



COUNCIL REPORT

DATE: February 27, 2024

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Fiscal Year 2023-24 Midyear Budget Status Report and Adjustments, Fiscal Years 2023-25 Council Work Plan: Six-Month Project Updates, and Fiscal Year 2024-25 Preliminary General Operating Fund Forecast**

RECOMMENDATION

1. Receive and file the Fiscal Year 2023-24 Midyear Budget Status Report, Fiscal Years 2023-25 Council Work Plan: Six-Month Project Update (Attachment 1 to the Council report), and the Fiscal Year 2024-25 Preliminary General Operating Fund Forecast.
2. Adopt a Resolution of the City Council of the City of Mountain View: (1) Accepting and Appropriating Grant Funds in the Amount of \$160,000 from the Valley Transportation Authority for the Miramonte Avenue Phase 2 Preliminary Design Study; and (2) Amending the Fiscal Year 2023-24 Adopted Budget to appropriate \$6,000,000 in the General Operating Fund, \$3,377,000 in the General Non-Operating Reserve Fund, \$1,500,000 in the Development Services Fund, \$1,428,000 in the Workers' Compensation Fund, \$925,000 in the General Liability Fund, \$440,000 in the Solid Waste Fund, \$391,000 in the Water Fund, \$355,000 in the Solid Waste Landfill 544 Acres Fund, \$327,000 in the Wastewater Fund, \$175,000 in the Capital Improvement Reserve, \$160,000 in the VTA 2016 Measure B Fund, \$154,000 in the Park Land Dedication Fund, \$54,000 in the Shoreline Regional Park Fund, \$15,350 in the Wastewater Debt Proceeds Fund, and \$10,000 in the Retirees' Health Insurance Fund for Project and Program Expenditures as Specifically Set Forth in Exhibit A, Attached Hereto, to be read in title only, further reading waived (Attachment 2 to the Council report). (Five votes required)
3. Adopt a Resolution of the City Council of the City of Mountain View: (1) Authorizing Reclassification of 1.0 Full-Time Equivalent (FTE) Project Manager Position to 1.0 FTE Rent Stabilization Manager Position; (2) Amending the Salary Plan to Add Classifications for Rent Stabilization Manager, Finance Manager, and Customer Service Supervisor; and (3) Authorizing the Addition of a New 1.0 FTE Housing Officer Position in the Housing Department, to be read in title only, further reading waived (Attachment 3 to the Council report).

OVERVIEW

The City Council approved the Fiscal Year 2023-24 Adopted Budget on June 27, 2023. The Midyear Budget Status Report is an important tool in the City's monitoring of its finances, including the City's economic recovery postpandemic. It also provides an opportunity for the City Manager and staff to update the City Council on the major financial factors affecting the City's current fiscal year budget. This report provides an update of the City's budgetary position at the midway point in the fiscal year as well as a preliminary General Operating Fund (GOF) forecast for the upcoming fiscal year (Fiscal Year 2024-25) and an update on Council's Strategic Work Plan projects.

At midyear, the Fiscal Year 2023-24 estimated GOF revenue is \$182.4 million, which is slightly higher than the Adjusted Budget amount of \$181.0 million. Including estimated budget savings, operating expenditures are estimated at \$169.8 million, \$2.7 million (1.6%) below the Adopted Budget and \$5.5 million (3.1%) below the Adjusted Budget.

The GOF is currently estimated to end the fiscal year with an operating balance of \$3.6 million, after the \$3.0 million transfer to the General Fund Reserve as included in the Adopted Budget, and \$6.0 million in proposed transfers that are recommended as part of this report, which are as follows:

- \$3.0 million to the Open Space Acquisition Reserve;
- \$1.0 million to the Transportation Reserve;
- \$1.0 million to the Parental Leave Reserve; and
- \$1.0 million to the Liability Insurance Fund.

Other major funds of the City are the Development Services Fund (DSF), the Shoreline Golf Links/Michaels at Shoreline Restaurant, the Shoreline Regional Park Community, and the Water, Wastewater, and Solid Waste Enterprise Funds. The revenues and expenditures in the DSF are trending below budget, with revenues expected to be \$6.2 million less than budget and expenditures \$1.9 million less, which results in an operating deficit of \$8.7 million, which is \$4.3 million higher than budgeted. The revenues of the Shoreline Golf Links/Michaels at Shoreline Restaurant are below budget, and expenditures are trending slightly below budget as well. While Shoreline Golf Links is doing well, Michaels at Shoreline Restaurant continues to operate at a deficit. Shoreline Regional Park Community (SRPC) revenues are trending higher than budget, primarily due to higher property tax revenue, while operating expenditures are trending essentially the same as the budget. For the Water, Wastewater, and Solid Waste Enterprise Funds, revenues are currently trending higher than or at budget. Expenditures for all three funds are currently trending below budget. Further details on these funds are described below.

The preliminary Fiscal Year 2024-25 GOF Forecast projects revenues to be \$4.4 million (2.4%) and \$2.8 million (1.5%) higher than the current fiscal year Adopted Budget and Estimated Budget, respectively. There is anticipated revenue growth from slightly increasing property tax revenue (with lower growth expected than has been experienced previously), Consumer Price Index increases on the City's leases, Utility Users Tax generated from energy services, Recreation/Center for the Performing Arts services, and interest earnings revenue. Although revenues from Sales Tax and Transient Occupancy Tax (excluding prior year accrual) are estimated higher for the current fiscal year, they are projected at essentially the same for Fiscal Year 2024-25. All other revenues are primarily projected to be either flat or show a decrease. The projected revenues are sufficient to meet currently projected baseline expenditures, resulting in a preliminary projected balance of \$185,000. **Importantly, this projected balance does not reflect any ongoing expenditure recommendations for Fiscal Year 2024-25 that are currently under consideration as part of the budget development process.**

The major components to this staff report include the following:

I. Economic Update

An economic update on Federal, State, and local trends provides context to the Fiscal Year 2023-24 Midyear Budget Status Report and Fiscal Year 2024-25 Preliminary GOF Forecast.

II. Fiscal Year 2023-24 Midyear Budget Status Summary

This portion of the Council report includes an update on estimated Fiscal Year 2023-24 operating results based on current revenue and expenditure trends approximately midway through the fiscal year.

III Fiscal Years 2023-24 and 2024-25 Council Strategic Priorities and Work Plan Update

This portion of the Council report includes an update on the Council Strategic Priorities and Work Plan.

IV Performance Measures Project Update

This portion of the Council report includes an update on creating new and enhanced performance measures for each City department.

V. Recommended Midyear Budget Amendments

This portion of the Council report includes proposed midyear budget amendments, including position-related amendments, for Fiscal Year 2023-24.

VI. Fiscal Year 2024-25 Preliminary General Operating Fund Forecast

This section discusses the General Operating Fund's estimated revenues and expenditures for Fiscal Year 2024-25 based on limited data and financial assumptions with information available at this time.

VII. Fiscal Year 2022-23 General Fund Remaining Balance

This section displays the updated remaining unallocated balance of the General Operating Fund at June 30, 2023.

BACKGROUND AND ANALYSIS

I. ECONOMIC UPDATE

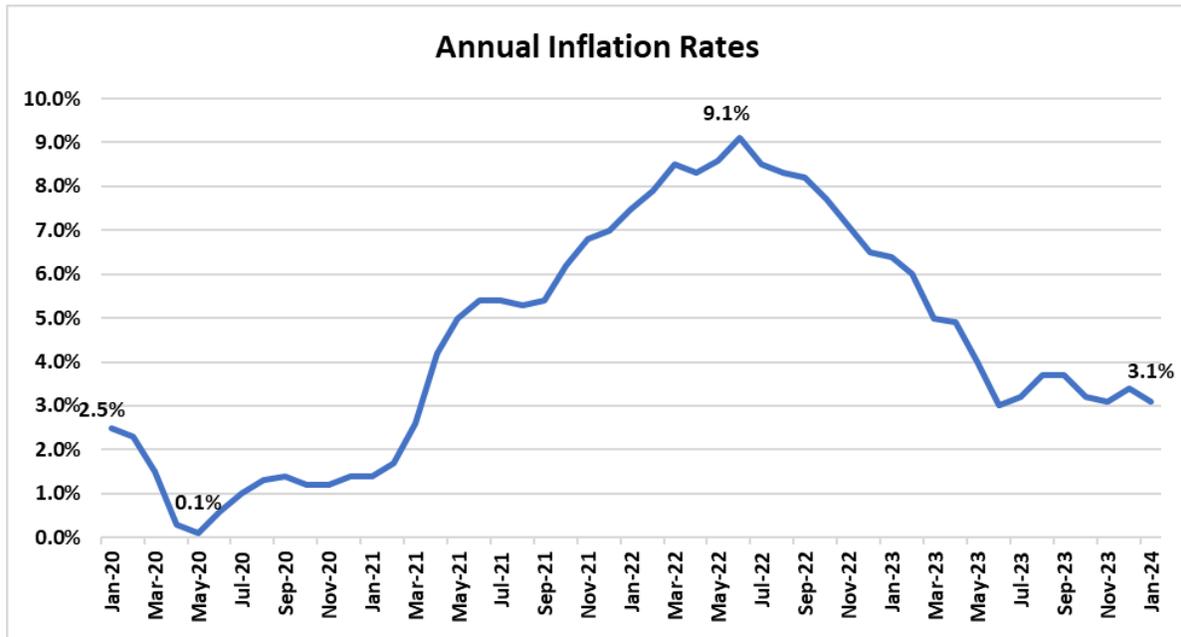
The economic conditions discussed below help inform the Fiscal Year 2023-24 Midyear Budget Status Report and Fiscal Year 2024-25 Preliminary GOF Forecast.

National

The nation is facing significant challenges and uncertainties. Inflation remains a dominant concern, with consumer prices continuing to increase amid supply chain disruptions, heightened demand, and escalating geopolitical tensions. Even though there has been recent progress on inflation, the Federal Reserve's target rate of 2% has not been reached. The Federal Reserve's vigilant stance on monetary policy underscores the urgency of addressing inflationary pressures while striving to maintain economic stability. Adding to the complexity, the potential March government shutdown looms large as policymakers navigate contentious budget negotiations. The potential disruption to Federal operations poses risks to economic activity and consumer confidence.

Furthermore, the upcoming election cycle introduces an additional layer of uncertainty, with political developments and policy agendas influencing market and investment decisions. The outcomes of the election have the potential to shape economic policies, with implications for fiscal stimulus, regulatory framework, and investor confidence.

As shown in the chart below, annual inflation hit a peak of 9.1% in June 2022 and has declined to 3.1% in January 2024. Inflation has been relatively stable the last six months.



Source: U.S. Labor Department

State

In January 2024, Governor Gavin Newsom released his Fiscal Year 2024-25 Proposed Budget, which projects a \$38.0 billion shortfall. This shortfall is partially a result of personal income, sales, and corporation tax revenue projections that are much lower than anticipated and the delay in the collection of these tax revenues. Personal income tax represents two-thirds of all General Fund revenues of the State, and just 1% of California's total tax returns were responsible for half of all the personal income tax paid by residents. This small share of Californians earn a significant proportion of their income from stock-based compensation and capital gains which makes their income, and the tax revenue it generates, significantly more volatile and subject to swings in the financial markets. However, the Federal Reserve has indicated it intends to cut interest rates throughout 2024, which may stimulate real estate transactions and other sectors of California's economy, potentially improving the revenue outlook.

