated with an ending balance of $9.1 million and reserves of $6.2 million. Available fund balance has been used over the past two fiscal years to lower rate-increases needed and, as stated in previous budget reports, will be used to smooth the rate adjustment needed for the new Recology Agreement and changes to the SMaRT® Station Agreement.

For Fiscal Year 2022-23, the increase for Recology for collection services is 3.38%, reflecting the change in CPI per the agreement. The City's share of SMaRT® Station costs are approximately 2.4% lower for Fiscal Year 2022-23; however, taking into consideration the processing services moved from the SMaRT® Station to other specialized facilities as of January 1, 2022, costs are estimated to increase approximately 1.0%. City operating costs are increasing approximately 23.0%, primarily due to the processing services changes and increase in commercial composting costs all resulting in a $1.7 million increase in operating costs. Senate Bill 1383 mandates residential and commercial composting which requires increased composting services. As a result of all of these increases, trash and recycling rates would need to increase approximately 15.0% to maintain a balanced operating budget. However, as stated above, there is a sufficient balance to smooth the rate increase over three fiscal years. Therefore, trash and recycling rates are recommended with a 6.0% increase for Fiscal Year 2022-23, with the remainder spread over the following two fiscal years. This results in a monthly increase of $2.25 for a 32-gallon cart.

II. Fiscal Year 2022-23 Preliminary GOF Forecast Update

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

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

	2020-21 Audited	2021-22 Adopted Budget	2021-22 Estimated	**2022-23 Preliminary Forecast**	Variance of 2022-23 Forecast to 2021-22 Adopted
Revenues	$143,706	$146,412	$159,090	**$162,940**	$16,528
Expenditures[1]	(136,811)	(150,804)	(148,626)	**(159,632)**	(8,828)
Rebudgets[2]	(5,235)	-0-	-0-	**-0-**	-0-
Operating Balance	1,660	(4,392)	10,464	**3,308**	7,700
Transfer to GNOF[3]	(8,501)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	-0-	-0-	-0-	**(1,763)**	(1,763)
Excess ERAF	6,841	5,836	-0-	**-0-**	(5,836)
Ending Balance	$ -0-	$ 1,444	$ 10,464	**$ 1,545**	$ 101

(1) Adopted Budget and Preliminary Forecast include $4.0 million in estimated budget savings.

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

The preliminary forecast projects total GOF revenues of $162.9 million, $16.5 million (11.3%) more than the current fiscal year Adopted Budget and an increase of $3.9 million (2.4%) compared to the current fiscal year Estimated.

Expenditures are anticipated to increase $8.8 million (5.9%) to $159.6 million compared to the current fiscal year Adopted. For Fiscal Year 2022-23, there is a preliminary ending balance of approximately $1.5 million. **This forecast includes preliminary expenditure recommendations for Fiscal Year 2022-23 to be presented with the Recommended Budget in June.** All labor agreements expire June 30, 2023 and include an opener for salary for Fiscal Year 2022-23 for which negotiations of new contracts are currently in progress.

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

Despite incorporating the most recent available data into the forecasting process, a considerable amount of volatility and uncertainty remains as the pandemic continues to bring new and varied impacts on the economy. In addition, the recent geopolitical situation that is continuing to develop, as the conflict between Russia and Ukraine widens, could negatively impact the economy, including the supply chain, which could cause significant expenditure increases. In addition, the record-high gas prices add more uncertainty of the impact to City's financial forecast. 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 challenging.

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

Revenues

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

	2020-21 Audited	2021-22 Adopted Budget	2021-22 Estimated	**2022-23 Preliminary Forecast**	Variance of 2022-23 Forecast to 2021-22 Adopted
Property Taxes	$ 59,783	$ 60,272	$ 63,216	**$ 69,289**	$ 9,017
Sales Tax	18,058	18,477	21,787	**21,360**	2,883
Other Local Taxes	13,717	16,775	18,676	**19,124**	2,349
Use of Money and Property	22,195	23,014	24,108	**24,893**	1,879
Licenses, Permits, and Fees/Fines and Forfeitures	5,677	6,767	5,925	**6,185**	(582)
Intergovernmental	782	738	1,963	**712**	(26)
Charges for Service	1,941	2,099	2,416	**2,857**	758
Miscellaneous Revenues	4,358	1,781	3,392	**1,892**	111
Interfund Revenues and Transfers	17,195	16,489	17,607	**16,628**	139
Total Operating Revenues	$143,706	$146,412	$159,090	**$162,940**	$16,528

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

Property Tax revenue is projected at $69.3 million, an increase of $9.0 million compared to the current fiscal year Adopted and $6.1 million compared to the current fiscal year Estimated.

