CITY OF MOUNTAIN VIEW

MEMORANDUM

Finance and Administrative
Services Department

DATE: April 28, 2015

TO: City Council

FROM: Helen Ansted, Principal Financial Analyst
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VIA: Daniel H. Rich, City Manager

SUBJECT: **General Operating Fund Five-Year Financial Forecast**

INTRODUCTION

Long-range forecasting is an important part of a city's financial planning process. While it is challenging to accurately predict local government revenues due to the variable nature of the revenue sources and their connection to regional, State, national, and even international economic conditions, it is possible to identify reasonable financial trends and provide a conceptual financial picture for a multi-year period which is useful to policy-makers' decision-making.

Annually, a forecast is prepared and presented to the City Council during the budget process. Beginning with the Fiscal Year 2008-09 budget process, the City Council set as a high-priority goal the development of a 10-year forecast. A 5-year forecast is prepared annually and a 10-year Long-Range Financial Forecast is prepared periodically (every two to four years), and initially discussed with City Council during the Narrative Budget Study Session. Last fiscal year, staff prepared a 10-year forecast. This report is a 5-year Financial Forecast (Forecast) for the time period of Fiscal Years 2015-16 through 2019-20.

A financial forecast, even with fluctuating economic variables, can help identify long-term financial trends, causes of fiscal imbalances, future fiscal challenges, opportunities, and potential requirements, all of which may assist in continuing on a path of fiscal sustainability. Growth and development will occur at a different pace than anticipated in this Forecast and actual revenues and expenditures in future years will vary, but trend lines will be apparent. The purpose of this Forecast is to provide a foundation for the City Council's decision-making for Fiscal Year 2015-16 budget deliberations. The Forecast is focused on the General Operating Fund (GOF), which provides financing for the majority of City services, including Police, Fire, Parks, Recreation, Library, and administrative functions necessary for ongoing City operations. The GOF is also the fund that is most significantly influenced by economic conditions.

BACKGROUND AND ANALYSIS

The Forecast is 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 data, etc.), networking with staff of neighboring agencies, reviewing State of California (State) and national economic trends, and factoring in known Mountain View conditions, such as economic and property development. The level of City services, staffing, and cost of operations projected for Fiscal Year 2015-16 is the base year for subsequent fiscal years' expenditures in the Forecast. Confidence levels in the Forecast assumptions become less certain with each subsequent fiscal year and actual future revenues and expenditures will vary from the Forecast.

Although it is uncertain as to when it will actually occur, it is prudent to include a downturn in the economy in the Forecast based on economic cycles. Historically, slowdowns in the economy have occurred approximately between 4 and 9 years in the past five decades, with the longest period of expansion lasting 11 years, from 1990 to 2001. As a result, a general slowdown in economic activity is projected to begin Fiscal Year 2018-19 and continue into Fiscal Year 2019-20. It has been approximately 7.5 years since the beginning of the last recession and will be 11 years if the slowdown occurs in Fiscal Year 2018-19, as indicated in the Forecast. However, some would say the recovery has been very long and slow; therefore, the next downturn could occur later.

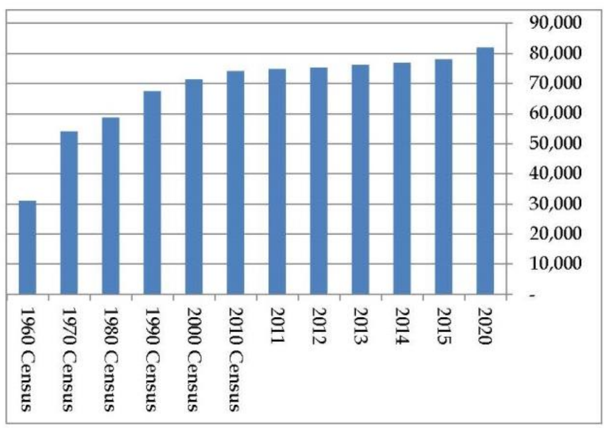
The Forecast is not intended to predict precisely the next slowdown in the economy, but rather an indication of what the financial picture could look like when the next recession occurs. The next slowdown could occur sooner or later than projected, but it is anticipated another downturn will occur. The trend, based on the assumptions utilized, the recommendations included in the Fiscal Year 2015-16 Narrative Budget Report, and assuming $1.8 million annual budget savings, indicates revenues in Fiscal Year 2015-16 through Fiscal Year 2018-19 will exceed expenditures, but as a result of an anticipated economic downturn, revenues may not be sufficient to fund all expenditures in Fiscal Year 2019-20.