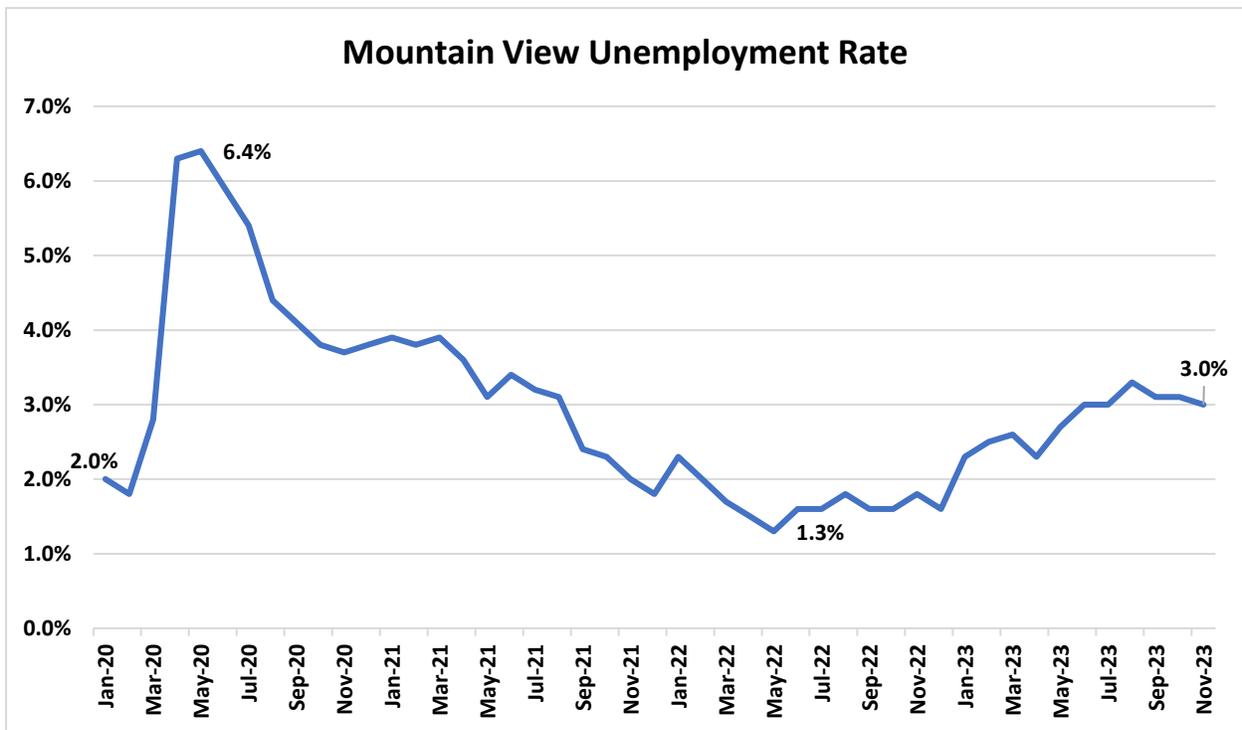
As the administration plans for future state budget deficits of \$30 billion each year from Fiscal Year 2025-26 through 2027-28, City Finance staff will be monitoring the State's financial condition and potential impacts on local revenues. It is expected that the State will have fewer tools available to address these shortfalls, resulting in more pressure on the Legislature to look for creative ways to generate revenue or reduce expenditures, which could impact the budgets

of local governments. Of note, the State has previously shown an interest in challenging the continued distribution of Educational Revenue Augmentation Fund (ERAF) monies to recipient cities like Mountain View. If the State were to pursue this budget balancing option, it would have a significant impact on the City’s finances.

Local

The local economy has fully recovered to COVID-19 pre-pandemic levels. The City’s major revenues have generally remained strong and have benefited from inflation as well as the increase in interest rates.

One of the most discouraging initial economic impacts of the pandemic was unemployment. After reaching a low of 1.8% in February 2020, the City’s unemployment rate leapt to a high of 6.4% in May 2020. However, since that time, unemployment has slowly decreased to a low of 1.3% and currently sits at 3.0%, which is considered full employment and aligns with unemployment rates experienced in 2015 and 2016. The unemployment rate is expected to increase as corporate layoffs in the area have been announced over the past year and continue to occur.



Source: Bureau of Labor Statistics

According to Zillow, the average home value in Mountain View is \$1.9 million, up 3.5% from a year ago. The average monthly rent for a one-bedroom apartment in Mountain View is currently \$2,816, according to statistics tracked by the City.

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

II. FISCAL YEAR 2023-24 MIDYEAR BUDGET STATUS SUMMARY

The Midyear Budget Status Report represents staff's best estimate of the City's budgetary position at this point in time, approximately midway through the fiscal year, and makes certain assumptions regarding revenues and expenditures for the remainder of the fiscal year. This section of the report includes a discussion of Fiscal Year 2023-24 revenue and expenditure estimates compared to budget for major funds.

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

	2022-23 <u>Audited</u>	2023-24 Adopted <u>Budget</u>	2023-24 Adjusted	2023-24 <u>Estimated</u>	Variance of 2023-24 Estimated to 2023-24 <u>Adjusted</u>
Revenues	\$181,989	\$180,846	\$181,024	\$182,401	\$1,377
Expenditures ¹	(154,273)	(172,530)	(175,311)	(169,795)	5,516
Year-End Adjustments ²	<u>(346)</u>	<u>-0-</u>	<u>2,705</u>	<u>-0-</u>	<u>(2,705)</u>
Operating Balance	27,370	8,316	8,418	12,606	4,188
Transfer to GNOF	(16,770)	-0-	-0-	-0-	-0-
Transfer to GF Reserve	(1,600)	(3,000)	(3,000)	(3,000)	-0-
Transfer to Capital Improvement Reserve	(4,000)	-0-	-0-	-0-	-0-
Transfer to SPAR	(3,000)	-0-	-0-	-0-	-0-
Transfer to Budget Contingency Reserve	(1,000)	-0-	-0-	-0-	-0-
Transfer to Liability Ins Fund ³	(1,000)	-0-	-0-	(1,000)	(1,000)
Transfer to Transportation Reserve ³	-0-	-0-	-0-	(1,000)	(1,000)
Transfer to Open Space Acquisition Reserve ³	-0-	-0-	-0-	(3,000)	(3,000)
Transfer to Parental Leave Reserve ³	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,000)</u>	<u>(1,000)</u>
Ending Balance	\$ <u>-0-</u>	\$ <u>5,316</u>	\$ <u>5,418</u>	\$ <u>3,606</u>	\$ <u>(1,812)</u>

¹ Adopted and Adjusted Budgets include \$6.5 million in projected budget savings.

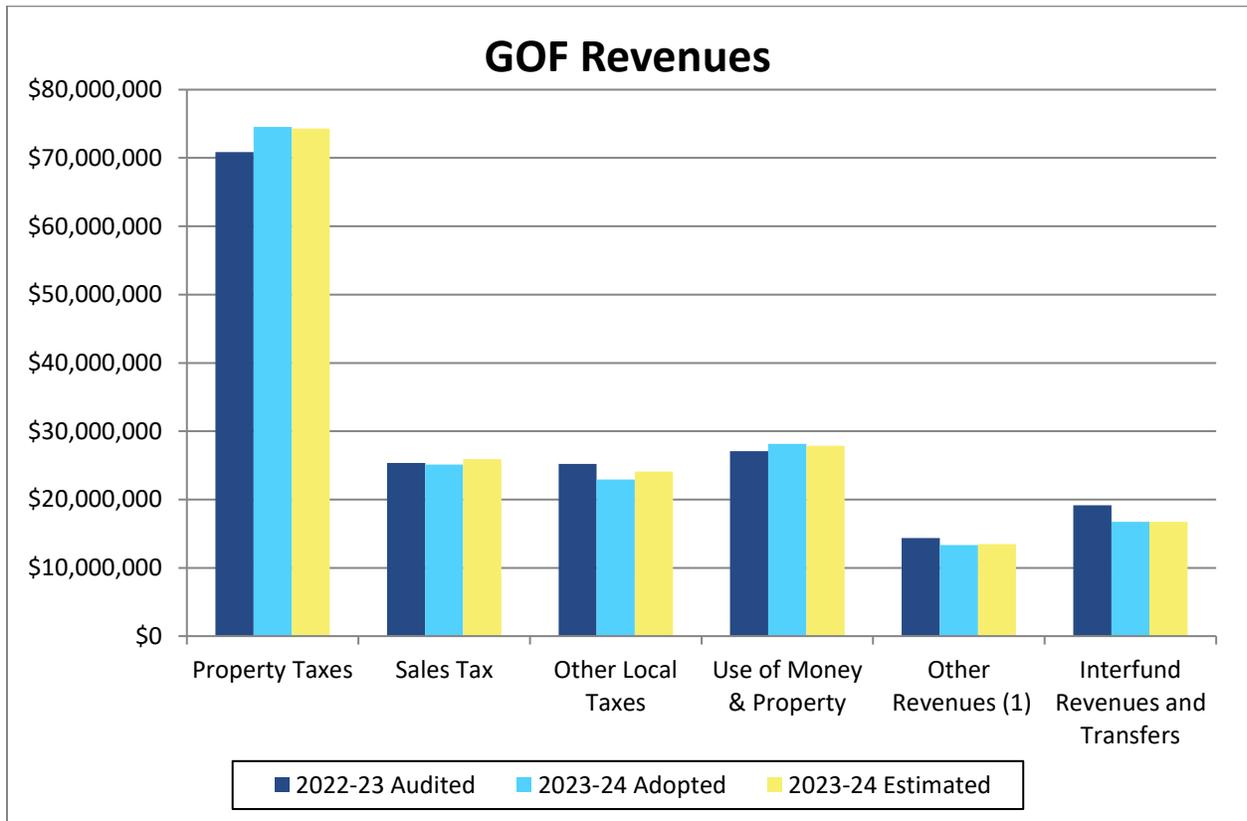
² Year-End Adjustments include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

³ Staff recommendations pending approval from the City Council.

General Operating Fund

Revenues

The chart below is a comparison of the Fiscal Year 2022-23 Audited and Fiscal Year 2023-24 Adopted and Estimated for GOF major revenue categories.



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

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

Property Tax revenue is estimated at \$74.3 million, essentially the same as budget. The Fiscal Year 2023-24 Adopted Budget included projected growth based on a positive 2.0% CCPI applied to a majority of properties plus increased values related to changes in ownership and new development. It also included projected assessment reductions from appeals. The information provided by the Santa Clara County Assessor after the beginning of the current fiscal year

indicates the total actual July 1, 2023 General Fund Assessed Value (AV) increased a net 7.0% compared to the July 1, 2022 AV, reflecting growth in secured and unsecured AV.

Sales Tax revenue is currently estimated at \$25.9 million, \$775,000 (3.1%) higher than budget, primarily due to strength in restaurants and hotels as the economy continued to recover. The estimate includes \$269,000 in additional sales tax the City received for Q2 2023, which was not included at 2022-23 fiscal year-end.

Other Local Taxes

Transient Occupancy Tax (TOT) revenue is estimated to be \$8.6 million, \$115,000 (1.4%) higher than budget for Fiscal Year 2023-24. TOT quarterly payments have recovered back to pre-pandemic levels beginning Q2 2022. The City's current TOT rate is 10.0% with 1% of TOT equating to about \$863,000 in revenue. The current TOT rate was last modified in June 1991, increasing from 8.0% to 10.0%.

Utility Users Tax (UUT) revenue is estimated to be \$10.4 million, \$1.0 million (11.2%) higher than budget. UUT generated from telecommunications services had been steadily declining from Fiscal Year 2015-16 through Fiscal Year 2021-22 and has since remained relatively steady. The pervasive use of cell phones has eliminated the necessity and cost of a landline for many people, and it is common for a cell phone to be utilized for both personal and professional uses. UUT generated from energy services is trending higher than budget, primarily from an increase in rates charged by Silicon Valley Clean Energy (SVCE) and PG&E (13.0% rate hike effective January 2024).

Business License revenue is estimated to be \$5.1 million, the same as budget based on billings, adjusted for actual collections. Staff continues to process renewal applications and will provide an updated estimate with the next budget update.

Use of Money and Property revenue is comprised of Investment Earnings and Rents and Leases and is estimated at \$27.9 million, essentially the same as budget.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is estimated at \$6.6 million, \$121,000 (1.8%) lower than budget.

Intergovernmental revenue is estimated at \$830,000, \$91,000 (12.3%) higher than budget.

Charges for Services revenue is generated by fees assessed for Recreation and other types of services and is estimated at \$3.0 million, \$397,000 lower than budget, primarily since the Rengstorff Park Aquatics Center is not expected to open until spring.

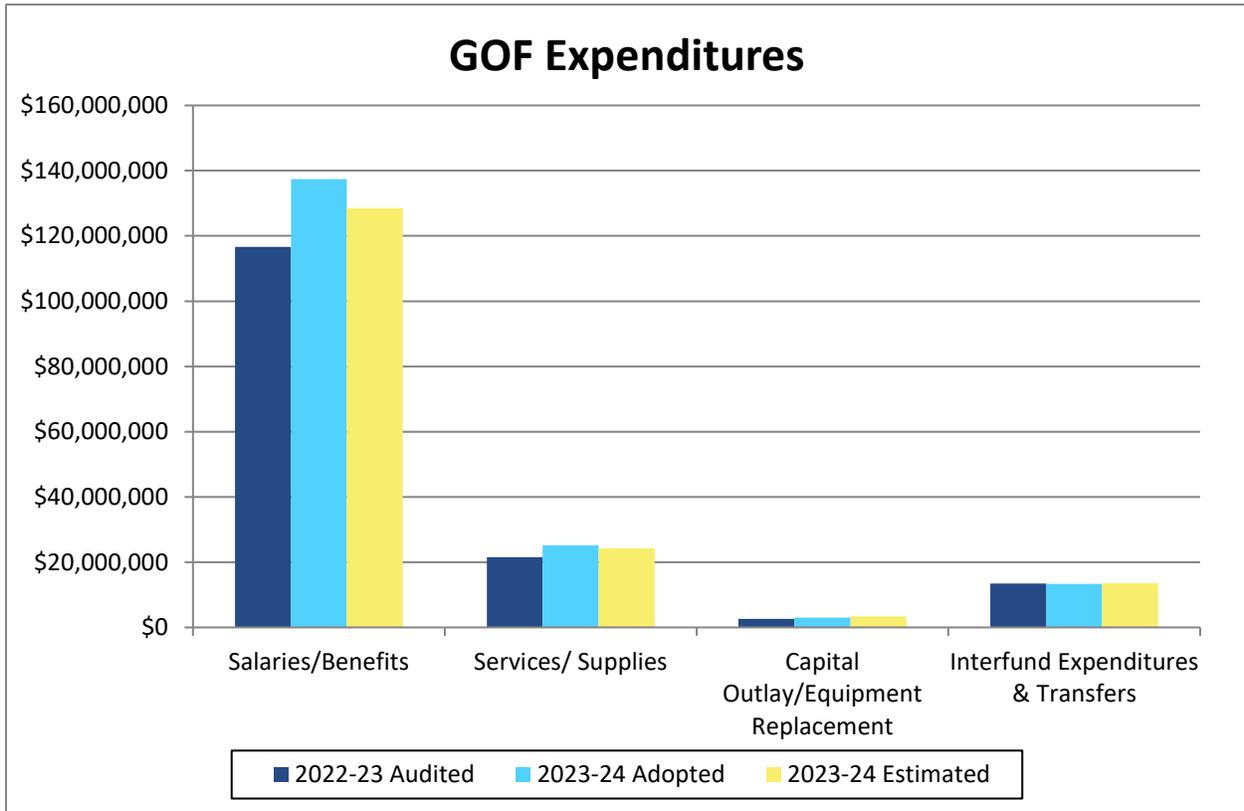
Miscellaneous Revenues are estimated at \$3.0 million, \$575,000 (23.7%) and \$397,000 (15.2%) higher than the Adopted and Adjusted Budget, respectively. Included in the estimate is \$321,000 in reimbursements for Fire mutual-aid overtime, including administration, which have not been received but are expected to be received during this fiscal year. There are other grants, donations, and expenditure reimbursements received that are not budgeted due to the uncertainty of receipt, and full fiscal year estimates are not calculated for these revenues as the amounts can vary greatly.