Compared to the July 1, 2021 tax roll, the Fiscal Year 2022-23 AV of secured property-generating tax revenues for the GOF is projected with net growth, reflecting the following:

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

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

Sales Tax revenue is projected at $21.4 million for Fiscal Year 2022-23 based on the actual fourth-quarter sales tax activity and the prior three 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 an increase of $2.9 million compared to the current fiscal year Adopted Budget and is essentially the same as the current fiscal year Estimated once adjusted to exclude the taxes that belong to the prior fiscal year. Sales Tax revenues have been impacted by the pandemic but have rebounded quicker than expected. At the high in Fiscal Year 2000-01, Sales Tax revenues reached $24.1 million. During the recession that followed, Sales Tax revenue declined an unprecedented $7.4 million in Fiscal Year 2001-02 to a low of $14.2 million in Fiscal Year 2003-04. Taking into consideration the prior fiscal years' CDTFA corrections, Sales Tax revenues have still not recovered to the peak level reached in Fiscal Year 2000-01.

Other Local Taxes revenue is projected at $19.1 million, $2.3 million (14.0%) higher than the current fiscal year Adopted and $448,000 (2.4%) higher than the current fiscal year Estimated. TOT revenue has been gradually recovering from the pandemic and is projected $1.1 million higher than the current fiscal year Adopted and essentially the same as the current fiscal year

Estimated. Business License Tax revenue is projected $220,000 higher than the current fiscal year Adopted and essentially the same as Estimated. The City Council earmarked 80.0% of the increased tax for transportation and 10.0% for housing; transfers are included and discussed in the Expenditure section below. UUT revenue is projected $1.1 million and $410,000 higher than the current fiscal year Adopted and Estimated, respectively.

Use of Money and Property revenue is projected $1.9 million (8.2%) and $785,000 million (3.3%) higher than the current fiscal year Adopted and Estimated, respectively. Investment revenue is projected to decline due to the current market of low interest rates. Lease revenues are projected with inflators as stipulated in the leases or estimated with 3.0% increases.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is projected to be $582,000 (8.6%) lower than the current fiscal year Adopted Budget and $260,000 (4.4%) higher than Estimated. The projection assumes about the same level of activity as the current fiscal year plus the approval of one cannabis permit and higher franchise fees.

Intergovernmental revenue is projected to be essentially the same as the current fiscal year Adopted and $1.3 million (63.7%) below the current fiscal year Estimated, primarily due to a $1.0 million grant received for CPA operations. The projected budget does not include any variable mandated reimbursement funding or intergovernmental grants and reimbursements.

Charges for Services revenue is projected to be $758,000 (36.1%) and $441,000 (18.3%) higher than the current fiscal year Adopted and Estimated, respectively, reflecting a steady recovery from the pandemic.

Miscellaneous Revenues are projected to be $111,000 (6.2%) higher than the current fiscal year Adopted. The projection is $1.5 million (44.2%) below the current fiscal year Estimated, primarily due to the $1.4 million in reimbursements for Fire Strike Team deployments in the current fiscal year Estimated. Some grants, donations, and reimbursements cannot be anticipated and, therefore, are not budgeted.

Interfund Revenues and Transfers are projected at $16.6 million, essentially the same as the current fiscal year Adopted and $1.0 million (5.6%) below the current fiscal year Estimated, primarily due to estimated higher-than-budgeted CIP overhead in the current fiscal year.

If new information becomes available, revenue sources and projections will be reviewed and revised as appropriate for the forecast included in the Recommended Budget.

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). The departmental budget requests have been reviewed and preliminary recommendations are included in the Preliminary Forecast.

	2020-21 Audited	2021-22 Adopted Budget	2021-22 Estimated	**2022-23 Preliminary Forecast**	Variance of 2022-23 Forecast to 2021-22 Adopted
Salaries and Benefits:					
Salaries and All Pays	$ 68,292	$ 72,483	$ 71,184	**$ 78,674**	$6,191
Retirement	21,672	25,834	24,882	**27,826**	1,992
Health Benefits	9,090	11,803	9,072	**11,926**	123
All Other Benefits	6,875	7,762	7,060	**8,311**	549
	105,929	117,882	112,198	**126,737**	8,855
Services and Supplies	17,753	20,086	19,576	**22,501**	2,415
Capital Outlay/Equipment Replacement	2,899	2,745	3,043	**2,882**	137
Interfund Expenditures and Transfers	10,230	13,091	13,809	**12,512**	(579)
Debt Service	-0-	1,000	-0-	**1,000**	-0-
Budget Savings	Included	(4,000)	Included	**(6,000)**	(2,000)
Total Operating Expenditures	$136,811	$150,804	$148,626	**$159,632**	$8,828

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

Salaries and Benefits expenditures are projected $8.9 million (7.5%) higher than the current fiscal year Adopted. The forecast includes new positions that are considered to be approved for the new fiscal year and impact from the minimum wage increase from $16.30 to $17.10 per hour effective January 2022. All labor agreements expire June 30, 2023 and include an opener for salary for Fiscal Year 2022-23 for which negotiations of new contracts are currently in progress and are expected to conclude prior to budget adoption in June. The cost for retirement benefits are increasing by 2.7% (without new recommended positions and salary adjustment assumptions) and is based on the rates provided by CalPERS. Health benefit costs are projected with increases based on historical trends.

Services and Supplies expenditures are currently projected $2.4 million (12.0%) higher than the current fiscal year Adopted Budget. This forecast includes preliminary recommendations for the Fiscal Year 2022-23 budget, such as additional janitorial cost increase and additional overtime budget for Emergency Services. Detail of final recommended increases will be included with the Recommended Budget in June.