The various GOF revenue sources respond differently to such an economic event—some, such as Transient Occupancy Tax (TOT), react almost immediately while others, such as property taxes, sales tax, and investment earnings, lag behind. While the budget is projected to be balanced until the next downturn, it is important to note the five-year period includes revenues from projected development. If this development does not occur, annual operating balances will be negatively impacted.

The following chart shows historical population annually for the past five years and each U.S. Census year back to 1960 and projects population growth to 2020. From the 2000 Census to the 2010 Census, the City of Mountain View population grew by 2,697 (3.8 percent). According to the Association of Bay Area Governments' (ABAG) figures, the City's population is 77,940 in 2015, meaning it has grown 5.2 percent in five years. With the current pace of housing development, and potential for housing in the North Bayshore Area, the population could exceed ABAG projections for 2020.

Population

1960 Census	30,889
1970 Census	54,132
1980 Census	58,722
1990 Census	67,460
2000 Census	71,369
2010 Census	74,066
2011	74,723
2012	75,275
2013	76,260
2014	76,781
2015	77,940
2020	81,992



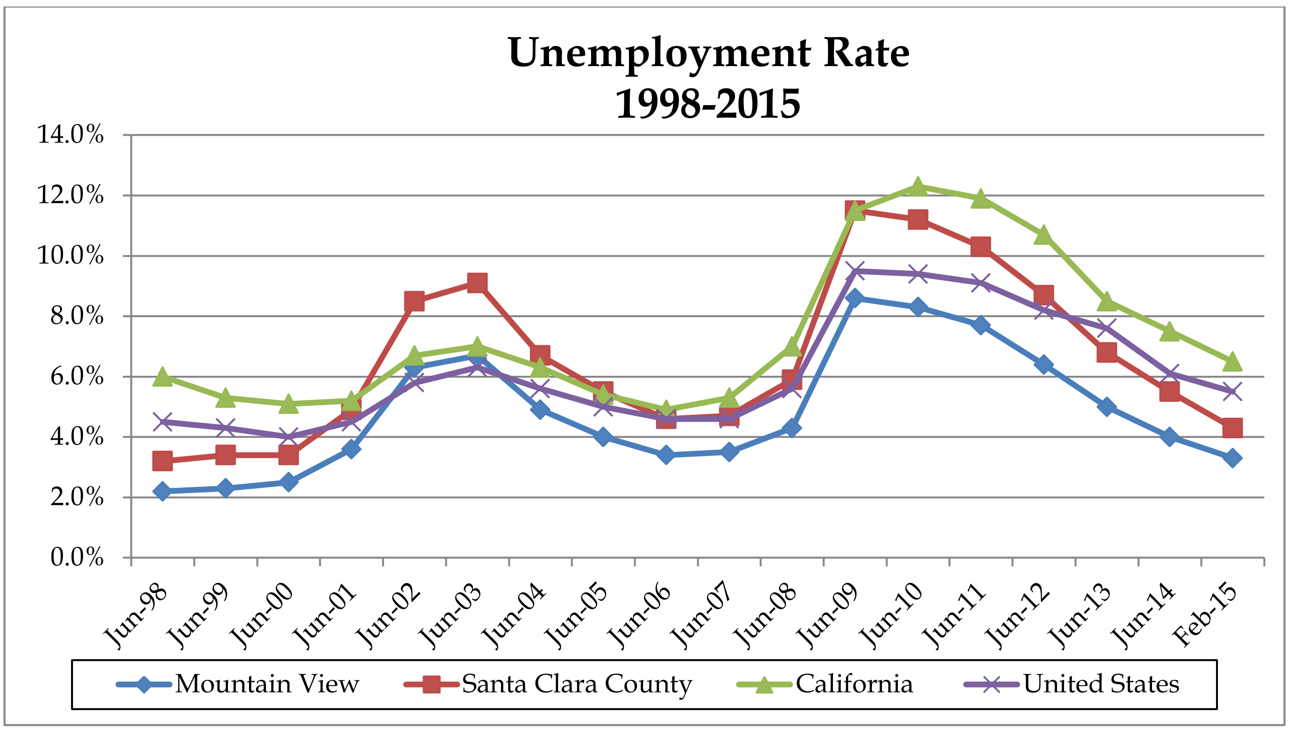
Sources: U.S. Census Bureau (1960-2010)
Association of Bay Area Governments (2015 and 2020)
California State Department of Finance (all other years)