Interfund Revenues and Transfers are estimated at \$16.7 million, essentially the same as budget.

Expenditures

Budget savings are expected each fiscal year and are included in the Adopted Budget. Including the projected budget savings, total estimated expenditures are \$2.7 million (1.6%) and \$5.5 million (3.1%), resulting in a favorable variance compared to the Adopted and Adjusted Budget, respectively.

The chart below is a comparison of the Fiscal Year 2022-23 Audited and Fiscal Year 2023-24 Adopted and Estimated for GOF expenditures.



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

Salaries and Benefits expenditures are estimated at \$128.5 million, \$9.0 million (6.6%) below Adjusted Budget. This is the result of vacant positions and personnel turnover during the first half of the fiscal year. For regular (nonhourly) positions, there are currently 77 vacancies and 37 active recruitments to fill 65 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. The number of current total vacancies is less than last year, while turnover has remained steady; however, resignations outpaced retirements in calendar year 2023. The City continues to monitor labor market trends and prioritize recruitment and retention.

Services and Supplies expenditures are estimated at \$24.3 million, \$860,000 (3.4%) and \$3.2 million (11.6%) below the Adopted and Adjusted Budget, respectively. Savings are expected annually, and this is comparable to prior fiscal years.

Capital Outlay/Equipment Replacement expenditures are estimated at \$3.4 million, \$368,000 higher than the Adopted Budget but equal to the Adjusted Budget, and include \$2.3 million of annual funding for equipment replacement and \$1.1 million currently estimated for new capital purchases.

Interfund Expenditures and Transfers are estimated at \$13.6 million, \$185,000 higher than budgeted. This is primarily due to higher-than-expected TOT revenue from the Ameswell Hotel which continues to be transferred to the Budget Contingency Reserve to be set-aside and dedicated to the Public Safety Building until such time as it is needed for debt service.

Expenditures by Department

All departments are trending under budget for the current fiscal year. Nondepartmental expenditures are trending over due to a higher transfer to the Budget Contingency Reserve due to higher-than-expected TOT revenue from the Ameswell Hotel. The variances detailed below do not take into consideration encumbrances that may be incurred as of the end of the fiscal year.

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

	2023-24 Adopted <u>Budget</u>	2023-24 Adjusted <u>Budget</u>	2023-24 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>	Percent Savings of Adjusted <u>Budget</u>
City Council	\$ 509	\$ 515	\$ 362	\$ 153	29.7
City Clerk	1,106	1,108	1,007	101	9.1
City Attorney	3,831	3,958	3,183	775	19.6
City Manager	6,059	6,285	5,895	390	6.2
Human Resources	3,673	3,714	3,250	464	12.5
Information					
Technology	8,396	8,563	7,265	1,298	15.2
Finance and Admin.					
Services	8,246	8,584	7,522	1,062	12.4
Community					
Development	1,570	1,592	1,480	112	7.0
Public Works	14,723	14,897	13,714	1,183	8.0
Community Services	22,582	23,062	19,626	3,436	14.9
Library	7,719	8,169	7,232	937	11.5
Fire	33,066	33,452	32,833	619	1.9
Police	50,870	51,173	49,739	1,434	2.8
Housing	657	716	480	236	33.0
Nondepartmental ¹	16,023	16,023	16,207	(184)	(1.1)
Projected Budget					
Savings	<u>(6,500)</u>	<u>(6,500)</u>	<u>Included</u>	<u>(6,500)</u>	<u>100.0</u>
Total Operating					
Expenditures	<u>\$172,530</u>	<u>\$175,311</u>	<u>\$169,795</u>	<u>\$5,516</u>	3.1

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

General Operating Fund Summary

In summary, revenues are currently estimated at \$182.4 million, essentially the same as budget. Including projected budget savings, operating expenditures for the current fiscal year are estimated at \$169.8 million, \$2.7 million (1.6%) below the Adopted Budget and \$5.5 million (3.1%) below the Adjusted Budget. The operating balance is currently estimated to be \$12.6 million, and the ending balance is estimated to be \$3.6 million after the \$3.0 million

transfer to the General Fund Reserve included in the Adopted Budget and additional staff recommendations.

Development Services

Development Services is a General Fund program separated from the GOF in order to facilitate better tracking and accounting for development activity. This separation allows for an effective way to match revenues and expenditures related to private development activity and provide support to sustain services throughout the fluctuations of development and economic cycles. The Development Services Fund (DSF) was created in Fiscal Year 2006-07 for building services, to track Building Division-related services. Effective with the Fiscal Year 2014-15 Adopted Budget, the DSF was expanded to consolidate all development-related activities, including Planning and Public Works (Land Development and Traffic Divisions).

The DSF is currently projected to have a deficit at the close of the year. Part of the deficit on a year-by-year basis can be explained by the fact that fees are received in advance, but services are provided over several years (such as building inspections throughout the construction period of a project). However, the inclusion of Planning and Public Works over the years into the DSF has led to an increase in deficits due to the fact that the fees collected do not recover the full cost of staff time required to review the projects. Currently, staff is in the process of conducting a comprehensive Citywide Fee Study to achieve cost-recovery, correct the deficit situation now and in the future, and implement any necessary adjustments to how staff are budgeted within the DSF accordingly. The Citywide Fee Study is also a Council work plan project.

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

	2023-24 Adopted <u>Budget</u>	2023-24 Adjusted <u>Budget</u>	2023-24 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$14,401	\$14,401	\$ 8,192	(\$6,209)
Expenditures	<u>(17,832)</u>	<u>(18,847)</u>	<u>(16,914)</u>	<u>1,933</u>
Operating Balance (Deficit)	(3,431)	(4,446)	(8,722)	(4,276)
Land Use Documents	<u>800</u>	<u>800</u>	<u>491</u>	<u>(309)</u>
Excess (Deficiency) of Revenues	(2,631)	(3,646)	(8,231)	(4,585)
Beginning Balance	15,172	15,172	15,172	-0-
Land Use Document Reserve	<u>(11,477)</u>	<u>(11,477)</u>	<u>(11,168)</u>	<u>309</u>
Ending Balance	<u>\$ 1,064</u>	<u>\$ 49</u>	<u>(\$ 4,227)</u>	<u>(\$4,276)</u>

The level of development revenue is significantly lower than budgeted, currently estimated at \$8.2 million, which is \$6.2 million (43.1%) below budget. Of this, building permit revenue is estimated at \$4.0 million (50.3%) below budget. The variance is due to fewer development applications submitted to the City. Several large projects are either on hold or not moving forward due to the current economic climate. Estimated operating expenditures are \$16.9 million, which is \$1.9 million (10.3%) below the Adjusted Budget.

Operating expenditures are, therefore, estimated to exceed operating revenue by \$8.7 million for this fiscal year. The ending balance of the fund is projected to be a \$4.2 million deficit, which does not include the staff recommendation to transfer \$3.1 million from the General Non-Operating Fund (GNOF) or the \$1.5 million in expenditure appropriations at midyear (see midyear requests later in this report).

Shoreline Golf Links/Michaels at Shoreline Restaurant

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

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

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

	2023-24 Adopted <u>Budget</u>	2023-24 Adjusted <u>Budget</u>	2023-24 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$4,929	\$4,929	\$4,417	(\$512)
Expenditures	<u>(4,522)</u>	<u>(4,526)</u>	<u>(4,260)</u>	<u>266</u>
Operating Balance	407	403	157	(246)
Transfer to GOF	<u>(150)</u>	<u>(150)</u>	<u>(150)</u>	<u>-0-</u>
Excess (Deficiency) of				
Revenues	257	253	7	(246)
Beginning Balance	<u>122</u>	<u>122</u>	<u>122</u>	<u>-0-</u>
Ending Balance	<u>\$ 379</u>	<u>\$ 375</u>	<u>\$ 129</u>	<u>(\$246)</u>

Paid rounds of golf played in Fiscal Year 2022-23 totaled 79,030, a 3.9% decrease from the prior fiscal year of 82,223 rounds, which was an all-time high since this statistic began being tracked in Fiscal Year 2013-14, and approximately the same as Fiscal Year 2020-21. Based on financial information midway through the fiscal year, activity at Shoreline Golf Links is estimated to generate \$3.2 million in revenues, \$45,000 (1.4%) higher than budget. Restaurant revenues are estimated at \$1.3 million, \$557,000 (30.8%) below budget and essentially the same as the prior year. This is partially attributable to the slow pace of remote-work employees returning to on-site work on a regular basis and patronizing the restaurant.

In total, golf expenditures for the current fiscal year are estimated at \$2.8 million, in line with the Adjusted Budget. Restaurant expenditures are estimated at \$1.5 million, \$267,000 (15.5%) below the Adjusted Budget.

The fund is trending to finish the fiscal year with an operational balance of \$157,000; Shoreline Golf Links is trending with a positive balance of \$364,000 while Michaels at Shoreline Restaurant

is trending at a loss of \$207,000. For Fiscal Year 2022-23, there was no transfer to the GOF, the Golf Links transferred \$80,000 to the Restaurant, and the fund ended the fiscal year with a balance of \$122,000. For the current fiscal year, an operating transfer to the GOF of \$150,000 was included. With the prior fiscal year balance of \$122,000 and estimated operating balance for the current fiscal year of \$157,000, staff is estimating a transfer to the GOF of \$150,000 as planned and will monitor the fund to increase the transfer to GOF, if possible, at year-end.

Shoreline Regional Park Community

The Shoreline Regional Park Community (Shoreline Community) is a separate legal entity created by legislation in 1969, known as the Shoreline Regional Park Community Act (the Act), to fund a regional park, develop the surrounding North Bayshore Area economically and environmentally, and provide a means of financing the short- and long-term responsibilities of the Shoreline Community. In accordance with the Act, all tax revenues received by the Shoreline Community are deposited into a special fund and used to pay the principal of and interest on loans, advances, or other indebtedness of the Shoreline Community. The Act further stipulates that the Shoreline Community was created to:

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

However, for purposes of financial reporting, the Shoreline Community is considered a blended component unit of the City, and its financial activities are reported with the City's financial documents.

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

	2023-24 Adopted <u>Budget</u>	2023-24 Adjusted <u>Budget</u>	2023-24 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$68,228	\$68,229	\$74,632	\$6,404
Expenditures	<u>(37,915)</u>	<u>(38,068)</u>	<u>(37,929)</u>	<u>139</u>
Operating Balance	30,313	30,161	36,703	6,543
Development Impact Fees ¹	-0-	-0-	560	560
Bond Proceeds Interest	-0-	-0-	1,749	1,749
Capital Projects from Fees	(14,627)	(14,627)	(14,627)	-0-
Capital Projects from Sea Level Rise Reserve	(1,500)	(1,500)	(1,500)	-0-
Capital Projects	<u>(5,982)</u>	<u>(5,982)</u>	<u>(5,982)</u>	<u>-0-</u>
Excess (Deficiency) of Revenues	8,204	8,052	16,903	8,852
Beginning Balance	89,552	89,552	89,552	-0-
Reserve	(5,600)	(5,600)	(5,600)	-0-
Reserve for Bond Proceeds	(960)	(960)	(2,708)	(1,749)
Site Contamination Reserve	(5,000)	(5,000)	(5,000)	-0-
Landfill Reserve	(12,000)	(12,000)	(12,000)	-0-
Sea Level Rise Reserve	(16,500)	(16,500)	(16,500)	-0-
Dev. Impact Fee Reserve	<u>(339)</u>	<u>(339)</u>	<u>(899)</u>	<u>(560)</u>
Ending Balance	<u>\$57,357</u>	<u>\$57,205</u>	<u>\$63,748</u>	<u>\$6,543</u>

¹ Includes interest earned on the balance.