Capital Outlay/Equipment Replacement expenditures include $500,000 for Capital Outlay. The annual equipment replacement funding amount is projected at $2.4 million, 6.1% higher than the current fiscal year Adopted, due to inflation for replacement cost and some adjustments to quantity of items and life expectancy. This is approximately $889,000 lower-than-annually required as no annual funding is needed for certain pieces of equipment that have reached their life expectancy but are not recommended to be replaced yet as they are still operating well. This is a one-time decrease in funding as, once this equipment is replaced, full annual funding will be required again.

Interfund Expenditures and Transfers are projected $579,000 (4.4%) lower than the current fiscal year Adopted, primarily due to the updated Retirees' Health Actuarial valuation showing no unfunded liability at this time and, therefore, there is no longer an amortized payment required. The cost of the liability self-insurance pool for which the City is a member has increased significantly, resulting in an increase of $602,000 for the GOF's share of the cost. The transfer for "At-Risk" lease revenue is projected to increase $63,000 (3.9%) to approximately $1.7 million. These revenues will fund future capital projects and are set aside to reduce the dependency on the significant increases that have resulted in the recent revaluation of City leases to Google LLC and represent an estimate of annual lease revenue loss that could result from the potential secured AV decline in the Shoreline Community after a downturn in the economy. During previous economic slowdowns, the Shoreline Community experienced approximately 13.0% declines in secured AV.

The revenue from the Ameswell (Moffett Gateway) property is projected at $2.8 million, $571,000 more than current fiscal year Adopted, and is transferred to the Budget Contingency Reserve to be utilized for funding of limited-period items until the proposed debt service related to the Public Safety Administration Building project begins. The Business License restructuring was approved by voters in November 2018, and the City Council earmarked 80.0% of the increased tax (above the then-current $250,000 received annually) for transportation and 10.0% for housing. Based on the projected $6.2 million projected to be received in January 2023, the projection includes $4.8 million transferred to the Transportation Reserve and $595,000 transferred to the General Housing Fund, leaving an additional $595,000 above the $250,000 base amount in the GOF.

Debt Service is projected at $1.0 million for Fiscal Year 2022-23 based on an upcoming long-term debt issue for the Hope Street project, which was originally expected to be issued in the current fiscal year, but has been delayed and is tentatively planned to be completed next fiscal year.

III. Recommended Budget Adjustments

Appropriations for Increased Insurance Premiums

The City obtains coverage for its general liability claims through the Authority for California Cities Excess Liabilities, a joint powers authority. This insurance pool covers the risk of loss for claims in excess of $1.0 million per incident. In Fiscal Year 2021-22, the cost for the insurance premium was $570,000 higher than budget. The increase represents a continuing negative trend during the past several years of large losses in the broader insurance market in combination with both pool and the City's individual loss experience. The Finance and Administrative Services Department requests a budget increase of $570,000 in the Liability Insurance Fund to cover the cost increase.

Appropriations for Utility Online Payment Processing Fees

The Finance and Administrative Services Department is requesting increased funding for utility bill online payment processing costs. The City uses Paymentus, an online payment system, which allows residents and businesses to make payments for their utility accounts online. The processing fees for Fiscal Year 2021-22 have increased by 37.0% compared to the same timeframe last fiscal year. This is primarily related to adding new Alternative Payment Methods (APMs) as well as higher Commercial Cards transactions, for which the City is charged a 2.75% transaction fee. Examples of APMs are PayPal, Venmo, and Amazon Pay, which provide flexibility of payments to customers. The current budget for utility bill online payment processing is $225,000, and staff is currently estimating processing fees to be $300,000 for this fiscal year, which results in a shortfall of $75,000. Staff is requesting an appropriation of $75,000 from the Water Fund to cover the shortage.

Repurpose Appropriations for Cost Allocation Update and Fee Study

In the Fiscal Year 2021-22 Adopted Budget, the Finance and Administrative Services Department received limited-period funding of $120,000 from the General Non-Operating Fund to determine the feasibility of a TOT ballot measure. At the February 22, 2022 Council meeting, Council removed the TOT rate study from the Strategic Roadmap Action Plan, so the budget is no longer needed for this purpose. The City's Cost Allocation Plan and Comprehensive User Fee Study is also on the current workplan but needs funding. These projects, once complete, will serve as a basis for assessing the City's cost recovery levels for a variety of fees and charges, such as development related fees and other services that are provided on a fee-for-service basis.

Therefore, staff is requesting Council approve repurposing the $120,000 for the Cost Allocation Plan update and Comprehensive User Fee Study.

FISCAL IMPACT

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

ALTERNATIVES

1. Do not approve the recommendations.

2. Provide other direction.

PUBLIC NOTICING—Agenda posting.

Prepared by:

Elliot Young
Financial Analyst

Ann Trinh
Senior Financial Analyst

Grace Zheng
Assistant Finance and Administrative
Services Director

Approved by:

Jesse Takahashi
Finance and Administrative
Services Director

Kimbra McCarthy
City Manager

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