<u>Economic Climate Factors</u>

There are factors which impact each individual revenue source, some of which have broad ranges affecting multiple revenues and some are specific to an individual revenue source. The Forecast includes a discussion of these economic factors below.

<u>Unemployment</u>

As detailed in the chart below, Mountain View's unemployment level has been below the County of Santa Clara (County), State, and nation, except during the recession of the early 2000s, which hit Silicon Valley the hardest. As of January 2015, unemployment in the City is at 3.6 percent, a return to the prerecession rate and well below the County (4.7 percent), the State (6.9 percent), and the nation (5.7 percent).



<u>State of California</u>

Four years ago, the State was deeply in debt and the unemployment rate exceeded 12.0 percent. Now, as a result of a recovering economy, spending cuts, and temporary taxes, the State budget is proposed to be balanced. Proposition 2, adopted in November 2014, ensures the spikes in revenues from capital gains will be saved for the next recession and to pay down the State's debts and liabilities. The strengthening economy is allowing the State to invest in new funding for K-12 and higher education. However, rising costs from health-care reform, wildfires, and imposed prison spending make the balanced budget precarious for Fiscal Year 2015-16. In addition, deferred infrastructure maintenance and unfunded liabilities for future retirees' health care and pension benefits must be addressed.

Revenue and Expenditure Overview

In order to maintain a base level of services, revenue growth is necessary. If the existing revenue base cannot generate sufficient revenues to fund the cost of operations, the economic base must be enhanced or operating costs reduced. Fiscal Year 2015-16 revenues are projected to increase $7.5 million (7.5 percent) compared to Fiscal Year 2014-15 adopted revenues, and increase 3.2 percent compared to the Fiscal Year 2014-15 estimated revenues.

As a result of a combined effort by City Council, staff, employee groups, and residents supporting a combination of expenditure reductions and revenue enhancements, along with strong economic growth, the City is in a strong financial position with a surplus projected for the next few fiscal years. This economic growth includes major new private and public developments, such as the Village at San Antonio Center and Moffett Gateway which will provide housing, hotel rooms, shopping, and entertainment as well as generating additional ongoing revenues beginning in Fiscal Year 2017-18.

Fiscal Year 2015-16 recommended expenditures are $5.1 million (5.2 percent) higher compared to the Fiscal Year 2014-15 adopted expenditures. The increases in expenditures are primarily related to cost-of-living adjustments (COLAs), retirement, and health-care benefits cost increases. Ongoing expenditure recommendations of $923,000 for high-priority areas are included. After allowing for a $1.0 million contribution to the unfunded Other Post-Employment Benefits (OPEB) liability, $2.0 million additional contribution to PERS, and anticipated budget savings of $1.8 million, the operating balance is projected to be $2.1 million for Fiscal Year 2015-16.