Operating revenues, primarily property taxes, for the current fiscal year are estimated at \$74.6 million, \$6.4 million (9.4%) higher than budget. Property Tax revenue is trending higher than budget as, subsequent to adoption of the budget, the County provided the July 1, 2022 tax roll information for the Shoreline Community, indicating a 13.2% increase. It is important to note that Assessed Value in the Shoreline Community can be significantly impacted by economic conditions. The City estimated a 5.7% increase for Fiscal Year 2023-24, which corresponds to an approximate \$4.6 million difference compared to the actual tax roll increase. The City also collected about \$1.6 million more supplemental taxes than budget. Supplemental taxes tend to fluctuate due to change in ownership and completion of new construction during the fiscal year. Over the past five years, they have been as low as \$33,000 and as high as \$3.4 million.

Operating expenditures for the current fiscal year are estimated at \$37.9 million, essentially the same as budget. Included in operating expenditures are \$17.0 million for the combined annual interagency payments to the school districts and the County and \$6.1 million for debt service.

It is estimated that operating revenues will exceed operating expenditures by \$36.7 million, which will fund \$6.0 million for Capital Projects. In addition, capital projects will be funded by an additional \$14.6 million from the North Bayshore Development Impact Fees (NBSDIF) previously received and interest earned on the fees, and \$1.5 million from the Sea Level Rise Reserve. 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 \$42.7 million for the General Reserve, the Landfill Reserve, the Sea Level Rise Reserve, bond proceeds (mainly from interest earnings), the Development Impact Fee Reserve, and the reserve for a potential site contamination liability, the fund is estimated with a \$63.7 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 what was recommended by the Initial Study.

Enterprise Utility Funds

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

Water Fund

The Water Enterprise Fund is a utility fund accounting for the revenues and expenditures associated with the provision of retail water and recycled water services to Mountain View residents and businesses. The City provides potable water service to approximately 96.0% of

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

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

	2023-24 Adopted <u>Budget</u>	2023-24 Adjusted <u>Budget</u>	2023-24 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$39,820	\$39,820	\$42,571	\$2,751
Expenditures ¹	<u>(41,579)</u>	<u>(41,762)</u>	(40,560)	<u>1,202</u>
Operating Balance	(1,759)	(1,942)	2,011	3,953
Capacity/Development				
Impact Fees	-0-	-0-	1,494	1,494
Capital Projects from	(3,677)	(3,677)	(3,677)	-0-
Fees				
Capital Projects	<u>(5,779)</u>	<u>(5,779)</u>	(5,779)	<u>-0-</u>
Excess (Deficiency) of				
Revenues	(11,215)	(11,398)	(5,951)	5,447
Beginning Balance	42,537	42,537	42,537	-0-
Capacity/Dev Impact				
Fees Reserves	(5,268)	(5,268)	(6,762)	(1,494)
Water Transfer Reserve	(5,000)	(5,000)	(5,000)	-0-
Reserves	<u>(13,450)</u>	<u>(13,450)</u>	(13,450)	<u>-0-</u>
Ending Balance	<u>\$ 7,604</u>	<u>\$ 7,421</u>	<u>\$11,374</u>	<u>\$3,953</u>

¹ Adjusted Budget excludes encumbrance carryover for the water purchase.

An 8.0% increase for the average cost of water and meter rates, and a 5.0% increase for recycled water rates effective July 1, 2023 were adopted for Fiscal Year 2023-24. Operating revenues are estimated at \$42.6 million, \$2.8 million (6.9%) higher than budget. Water usage year over year

through November is trending approximately 8.7% higher, most likely as a result of the end of the drought and subsequently less conservation efforts. Recycled water sales are trending 40.0% higher comparing usage through November in the current fiscal year to last fiscal year.

Operating expenditures are estimated at \$40.6 million, \$1.2 million (2.9%) below budget, primarily as a result of savings in operations.

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

The estimated operating balance is \$2.0 million. The fund has sufficient balance to fund the current fiscal year's \$5.8 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 mid-January 2024 total \$1.0 million, and interest is estimated at \$245,000. Various development impact fees have been adopted by the City Council, and for Fiscal Year 2023-24, no revenue has been received through mid-January 2024, but interest is estimated at \$224,000. Any fees received and interest earned will be designated for specific projects and will be identified in the Five-Year Capital Improvement Program (CIP). Capacity and Development Impact Fees received in prior fiscal years are sufficient to fund the \$3.7 million in additional capital projects for Fiscal Year 2023-24. The Water Fund is estimated to have an ending available balance of \$11.4 million and \$25.2 million in reserves.

Wastewater Fund

The Wastewater Enterprise Fund is a utility fund that accounts for the costs and revenues associated with the collection, transportation, and treatment of wastewater generated by all residents and businesses in the City. Other associated functions included in this fund are the Hazardous Materials Permit Program and the Industrial Liquid Waste Management Program. Expenditures in this fund include the construction and maintenance of sanitary sewer lines,

stormwater lines, and pump stations; the City’s costs associated with the operation of the Palo Alto Regional Water Quality Control Plant (Treatment Plant), in which the City is a partner; and personnel costs for the operation and maintenance of the system.

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

	2023-24 Adopted <u>Budget</u>	2023-24 Adjusted <u>Budget</u>	2023-24 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$31,726	\$31,726	\$33,290	\$1,564
Expenditures	<u>(29,045)</u>	<u>(29,141)</u>	<u>(24,932)</u>	<u>4,209</u>
Operating Balance	2,681	2,585	8,358	5,773
Loan Proceeds and Interest	-0-	-0-	4	4
Capacity/Development Impact Fees	-0-	-0-	727	727
Capital Projects from Fees	(6,508)	(7,097)	(7,097)	-0-
Capital Projects	<u>(3,937)</u>	<u>(3,937)</u>	<u>(3,937)</u>	<u>-0-</u>
Excess (Deficiency) of				
Revenues	(7,764)	(8,449)	(1,945)	6,504
Beginning Balance	48,404	48,404	48,404	-0-
Capacity/Dev. Impact Fees Reserves	(5,832)	(5,243)	(5,970)	(727)
Treatment Plant Reserve	(16,357)	(16,357)	(19,345)	(2,988)
Reserve for Loan Proceeds	(475)	(475)	(479)	(4)
Reserves	<u>(9,531)</u>	<u>(9,531)</u>	<u>(9,531)</u>	<u>-0-</u>
Ending Balance	<u>\$ 8,445</u>	<u>\$ 8,349</u>	<u>\$11,134</u>	<u>\$2,785</u>

A 6.0% overall rate increase was adopted for Fiscal Year 2023-24 effective July 1, 2023, including a 4.0% rate increase for operations and a 2.0% rate increase for future Treatment Plant capital costs. As previously outlined, future capital expenditures are forecasted for the Treatment Plant as the facility began operations in 1972 and is in need of major renovations. A cumulative rate increase of 20.0% was projected, and the City Council approved a gradual phase-in of 2.0% annually for 10 years to fund these long-term capital costs, of which Fiscal Year 2023-24 is the tenth year. It should be noted that construction costs have risen dramatically and, thus, the forecast for the future Treatment Plant capital costs have risen since the Treatment Plant’s original forecast 10 years ago. Staff is currently estimating another two to five years of 2.0% increases may be needed to fund the City’s share of these additional costs.

Operating revenues are estimated at \$33.3 million, \$1.6 million (4.9%) higher than budget, due to anticipated higher service charge revenue, permit fee revenue, and interest earnings. Estimated operating expenditures of \$24.9 million are trending \$4.2 million (14.4%) below budget. This is due to a prior-year credit of \$543,000 and \$2.4 million of encumbrances carried forward but not yet spent, both from the Treatment Plant as part of the end-of-year payment reconciliation, 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 was \$543,000 less than budgeted, resulting in a credit that is applied toward 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 and will be budgeted in Fiscal Year 2024-25 in anticipation of the expenditures being included in the reconciliation for Fiscal Year 2023-24. The estimated operating balance of \$8.4 million includes \$3.5 million collected for future Treatment Plant Capital Costs, as stated above, and will fund \$3.9 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 January 2024 total \$344,000, and interest is estimated at \$331,000. Various Development Impact fees have been adopted by the City Council and no revenue has been received through mid-January 2024, but interest is estimated at \$52,000. Any fees and interest earned will be designated for specific projects and will be identified in the Five-Year CIP. Capacity and Development Impact Fees received in prior fiscal years are sufficient to fund the \$7.1 million in additional capital projects for Fiscal Year 2023-24.

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 \$479,000 of interest earned on proceeds, and proceeds returned from a capital project currently not allocated to a capital project. Staff will return to the City Council with a recommendation for use of 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 \$11.1 million and \$35.3 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, \$5.8 million in Treatment Plant credits for prior fiscal years, and the Capacity and Development fees balance.

Solid Waste Management Fund

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

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

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

	2023-24 Adopted <u>Budget</u>	2023-24 Adjusted <u>Budget</u>	2023-24 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
City Revenues	\$16,076	\$16,076	\$16,260	\$ 184
Recology Revenues ⁽¹⁾	<u>20,919</u>	<u>20,919</u>	<u>19,625</u>	<u>(1,294)</u>
Total Revenues	<u>36,995</u>	<u>36,995</u>	<u>35,885</u>	<u>(1,110)</u>
City Expenditures	(21,855)	(23,247)	(19,571)	3,676
Recology Payments ¹	<u>(20,919)</u>	<u>(20,919)</u>	<u>(19,625)</u>	<u>1,294</u>
Total Expenditures	<u>(42,774)</u>	<u>(44,166)</u>	<u>(39,196)</u>	<u>4,970</u>
Operating Balance (Deficit)	(5,729)	(7,171)	(3,311)	3,860
Capital Projects	<u>(320)</u>	<u>(491)</u>	<u>(491)</u>	<u>-0-</u>
Excess (Deficiency) of Revenues	(6,099)	(7,662)	(3,802)	3,860
Beginning Balance	18,983	18,983	18,983	-0-
Reserves	<u>(4,451)</u>	<u>(4,451)</u>	<u>(4,451)</u>	<u>-0-</u>
Ending Balance	<u>\$ 8,433</u>	<u>\$ 6,870</u>	<u>\$10,730</u>	<u>\$3,860</u>

¹ Neither revenues nor expenditures are adopted for Recology.

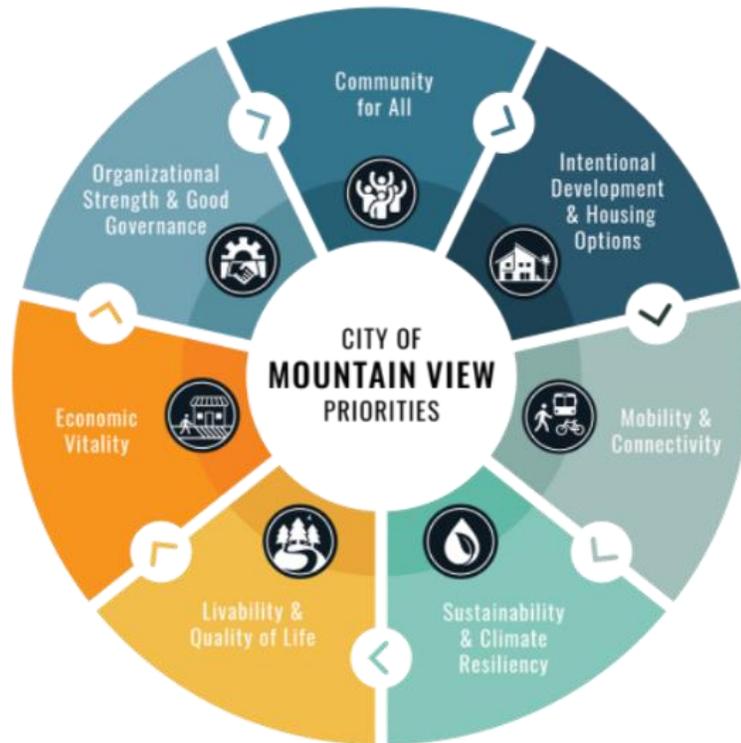
For Fiscal Year 2023-24, a 7.0% rate increase effective July 1, 2023 was adopted. The City's Solid Waste Fund operating revenues are estimated at \$16.3 million, slightly above budget. City operating expenditures are estimated at \$19.6 million, \$3.7 million (15.8%) below budget, as a result of savings in lower compost service charges, operational savings, and a prior-year credit received as part of the year-end payment reconciliation with the SMaRT[®] Station. The SMaRT[®] Station performs an annual reconciliation of the prior fiscal year's costs, and an adjustment is provided to each member agency. The City received a refund of \$501,000 for Fiscal Year 2022-23, which is credited against current year charges. It should be noted that City operating expenditures include a one-time payment of \$4.0 million for SMaRT Station capital costs. The City has accumulated \$2.6 million from prior capital debt payments that ended in Fiscal Year 2016-17 and since have been reserved for future facility equipment. This, along with \$1.4 million from available fund balance, is now being used to partially pay the City's share of SMaRT Station capital costs and keep new debt payments level with the previously mentioned prior debt payments so that no additional rate increase is needed. The current estimates assume

this \$4.0 million payment will be made by the end of the current fiscal year. However, due to timing issues, there may be a need to rebudget this payment to Fiscal Year 2024-25.

There is an estimated operating balance deficit of \$3.3 million, which will come from available fund balance along with \$491,000 for Capital Projects. The fund is estimated with an ending balance of \$10.7 million and reserves of \$4.5 million. The balance will be needed to smooth future rate adjustments needed for the cost of service study that is being prepared currently.

III. FISCAL YEARS 2023-25 COUNCIL WORK PLAN: SIX-MONTH PROJECT UPDATES

On June 13, 2023, the City Council adopted the Fiscal Years 2023-25 (FY 23-25) Council Work Plan. The FY 23-25 Council Work Plan identifies 41 priority projects to advance the Council’s Strategic Priorities (below).



Recognizing that the 41 projects cannot be implemented simultaneously, Council assigned each project a priority category to guide the allocation of staff resources. The three priority categories are as follows:

- **Priority A—Highest priority.** These projects will be considered first in resource allocation decisions and are expected to see substantive progress during the work plan period.
- **Priority B—High priority.** Priority B projects will be considered after Priority A projects for staff allocation and phasing and are expected to begin before the end of Fiscal Year 2024-25.
- **Priority C—As time and resources allow.** Projects in this category will be considered after projects in the Priority A and Priority B categories have sufficient staffing. They may or may not progress during Fiscal Year 2023-24 and Fiscal Year 2024-25.

This report provides an update on the status of the Council work plan projects following the first six months of implementation. A summary of the work plan status is provided in Table 1 below.

Table 1: Council Work Plan Status

Status	Priority			Total
	A	B	C	
In Progress	19	12	1	32
Delayed	2	0	0	2
Not Yet Started	1	3	3	7
TOTAL	22	15	4	41

A comprehensive list of each project with status updates is included in Attachment 1. Since the adoption of the Council work plan, the following projects have merged into a single scope as noted on the list of status updates:

- The Decarbonization Plan (11) and Climate Change Vulnerability Assessment (28) have been incorporated into a comprehensive Citywide climate change and resilience strategy.
- The Biodiversity Strategy (21) and Urban Forest Plan (22) will be developed as an integrated document.

Additionally, per the Council discussion at the November 7, 2023 meeting, Council directed staff to remove the following project from the Fiscal Year 2023-25 Council Work Plan:

- Explore implementing a temporary downtown office cap on new development (3).

This direction was driven by current economic conditions and the need to focus staff resources on other priorities. Based on this direction, staff will not work on this project.

IV. PERFORMANCE MEASURES PROJECT UPDATE

The City of Mountain View utilizes performance and workload measures to demonstrate the effectiveness and efficiency of City operations, as well as the staff effort required to provide programs and services. Each department has a series of performance and workload measures that serve to provide the City Council, management, and the community with timely and relevant information on departmental operations.

The City has recently completed the process of reviewing, evaluating, and re-envisioning all performance and workload measures. As a result, there will be two sets of performance and workload measures reported in the Fiscal Year 2024-25 Recommended Budget—the prior measures for the period including Fiscal Year 2023-24 and the new measures which will begin in Fiscal Year 2024-25.

V. RECOMMENDED MIDYEAR BUDGET ADJUSTMENTS

The midyear budget review provides an opportunity for the City to adjust the budget to recognize unanticipated revenues and costs and to propose expenditures to address high-priority community and operational needs. Any such proposed adjustments are made in the context of assessing the resources needed to provide high-quality services to the public and the fiscal capacity to fund this level of resources. Each department continuously reviews its programs and operations as well as changing conditions and emerging community needs. In addition, special studies may be conducted to assess a program area and recommend changes to increase effectiveness or efficiency, with a focus on continuous improvement. Notably, several adjustments are recommended toward advancing the Interim Castro Street Pedestrian Mall and downtown vitality as we progress into the next fiscal year.

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

\$3,100,000 from General Non-Operating Fund to Development Services Fund

The Development Services Fund is estimated to have a \$4.2 million negative fund balance by the end of Fiscal Year 2023-24. In addition, the Community Development Department requires \$1.5 million to cover necessary plan checking and inspection consulting services. The total funding gap is approximately \$5.7 million. The City Council had previously set aside a total of \$3.1 million in the GNOF to cover any funding needs, and staff recommends increasing appropriation to transfer \$3.1 million from the GNOF to the DSF to cover this deficit. Staff will continue to monitor the status of this fund in addition to completing the Citywide Fee Study. Additional transfers may be necessary at year-end, depending on the amount of revenues received the rest of this fiscal year in the DSF.

\$1,500,000 in the Development Services Fund in the Community Development Department for Contract Services for Plan Checking/Inspections Services

The Community Development Department's (CDD) Building Division has high levels of development activity and permit applications. The ability to meet the service demand requires the use of outside consultants to efficiently manage the review of build and fire permit applications for compliance with City and State code standards. Like most cities in our region, outside consultants are necessary to maintain turnaround times for building and fire plan checking and inspection services, thus maintaining service levels expected by the City's customers, including homeowners, businesses, developers, and contractors.

Recent State laws have also mandated the City meet particular turnaround times for building permits pertaining to: photovoltaic (PV or solar) panels (instantaneous), electrical vehicle (EV) chargers (five business days), and, effective January 1, 2024, new timelines for review of any new housing or mixed-use development for completeness review (15 business days) and compliance review (six weeks).

It has been necessary to appropriate additional funds annually for the costs associated with building and fire plan checking and inspection services (see Table 2).

Table 2: 2014-2023 Budgeted Contract Services for Plan Checking/Inspections

Fiscal Year	Adopted Budget	Actual	Additional Funds Needed
2014-15	\$2,000,000	\$2,830,856	\$ 830,856
2015-16	2,000,000	1,994,760	--
2016-17	2,000,000	3,869,874	1,869,874
2017-18	2,000,000	4,716,695	2,716,695
2018-19	1,550,000	3,531,130	1,981,130
2019-20	1,340,000	3,667,821	2,327,821
2020-21	1,340,000	1,816,166*	476,166
2021-22	1,340,000	2,089,324*	749,324
2022-23	1,340,000	\$3,850,000	\$2,510,000
2023-24	\$1,340,000		
<i>Average</i>		<i>\$3,151,847</i>	

* Impacted by COVID-19.

CDD is aware that the DSF is projected to have insufficient balance for this fiscal year to cover the costs of these additional plan check/inspection services. This additional \$1.5 million would add to the projected deficit in the DSF; however, these fees were collected when the developers applied for the permits, so the City is required to perform the required services. With the Citywide Fee Study under way and the “right-sizing” of the development fees for ongoing plan check and inspection service needs, the DSF revenues will be addressed to cover this fundamental operational need of the Building Division. Without authorization of these funds, the City’s Building Division will be unable to perform and deliver mandatory permit review services and inspection services.

Over the past three years, the average consultant costs associated with providing building/fire plan and inspection services have amounted to \$2,856,000. Based on the current expenditure in the first quarter of Fiscal Year 2023-24 at approximately \$500,000 and the trend of expending approximately 50% more in the second half of each fiscal year, staff conservatively anticipates expending \$2,840,000 in the remainder of Fiscal Year 2023-24.

\$1,428,000 in the Workers’ Compensation Internal Service Fund in the Finance and Administrative Services Department for an Increase in the Claims Liability Reserve

Staff recommends additional appropriations in the Workers’ Compensation Internal Service Fund to cover cost increases in the City’s workers’ compensation program, which includes the annual premium and claims expenses (up to the City’s \$750,000 self-insured retention). A portion of this

increase is due to increasing the confidence level used in estimating the claims payable liability from 50% confidence level to an industry best practice of 70%.

\$960,000 from Various Enterprise Funds to CIP 16-51: Replacement Utility Billing/Cash Receipt/Business License System

Additional funding is needed for the Utility Billing (UB) Replacement project. The City is in the process of selecting a new vendor for the aging Utility Billing System and, based on the proposals received, an additional appropriation of \$960,000 is needed for the implementation cost. The UB project is funded by the three major enterprise funds, which results in the funding request as follows:

Water Fund	\$320,000
Waste Fund	\$320,000
Solid Waste Fund	\$320,000

\$925,000 in the Liability Self-Insurance Internal Service Fund in the Finance and Administrative Services Department for an Increase in Insurance Costs

Additional appropriations in the Liability Self-Insurance Internal Service Fund is necessary to cover cost increases in the City’s excess general liability insurance premium and property insurance premium. In addition, the City’s general liability claims payable liability has increased, as determined by an actuary. Of the \$925,000 recommendation, \$600,000 is due to increasing the confidence level used in estimating the claims payable liability from 50% confidence level to an industry best practice of 70%.

\$350,000 in the Solid Waste Fund in the Public Works Department for Staff and Vendor Costs Incurred During Landfill Emergency Operations

In September and October 2023, emergency repairs at the closed landfill site required extra staff and overtime expenses. The operating fund for these expenses is not sufficient to cover the costs. Staff recommends \$350,000 be added to Public Works Department budget to backfill the related staff and vendor costs.

\$160,000 from the Valley Transportation Authority (VTA) 2016 Measure B Pedestrian/Bicycle Planning Program into CIP 23-31: Street Reconstruction Project (Miramonte Avenue Phase 2)

On June 27, 2023, Council approved a road diet alternative and various complete streets improvements for Miramonte Avenue between Cuesta Drive and Castro Street as part of the upcoming paving project. This project (also known as Miramonte Avenue Phase 2) would

consider the feasibility of extending these complete streets design elements to the other two segments of Miramonte Avenue between Castro Street and El Camino Real and between the City limit and Cuesta Drive. The VTA Board has awarded a \$160,000 grant to the City for this preliminary design study.

\$154,000 from the Park Land Fund to CIP 17-46: Mora/Ortega Park, Design and Construction

The City did not receive the expected Community Development Block Grant funds for Mora Park. The park construction is complete, and staff is ready to close this project. Approximately \$154,000 from the Park Land Fund should be transferred to CIP 17-46 to offset the shortage.

\$146,000 in Various Funds in the Public Works Budget for PG&E Increase Beginning in March 2024 and Silicon Valley Clean Energy Increase Beginning in February 2024

Budget is needed for two unanticipated increases for electrical usage throughout the City. PG&E has requested a 12-month 7% increase starting in March 2024 for Wildfire Mitigation and Catastrophic Events costs. Silicon Valley Clean Energy is increasing their GreenPrime rates from 0.8 cents to 1.5 cents per kWh. This will equal a 7% increase across our electric bills starting in February 2024. This funding request is for our facilities and operations across the City.

General Non-Operating Fund	\$119,000
Shoreline Regional Park Fund	\$4,000
Water Fund	\$11,000
Waste Water Fund	\$7,000
Solid Waste Fund	\$5,000

\$100,000 from the CIP Reserve Fund to CIP 24-26: Annual Real Estate Technical and Legal Services

Budget is needed for legal and technical services to initiate the Surplus Land Act process for Shoreline Amphitheatre, complete the legal agreements with Google for a long-term ground lease of Lot C, and other real property transactions.

\$100,000 from the Solid Waste Fund to CIP 24-10: Shoreline Landfill Gas/Leachate Maintenance for Additional Emergency Rental Equipment

In September and October 2023, emergency repairs at the closed landfill site required emergency rental equipment. This equipment was needed for an extended period time and used by City staff. Staff recommends \$100,000 be added to CIP 24-10 to backfill these costs.

\$100,000 in the General Non-Operating Fund in the Public Works Facilities Operating Budget for Facility Needs Assessment and Asset Inventory

There has been a substantial increase in the number and square footage of City facilities over the last 20 years, and the existing facilities are getting older, resulting in more maintenance issues. The City currently does not have a Facilities Asset Management System for tracking maintenance and inspection activities, and Facilities staff is not able to keep up with repairs and service requests. With this funding, PWS will hire a consultant to evaluate the City's needs for maintaining its buildings, including creating an inventory of building system assets, reviewing staffing levels, and helping evaluate options for an Asset Management System.

\$75,000 from the CIP Reserve Fund to CIP 24-34: Generator Project, Planning

Additional funding is needed for the design phase of this project to plan for the purchase and installation of emergency generators at key City facilities.

\$60,000 in the Water Fund in the Finance and Administrative Services Department for Utility Billing Credit Card Payment Processing Costs

Increased funding for utility bill online payment processing costs is necessary due to increased credit card processing fees. 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 2023-24 have increased by 25.6% compared to the same time frame last fiscal year. The main portion of this increase is related to alternative payment methods (APMs) and commercial cards transactions, for which the City is charged a 2.75% transaction fee. Examples of APMs are Paypal, Venmo, and Amazon Pay. In addition, the City's utility rates increased from 6.0% to 8.0% in Fiscal Year 2023-24, resulting in higher utility bills being paid by credit card, thus, higher credit card fees. The current budget for utility bill online payment processing is \$438,000, which results in a projected shortfall of \$60,000. An appropriation of \$60,000 from the Water Fund is necessary to cover the projected shortfall.