Although there have been changes made to reduce the cost of current health benefits with the move of public safety employees to the PERS Health Program (PEMHCA), there is an anticipated increase in the overall Retirees' Health liability. The move to a lower discount rate of 7.0 percent (California Employees Retiree Benefit Trust (CERBT) rate of 7.06 percent) in Fiscal Year 2014-15 has increased this liability and the PERS Trust (CERBT) has lowered the discount rate further to 6.73 percent, which will be incorporated in the next actuarial valuation and will further increase the City's liability.

Staff and Council recognized the opportunity to use improved City finances to reduce unfunded liabilities for OPEB and PERS. As part of the Fiscal Year 2014-15 Adopted

Budget, Council approved allocations of $1.0 million each from the General Non-Operating Fund towards the OPEB and PERS liabilities and $1.0 million towards OPEB from the GOF. The Fiscal Year 2015-16 Recommended Budget continues this important strategy with a $1.0 million annual contribution to OPEB in Fiscal Years 2015-16 through 2017-18, a $2.0 million additional contribution for PERS in Fiscal Year 2015-16, and $1.0 million annually through Fiscal Year 2017-18. There is also an additional $1.0 million for PERS from the Fiscal Year 2014-15 carryover.

Fiscal Year 2015-16 includes a contractual COLA as provided for in the MVFF MOU two-year extension adopted July 1, 2014 and a modest COLA has been included for the remaining employee groups. The Forecast includes modest COLAs for the first two years and lessor amounts as placeholders for the remaining years. Annual step and merit increases, as well as projected annual benefit cost increases, are included for the entire Forecast period.

The following table includes the projected revenues and expenditures by category for Fiscal Year 2015-16 and the subsequent Forecast years.

GENERAL OPERATING FUND FORECAST
(dollars in thousands)

	2014-15 ADOPTED	2014-15 ESTIMATED	2015-16 FORECAST	2016-17 FORECAST	2017-18 FORECAST	2018-19 FORECAST	2019-20 FORECAST
REVENUES:							
Property Taxes	$33,782	34,055	35,933	37,619	39,360	40,919	41,860
Sales Tax	17,608	19,423	19,380	19,900	20,634	19,992	19,462
Other Local Taxes[1]	13,643	13,951	14,333	14,749	15,500	15,882	14,692
Use of Money and Property	10,663	10,791	11,046	11,499	12,045	14,204	14,480
Other Revenues[2]	23,948	25,578	26,423	26,764	27,111	26,745	26,302
Loan Repayments	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL REVENUES	99,644	103,798	107,115	110,531	114,650	117,742	116,796
EXPENDITURES:							
Salaries and All Pays	52,564	52,011	54,885	57,338	58,491	59,524	60,474
Retirement	12,297	12,185	13,051	14,143	14,961	15,726	16,190
Health Benefits	8,986	7,905	9,311	10,099	10,961	11,901	12,928
All Other Benefits	5,009	4,823	5,664	6,046	6,245	6,446	6,662
Personnel Costs	78,856	76,924	82,911	87,626	90,658	93,597	96,254
Supplies and Services	14,531	14,797	15,204	15,576	15,957	16,347	16,748
Capital Outlay/ Equipment Replacement	2,589	2,697	2,849	2,926	3,005	3,086	3,169
Self-Insurance	3,002	3,002	2,852	3,019	2,928	2,845	2,771
Debt Service	-0-	-0-	-0-	-0-	-0-	3,000	3,000
Budget Savings	(2,000)	Included	(1,800)	(1,800)	(1,800)	(1,800)	(1,800)
NET EXPENDITURES	96,978	97,420	102,016	107,347	110,748	117,075	120,142
OPEB Funding	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	-0-	-0-
PERS Funding	-0-	-0-	(2,000)	(1,000)	(1,000)	-0-	-0-
OPERATING BALANCE/(DEFICIT)	$ 1,666	5,378	2,099	1,184	1,902	667	(3,346)

1 Other Local Taxes consists of Transient Occupancy Tax, Business Licenses, and Utility Users Tax.
2 Other Revenue consists of License, Permit & Fees; Fines & Forfeitures, Intergovernmental; Charges for Services; Miscellaneous Revenue; and Interfund Revenues & Transfers.