\$50,000 in the Shoreline Regional Park Community Fund in the Finance and Administrative Services Department for Fiscal Analysis Consultant Cost

As the City continues developing the Shoreline Regional Park forecast and negotiating with school districts, support from the hourly and outside consultant firm is needed for the Shoreline 30-year projection and fiscal impact analysis. This service is required to assist the City with a high level of sophisticated financial planning. The Finance and Administrative Services Department (FASD) has a \$30,000 budget in Fiscal Year 2023-24; as of December 2023, this \$30,000 has been entirely spent. Approximately \$50,000 in additional appropriations is necessary to continue the project.

\$44,000 in the General Non-Operating Fund in the Finance and Administrative Services Department for OpenGov Contract

Staff is in the process of updating the City's OpenGov module, which includes the online transparency portal to include dashboards, reporting and analytics, and story builder. As part of the upgrade, the City's financial data will be automatically uploaded every night instead of manually once per year. This upgrade provides more transparency to the public as well as investors and others interested in the City's finances. The project implementation cost is approximately \$44,000.

\$20,000 in the General Non-Operating Fund from the Fee Study to the Performance Measures Redesign Project

Council approved \$100,000 limited-period funding for the Fee Study. The Fee Study contract amount was lower than \$100,000, resulting in \$20,000 savings that staff is recommending to repurpose to the Performance Measures Redesign project.

\$20,000 in the Solid Waste Fund in the Public Works Department to Hire an Outside Vendor to Collect Hazardous Waste Material Which Poses a Threat to the City Storm Drain System

The Fire Department is currently seeking a new primary vendor for hazardous spill pickup and cleanup. Public Works is responsible for funding these costs when there is a threat to the public storm drain system. Approximately \$20,000 is needed to cover anticipated costs.

\$15,350 from the Wastewater Debt Proceeds Fund to CIP 20-41: Water and Sewer Replacement at 101, Construction

The City has completed the final draw for the 2018 Wastewater Direct Financing Agreement, and the final interest earned on loan proceeds held by trustee is \$15,350. Staff requests to increase appropriations in CIP 20-41, an eligible project for the loan proceeds, for the City to spend the interest earned.

\$14,000 in the General Non-Operating Fund in the Finance and Administrative Services Department to Cover Miscellaneous Account Write-Offs

FASD has reviewed and cleared \$14,000 in outstanding unpaid invoices/bad debt, which needs to be budgeted.

\$10,000 in the Retirees' Health Insurance Fund in the Finance and Administrative Services Department for the Retiree Health Plan Study

An additional appropriation of \$10,000 is necessary in the Retirees' Health Insurance Internal Service Fund to engage an actuary to review the City's retiree health benefit plan.

Salary Plan Changes

1.0 New FTE Housing Officer at \$239,000

A new 1.0 FTE Housing Officer position is recommended in the Housing Department due to the additional workload and complexity of housing projects. The Housing Officer will plan, develop, coordinate, implement, and administer complex development projects, policies, and programs. The total compensation of the Housing Officer is approximately \$239,000, and the position will be funded by 50% Below-Market Housing Fund, 40% General Housing Fund, and 10% Shoreline Community Development Fund. Given the recruitment timeline, this position is anticipated to be filled by the end of this fiscal year, and the department has enough savings in Housing funds to absorb this year's costs.

Reclassification of Project Manager (CSFRA) to Rent Stabilization Manager

Reclassification of 1.0 FTE Project Manager to 1.0 FTE Rent Stabilization Manager is recommended due to the operational needs of higher-level support for the increased and more complex workload related to the Community Stabilization and Fair Rent Act (CSFRA), the City's Tenant Relocation Assistance Ordinance (TRAO), Mountain View Mediation Program, and Mobile Home Rent Stabilization Ordinance (MHRSO). The current level of work is more aligned with the duties of a division manager. The total annual compensation change for the reclass is approximately \$41,200 and can be absorbed by the CSFRA Fund. This position will also be submitted to the Rental Housing Committee for consideration as part of its Fiscal Year 2024-25 budget process.

Finance and Administrative Services Department Reorganization

The currently vacant Principal Financial Analyst position in the Revenue Division of FASD has been reclassified to Finance Manager. The current vacant Accounting Technician position in FASD has been reclassified to Customer Service Supervisor. These reclassifications are 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 3).

VI. FISCAL YEAR 2024-25 PRELIMINARY GENERAL OPERATING FUND FORECAST

This section of the report focuses on the Fiscal Year 2024-25 Preliminary GOF Forecast. This forecast is based on limited data and financial assumptions made with information available at this time. An updated five-year forecast will be incorporated into the Recommended Budget, scheduled for the June 11, 2024 City Council meeting.

The **preliminary** projection for Fiscal Year 2024-25 follows (dollars in thousands):

	2022-23 <u>Audited</u>	2023-24 Adopted <u>Budget</u>	2023-24 Estimated <u>Estimated</u>	2024-25 Preliminary Forecast	Variance of 2024-25 Forecast to 2023-24 <u>Adopted</u>
Revenues	\$181,989	\$180,846	\$182,401	\$185,226	\$4,380
Expenditures ¹	(154,273)	(172,530)	(169,795)	(185,041)	(12,511)
Year-End Adjustments ²	<u>(346)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Operating Balance	27,370	8,316	12,606	185	(8,131)
Transfer to GNOF	(16,770)	-0-	-0-	-0-	-0-
Transfer to GF Reserve	(1,600)	(3,000)	(3,000)	-0-	3,000
Transfer to Capital Improvement Reserve	(4,000)	-0-	-0-	-0-	-0-
Transfer to SPAR	(3,000)	-0-	-0-	-0-	-0-
Transfer to Budget Contingency Reserve	(1,000)	-0-	-0-	-0-	-0-
Transfer to Liability Ins Fund ³	(1,000)	-0-	(1,000)	-0-	-0-
Transfer to Transportation Reserve ³			(1,000)		
Transfer to Open Space Acquisition Reserve ³			(3,000)		
Transfer to Parental Leave Reserve ³	<u>-0-</u>	<u>-0-</u>	<u>(1,000)</u>	<u>-0-</u>	<u>-0-</u>
Ending Balance	<u>\$ -0-</u>	<u>\$ 5,316</u>	<u>\$ 3,606</u>	<u>\$ 185⁴</u>	<u>\$ (5,131)</u>

¹ Adopted Budget and Preliminary Forecast include \$6.5 million and \$7.0 million in estimated budget savings, respectively.

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

³ Staff recommendations pending approval from the City Council.

⁴ The balance does not include any Fiscal Year 2024-25 ongoing budget requests.

The preliminary forecast projects total GOF revenues of \$185.2 million, \$4.4 million (2.4%) and \$2.8 million (1.5%) higher than the current fiscal year Adopted Budget and Estimated, respectively.

Baseline expenditures are anticipated to increase \$12.5 million (7.3%) to \$185.0 million compared to the current fiscal year Adopted. For Fiscal Year 2024-25, there is a preliminary ending balance of approximately \$185,000. **Notably, the forecast does not include any Fiscal Year 2024-25 ongoing budget recommendations from the City Manager as those are currently under evaluation as part of the budget development process.** All labor agreements expire June 30, 2024, and negotiations with labor groups will begin this month. The forecast does include a cost of living adjustment (COLA).

The full five-year forecast will be presented in the Fiscal Year 2024-25 Recommended Budget in June. Revenue projections are based on reasonable assumptions utilizing available information from a wide variety of sources. These sources include reviewing the City's historical trends, gathering information from economists that specialize in the regional economics of Silicon Valley, reviewing various indicators (e.g., unemployment rates, etc.), checking with neighboring agencies, reviewing State of California and national economic trends, and factoring in known Mountain View conditions, such as lease terms and property development.

Despite incorporating the most recent available data into the forecasting process, a considerable amount of volatility and uncertainty yet remains about the future of the economy for various reasons, including the Russia-Ukraine conflict, global supply chain disruptions, pace of corporate layoffs, increased commercial property vacancy rates, and continued elevated interest rates. Until such time as the volatility settles down and greater stability returns, the ability to more accurately forecast future revenues and expenditures will continue to be challenged.

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

Revenues

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

	2022-23 <u>Audited</u>	2023-24 Adopted <u>Budget</u>	2023-24 <u>Estimated</u>	2024-25 Preliminary Forecast	Variance of 2024-25 Forecast to 2023-24 <u>Adopted</u>
Property Taxes	\$ 70,874	\$ 74,558	\$ 74,315	\$ 77,033	\$ 2,475
Sales Tax	25,346	25,137	25,912	25,912	775
Other Local Taxes	25,189	22,933	24,091	24,166	1,233
Use of Money and Property Licenses, Permits, and Fees/Fines and Forfeitures	27,090	28,155	27,876	30,538	2,383
Intergovernmental	6,416	6,738	6,617	6,623	(115)
Charges for Service	862	738	830	706	(32)
Miscellaneous Revenues	3,450	3,440	3,043	3,318	(122)
Interfund Revenues and Transfers	3,618	2,430	3,005	1,995	(435)
	<u>19,144</u>	<u>16,717</u>	<u>16,712</u>	<u>14,935</u>	<u>(1,782)</u>
Total Operating Revenues	<u>\$181,989</u>	<u>\$180,846</u>	<u>\$182,401</u>	<u>\$185,226</u>	<u>\$4,380</u>

A brief explanation of the assumptions and changes for the preliminary Fiscal Year 2024-25 forecast follows:

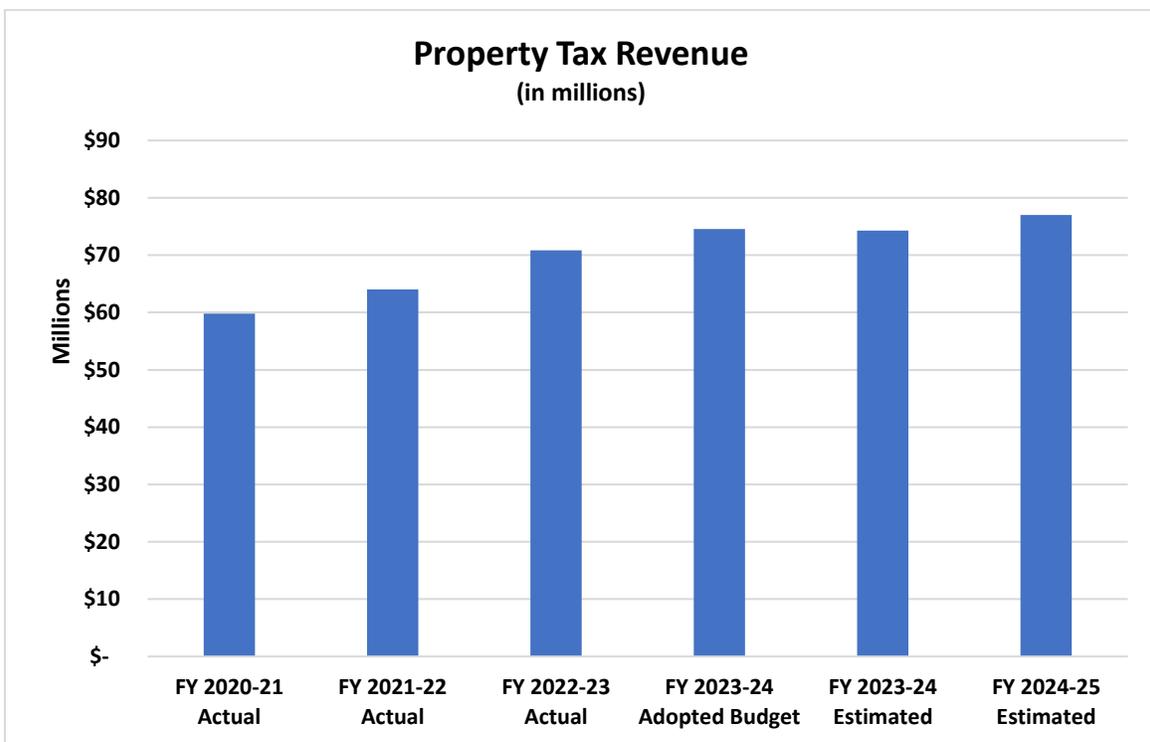
Property Tax revenue is projected at \$77.0 million (or 41.6% of total GOF revenue), an increase of \$2.5 million compared to the current fiscal year Adopted Budget and \$2.7 million compared to Estimated. Compared to the July 1, 2023 tax roll, the Fiscal Year 2024-25 AV of secured property-generating 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 2022 to October 2023);
- AV increases resulting from changes in ownership which occurred from January 1, 2023 through October 30, 2023 (information currently available);

- Increased AV related to new development anticipated to be included in the July 1, 2024 tax roll; and
- Anticipated AV decreases resulting from the resolution of current appeals and projected new appeals.