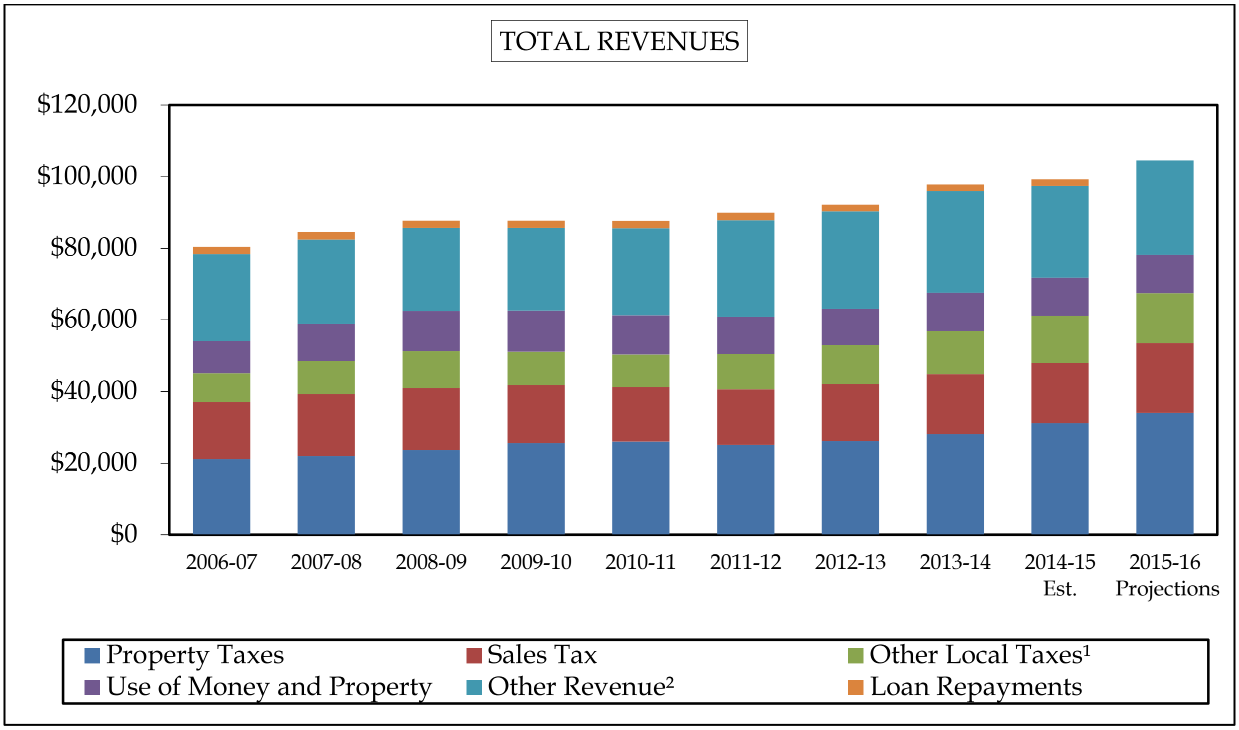
Revenue and Expenditure Background

Revenues

Historical experience demonstrates Mountain View has a relatively volatile revenue base, primarily related to sales tax, with substantial variation in the amount of revenues collected over time (see Attachment 1 for revenue and expenditure history). There is a strong correlation between economic conditions and the amount of revenues received. In addition to the overarching factors described in the Economic Climate Factors Section, the City's revenue volatility is continually impacted by local factors.

For Fiscal Year 2015-16, all the main categories of General Operating Fund revenues listed in the previous table are projected to meet or exceed the Fiscal Year 2014-15 Adopted Budget. Significant factors, such as increasing property values and sales tax, hotel rates and occupancy, and improved compliance with the City's Utility Users Tax (UUT) Ordinance, are contributing to an improved financial condition and an overall indication the City is in a strong revenue growth period.