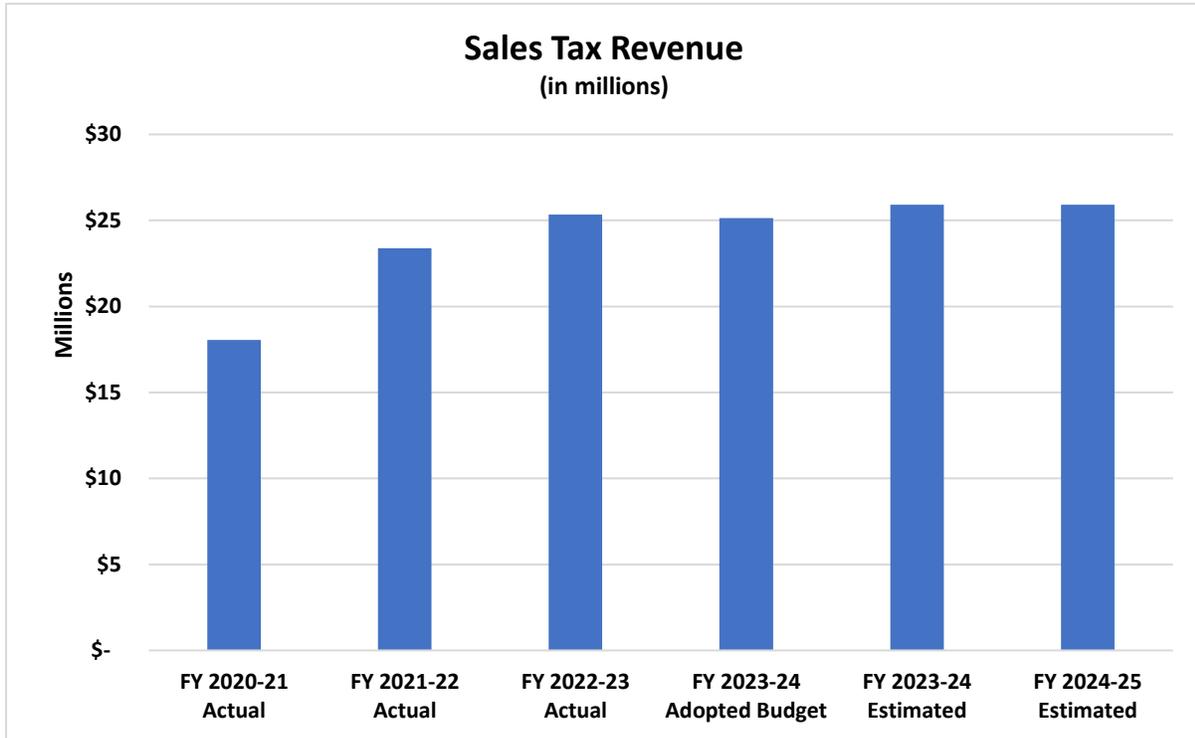
It should be noted that staff, in conjunction with the City’s property tax consultant, has seen a significant decline in residential property transaction volume and, as such, is incorporating growth assumptions lower than prior years. Staff will continue to collect data from the Santa Clara County Assessor and revise the property tax forecast with updated information pertaining to new development and appeal resolutions.

Recent and projected property tax revenue data is included below.



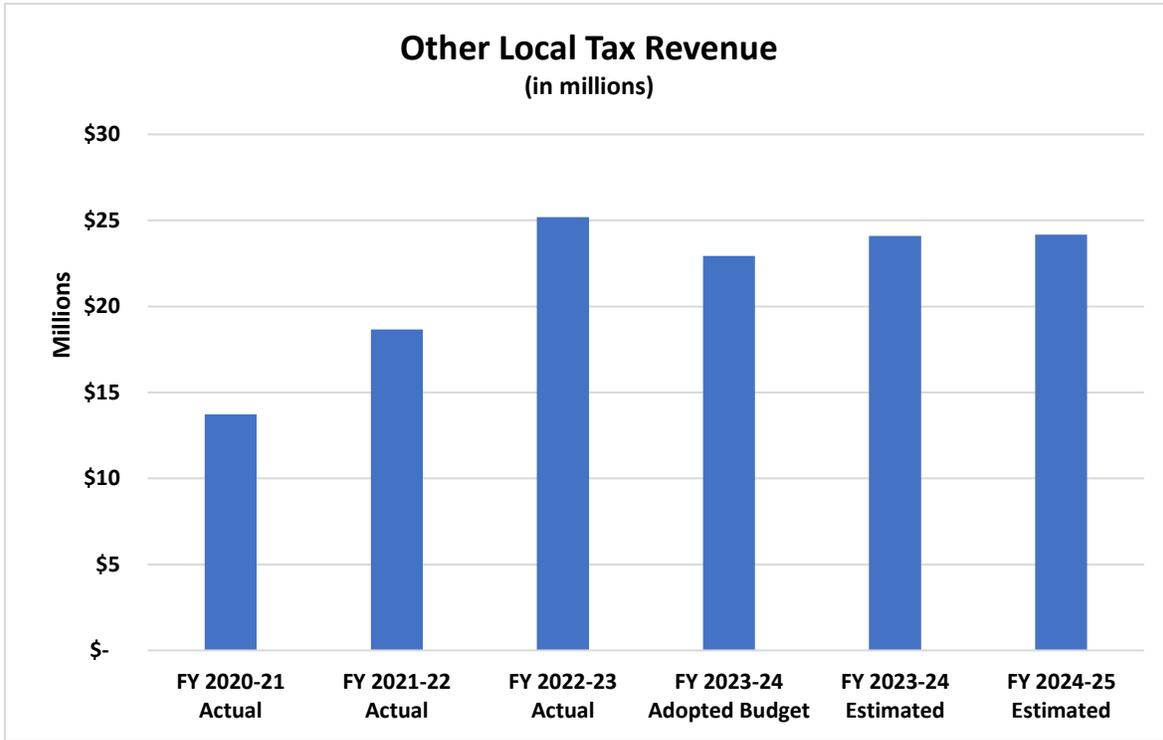
Sales Tax revenue is projected at \$25.9 million (or 14.0% of total GOF revenue) for Fiscal Year 2024-25, \$775,000 higher than the current fiscal year Adopted Budget and essentially flat compared to the current fiscal year Estimated, as growth is expected to cool.

Recent and projected sales tax revenue data is included below.



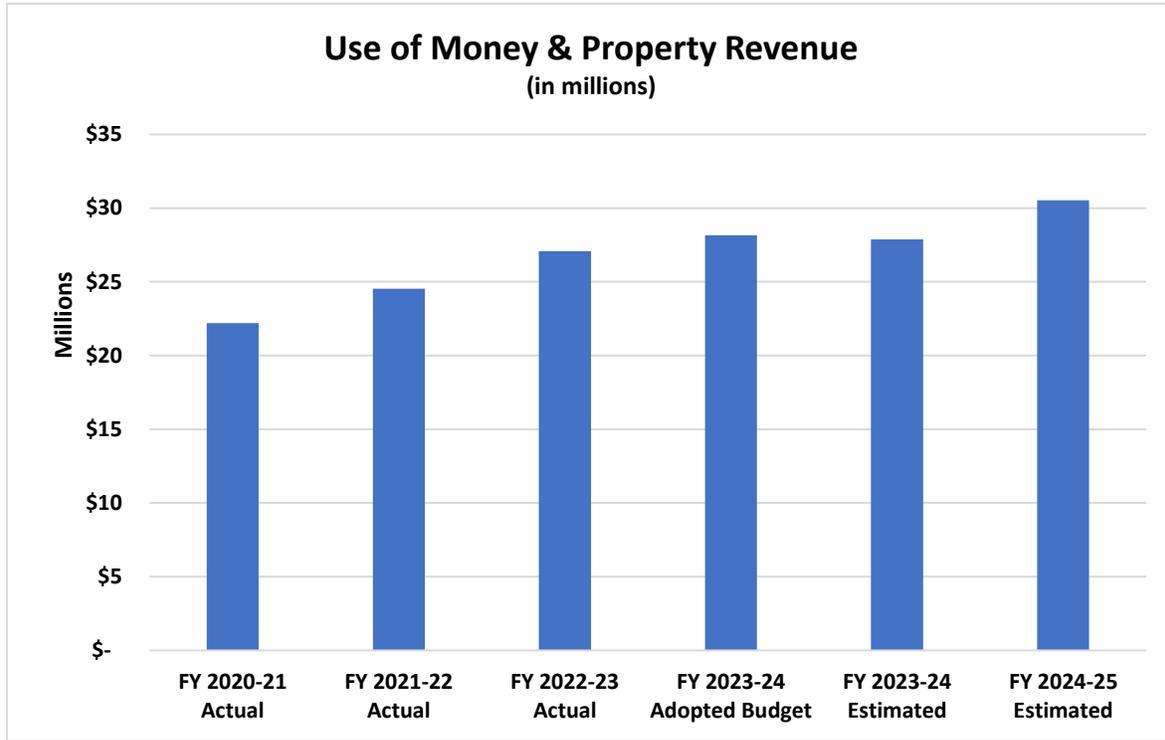
Other Local Taxes revenue is projected at \$24.2 million (or 13.0% of total GOF revenue), \$1.2 million (5.4%) higher than the current fiscal year Adopted Budget and essentially the same as Estimated. TOT revenue is projected to be essentially the same as the current fiscal year Adopted and Estimated. The Fiscal Year 2024-25 Business License Tax (BLT) is projected to experience a 6.0% decline compared to the current fiscal year Adopted Budget and Estimated, which considers known and additional potential layoffs. Given the City’s per-head tax structure for each employee laid off, there is a corresponding reduction in taxes collected. The City Council earmarked 80.0% of the increased business license tax for transportation and 10.0% for housing; transfers are included and discussed in the Expenditure section below. Fiscal Year 2024-25 UUT revenue is projected \$1.5 million and \$441,000 higher than the current fiscal year Adopted Budget and Estimated, respectively. This is primarily driven by revenues generated from energy services.

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



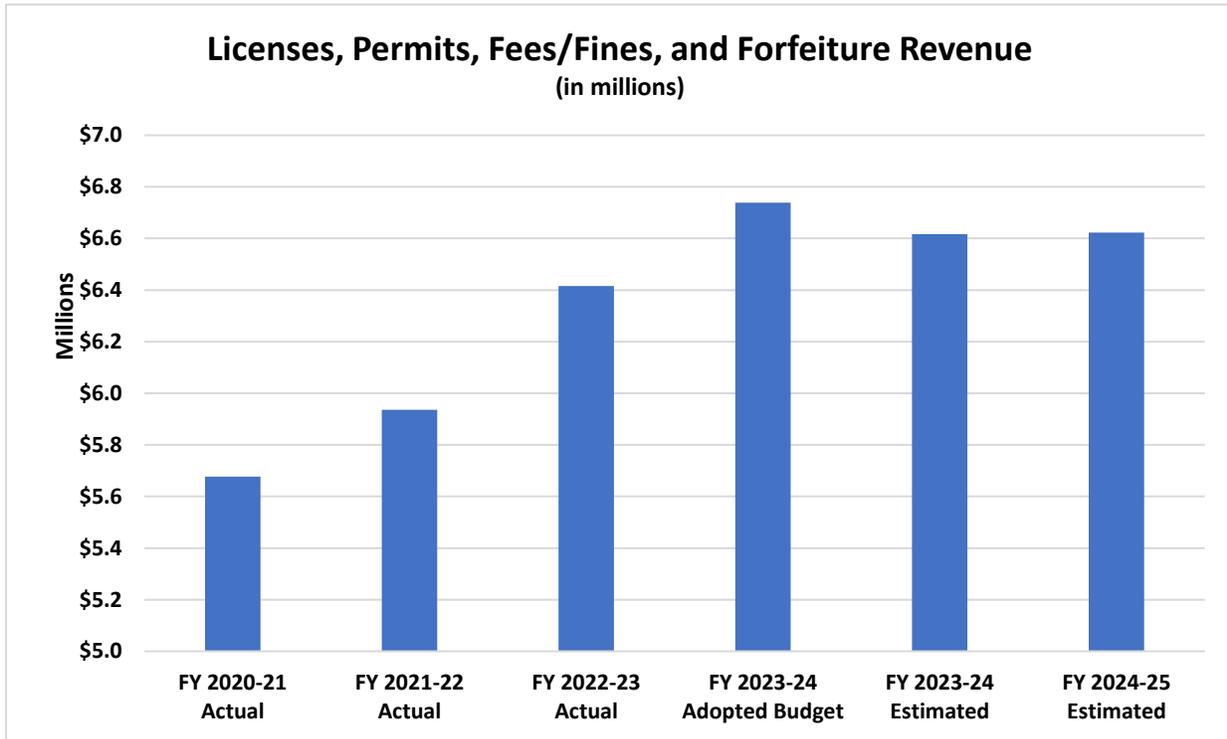
Use of Money and Property revenue is projected to be \$30.5 million (or 16.5% of total GOF revenue), an increase of \$2.4 million (8.5%) and \$2.7 million (9.5%) compared to the current fiscal year Adopted Budget and Estimated, respectively. The increase is primarily from investment revenue due to the current market of high interest rates. Lease revenues are projected with inflators as stipulated in the leases or estimated with 2.0% increases.

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



Licenses, Permits, and Fees/Fines and Forfeitures revenue is projected to be \$6.6 million (or 3.6% of total GOF revenue), a decrease of \$115,000 (1.7%) compared to the current fiscal year Adopted Budget and essentially the same as Estimated.

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



Intergovernmental revenue is projected to be \$32,000 lower than the current fiscal year Adopted Budget and \$124,000 lower than Estimated. The projected budget does not include any mandated reimbursement funding or intergovernmental grants and reimbursements as the amounts are variable.

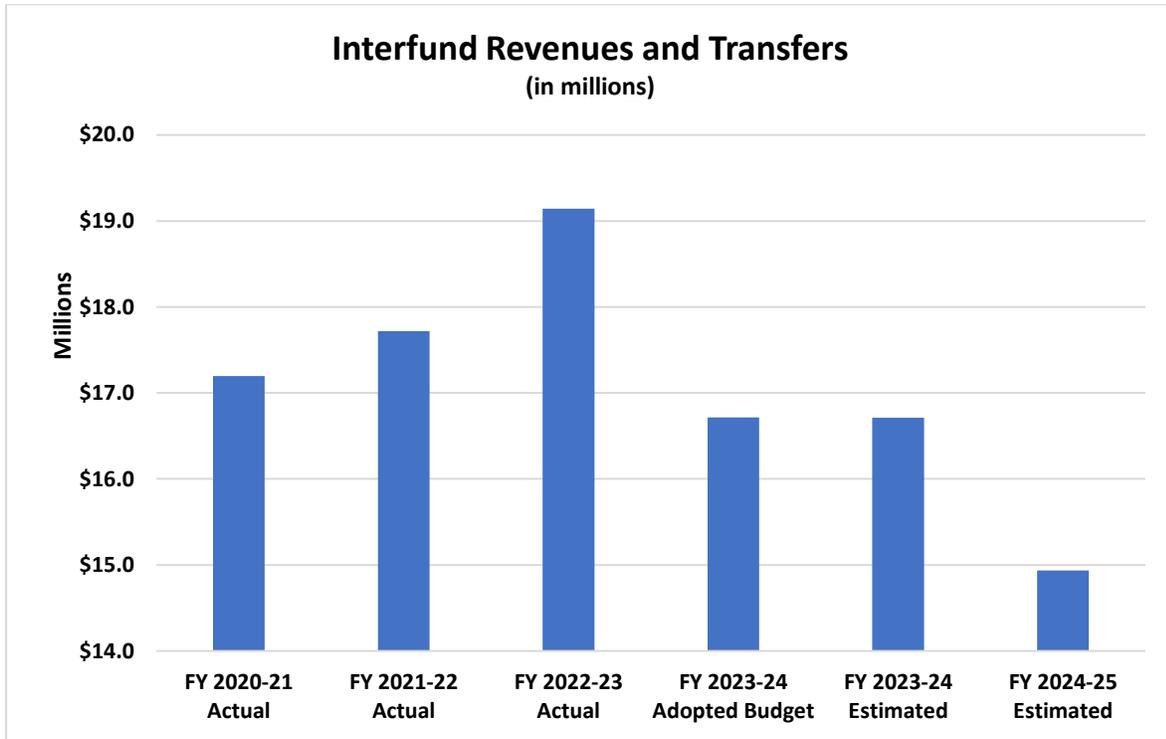
Charges for Services revenue is projected to be \$122,000 (3.5%) lower than the current fiscal year Adopted Budget and \$275,000 (9.0%) higher than Estimated.

Miscellaneous Revenues are projected to be \$435,000 (17.9%) lower than the current fiscal year Adopted Budget, primarily because the City’s agreement with Santa Clara County to provide first-responder support to Rural Metro will expire June 30, 2024. The projection is \$1.0 million (33.6%) below the current fiscal year Estimated, primarily due to the expiration of the County agreement and as reimbursements for Fire Strike Team deployments are not budgeted. Some grants, donations, and reimbursements cannot be anticipated and, therefore, are not budgeted.

Interfund Revenues and Transfers are projected at \$14.9 million (or 8.1% of total GOF revenue), \$1.8 million below the current fiscal year Adopted Budget and Estimated. This is primarily due

to temporarily suspending the overhead transfer from DSF as there is a large deficit and estimated higher-than-budgeted CIP overhead in the current fiscal year, respectively.

Recent and interfund and transfer revenue data is included below.



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

Expenditures

A comparison of the Preliminary Forecast to current fiscal year Estimated and Adopted Budget and prior fiscal year Audited for the GOF follows (dollars in thousands). **As stated previously, the Fiscal Year 2024-25 department budgets are currently under review, and any new ongoing recommendations are not included in the Preliminary Forecast.**

	2022-23 <u>Audited</u>	2023-24 Adopted <u>Budget</u>	2023-24 <u>Estimated</u>	2024-25 Preliminary Forecast	Variance of 2024-25 Forecast to 2023-24 <u>Adopted</u>
Salaries and Benefits	\$116,647	\$137,449	\$128,521	\$148,827	\$11,378
Services and Supplies	21,546	25,178	24,318	26,210	1,032
Capital Outlay/Equipment Replacement	2,641	3,032	3,400	4,199	1,167
Interfund Expenditures and Transfers	13,439	13,371	13,556	12,805	(566)
Budget Savings	<u>Included</u>	<u>(6,500)</u>	<u>Included</u>	<u>(7,000)</u>	<u>(500)</u>
Total Operating Expenditures	<u>\$154,273</u>	<u>\$172,530</u>	<u>\$169,795</u>	<u>\$185,041</u>	<u>\$12,511</u>

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

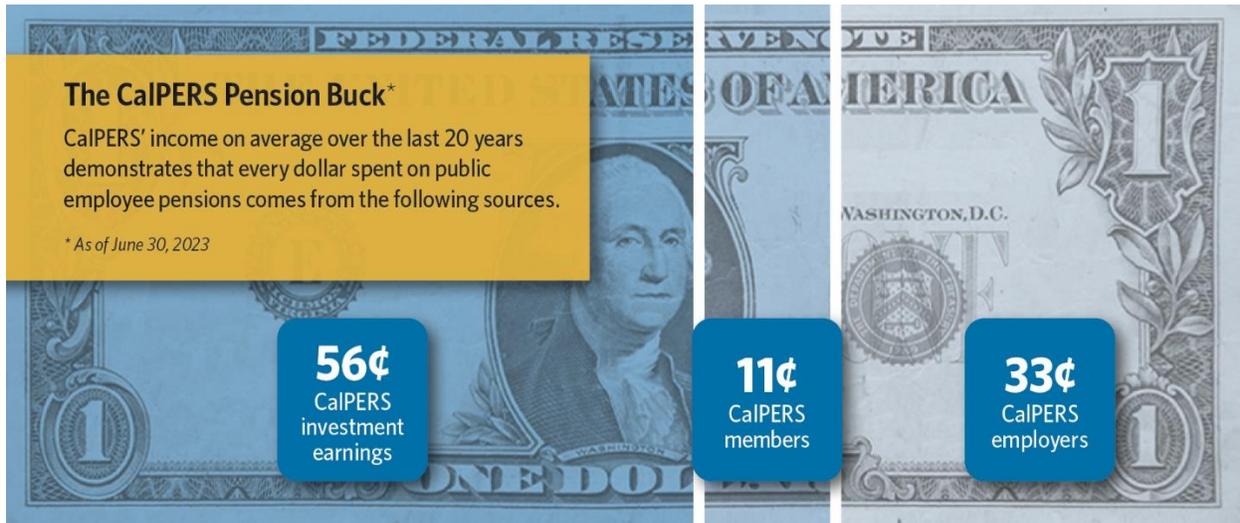
Salaries and Benefits expenditures are projected \$11.4 million (8.3%) higher than the current fiscal year Adopted. The forecast includes a cost-of-living adjustment for all employee groups. All labor agreements expire as of June 30, 2024, and labor negotiations will be commencing this month. The City’s Normal Cost rates for both Miscellaneous and Safety have gone down slightly from the prior fiscal year, 0.5% and 0.3% respectively. The City’s Unfunded Actuarial Liability has increased. However, the Miscellaneous rate based on the City’s projected payroll, adjusted for salary savings due to vacant positions, has decreased 0.8% while the Safety rate has increased 5.3%. Health benefit costs are projected with increases based on historical trends. The Retirees’ Health actuarial valuation is currently being updated based on information as of June 30, 2023. Results of this valuation will be included in the Recommended Budget.

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

Based on data over the past 20 years ending June 30, 2023, for every dollar CalPERS pays in pensions:

- 56 cents comes from investment earnings;
- 33 cents comes from employer contributions; and
- 11 cents comes from employee contributions.

Essentially, 67 cents out of every public employee pension dollar is funded by CalPERS' investment earnings and employee contributions, with employers making up the difference of 33 cents. For the fiscal year ended June 30, 2023, CalPERS paid out more than \$31 billion in pension benefits, which is \$2 billion more than the prior fiscal year.



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

The City's most recent actuarial report from CalPERS indicates that the City has an unfunded pension liability of \$283.7 million as of June 30, 2022, up from \$169.0 million a year prior, an increase of 67.8%. This large increase is primarily attributable to CalPERS realizing an investment loss of approximately 6.1% in Fiscal Year 2021-22. As of June 30, 2022, the City's funded status was 69.3% for its Safety Plan and 73.3% for its Miscellaneous Plan, down from 79.6% and 84.3%, respectively. Notably, the 6.1% loss is offset by the significant investment return CalPERS realized in Fiscal Year 2020-21. Thus, the funding level for both the Safety and Miscellaneous Plan have reverted back to the June 30, 2020 funding level. Future estimated required contribution amounts will be presented in the Fiscal Year 2024-25 Recommended Budget. Staff continues to work with a pension consultant to explore the up-front costs and interest savings that would

result if portions of the unfunded liability are paid off sooner than calculated by the CalPERS actuary.

Services and Supplies expenditures are currently projected to increase \$1.0 million over the current fiscal year Adopted Budget, primarily related to projected increases for City utility costs and maintenance and operations. The forecast does not include the adjustments recommended in this midyear report. Any recommended increases will be included with the Recommended Budget in June.

Capital Outlay/Equipment Replacement expenditures include \$750,000 for Capital Outlay. The annual equipment replacement funding amount is projected at \$3.4 million, 50.8% higher than the current fiscal year Adopted, due to inflation for replacement cost and some adjustments to quantity of items and life expectancy.

Interfund Expenditures and Transfers are projected to decrease \$566,000 (4.2%) over the current fiscal year Adopted. This is mainly due to a one-time transfer in the current fiscal year of \$650,000 to partially fund the Fire heavy rescue vehicle acquisition.

VII. FISCAL YEAR 2022-23 GENERAL FUND REMAINING BALANCE

As discussed in the Analysis of Fiscal Year 2022-23 Audited Financial Results for the GOF and General Fund Available Balance report, which is Attachment 1 to the Annual Comprehensive Financial Report on the December 12, 2023 Council Agenda, the City's General Fund ended the 2022-23 fiscal year with an unallocated balance of \$19.3 million.

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

GOF Balance from Fiscal Year 2022-23	\$14,770
Remaining Available Balance from Prior Fiscal Years	15,536
Fiscal Year 2022-23 Midyear Allocations Approved by City Council	(1,460)

Additions:

One-Time Revenues and Expenditure Savings in Fiscal Year 2022-23:

Property Taxes—Excess ERAF	8,157
Unspent Limited-Period Expenditures	3,416
Miscellaneous Revenues	203
Child-Care Center Rent	<u>201</u>

Subtotal	<u>\$40,823</u>
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Subtractions:

Allocations in the Fiscal Year 2023-24 Adopted Budget:

Limited-Period Expenditures	(7,074)
CIP Reserve	(3,000)
Strategic Property Acquisition Reserve	(2,000)
Budget Contingency Reserve for the Public Safety Building	(2,000)
Employee Loan Program Reserve	(2,000)
Compensated Absences Reserve	(1,353)
Development Services Fund	(1,100)
Additional Payment to CalPERS	(1,000)
Parental Leave Reserve	(1,000)
General Liability Fund	<u>(1,000)</u>

Subtotal of Allocations	<u>(21,527)</u>
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Remaining Unallocated Balance at June 30, 2023	<u>\$19,296</u>
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Fiscal Year 2023-24 Midyear Council Actions	(1,194)
Recommendations in this Midyear Report from GNOF	<u>(277)</u>
Remaining Available Balance	<u>\$17,825</u>

Council Policy A-11 provides, to the extent possible, the GOF carryover funds remaining, not designated for other reserve purposes, shall be applied to the Capital Improvement Reserve. However, similar to prior years, there are multiple funding needs in other areas currently under review as part of the budget development process, and staff will provide recommendations for the use of the remaining unallocated balance with the Fiscal Year 2024-25 Recommended Budget in June.

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:

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Grace Zheng
Assistant Finance and Administrative
Services Director

Approved by:

Derek Rampone
Finance and Administrative Services Director

Arn Andrews
Assistant City Manager

Kimbra McCarthy
City Manager

AT-GZ/6/CAM
574-02-27-24CR
203639

- Attachments:
1. Council Strategic Priorities and Work Plan Update
 2. Resolution Approving Midyear Budget Requests
 3. Resolution Amending the City’s Regular Salary Plan