A history of total General Operating Fund Revenues is as follows (dollars in thousands):



1 Other Local Taxes consists of Transient Occupancy Tax, Business Licenses, and Utility Users Tax.
2 Includes Licenses, Permit & Fees/Fines & Forfeitures, Intergovernmental; Charges for Services; Miscellaneous Revenue; and Interfund Revenues & Transfers.

Total Fiscal Year 2015-16 revenues are projected to increase $7.5 million (7.5 percent) compared to the Fiscal Year 2014-15 Adopted. Additional discussion of individual revenue sources can be found later in this report.

Expenditures

During Fiscal Years 2009-10 through 2012-13, there were projected structural deficits ranging from $1.1 million to $6.0 million and, through a combination of operating efficiencies and expenditure reductions (totaling $7.4 million), revenue enhancements, and employee cost containment (totaling $2.2 million), the City was able to balance those budgets and weather the Great Recession. Revenues had recovered sufficiently and no budget restructuring was necessary for the Fiscal Years 2013-14 and 2014-15 Adopted Budgets and the economic health of the City has continued to improve. The projection for Fiscal Year 2015-16 indicates there will be sufficient funding for the base expenditures and the recommendations in the General Operating Fund Section of the report. However, from the peak in Fiscal Year 2001-02, the GOF employee count has been reduced by over 70.0 positions (over 14.0 percent). Overall, the City is operating at a very lean staffing level for the quality and level of services provided. As the City's finances have improved and the quality of services and the level of activity remain high, the Fiscal Year 2015-16 Recommended Budget includes some ongoing and limited-period positions that have been evaluated and determined to be of the highest priority.

The Forecast expenditures are calculated in the same manner as the annual budget and include the full cost of each existing position (salary and benefits). For Fiscal Years 2015-16 and 2016-17, the salaries have been adjusted based on compensation as approved by City Council in the MVFF MOU two-year extension effective July 1, 2014, and a modest COLA has been included for the remaining employee groups. There are modest COLAs included for Fiscal Years 2015-16 and 2016-17, with a lesser amount as placeholders for the remaining years, as well as multi-year assumptions related to the remaining cost components (e.g., steps, merits, retirement, health care, etc.) throughout the Forecast period. The factors for future health benefit costs were based on health-care trends and historical experience. The projected California Public Employees' Retirement System (PERS) rates for Fiscal Years 2015-16 through 2019-20 were provided by PERS.

For Supplies and Services and the remaining categories, a base level of expenditures is calculated utilizing the Fiscal Year 2015-16 Recommended Budget and then adjusted based on the multi-year assumptions related to each component of cost (e.g., City utilities, equipment maintenance, self-insurance funding, etc.).

Based on past experience, it is typical to underspend the budget due to vacant positions and cost containment in Supplies and Services accounts. Beginning in Fiscal Year 2009-10, a budget savings amount was assumed. It has been as high as $2.8 million but for the past two fiscal years has been adopted at $2.0 million annually. As vacant positions have been filled and supplies and services budgets have been constrained in recent years, the annual savings has declined. Therefore, the Fiscal Year 2015-16 Recommended Budget and the Forecast period include a budget savings amount reduced to $1.8 million annually.

SUMMARY

Silicon Valley continues to be a leader in the local and national economic recovery—job creation, vacant space utilization, and development of both residential and commercial projects are contributing to the health of the economy. Although anticipated PERS rate increases and medical rate increases are significant factors in cost increases, the Forecast projects sufficient revenue growth until the next economic downturn occurs. Beyond

Fiscal Year 2015-16, the Forecast years continue to indicate a positive operating balance (including funds set aside for OPEB and PERS) ranging from $667,000 to $1.9 million. The final year of the Forecast, Fiscal Year 2019-20, projects a negative balance of $3.3 million. Future economic challenges ahead will be dependent upon the strength of the economy and when the next recession hits.

Following is a detailed and graphic presentation of the Forecast, summarizing the assumptions and resulting revenues and expenditures.

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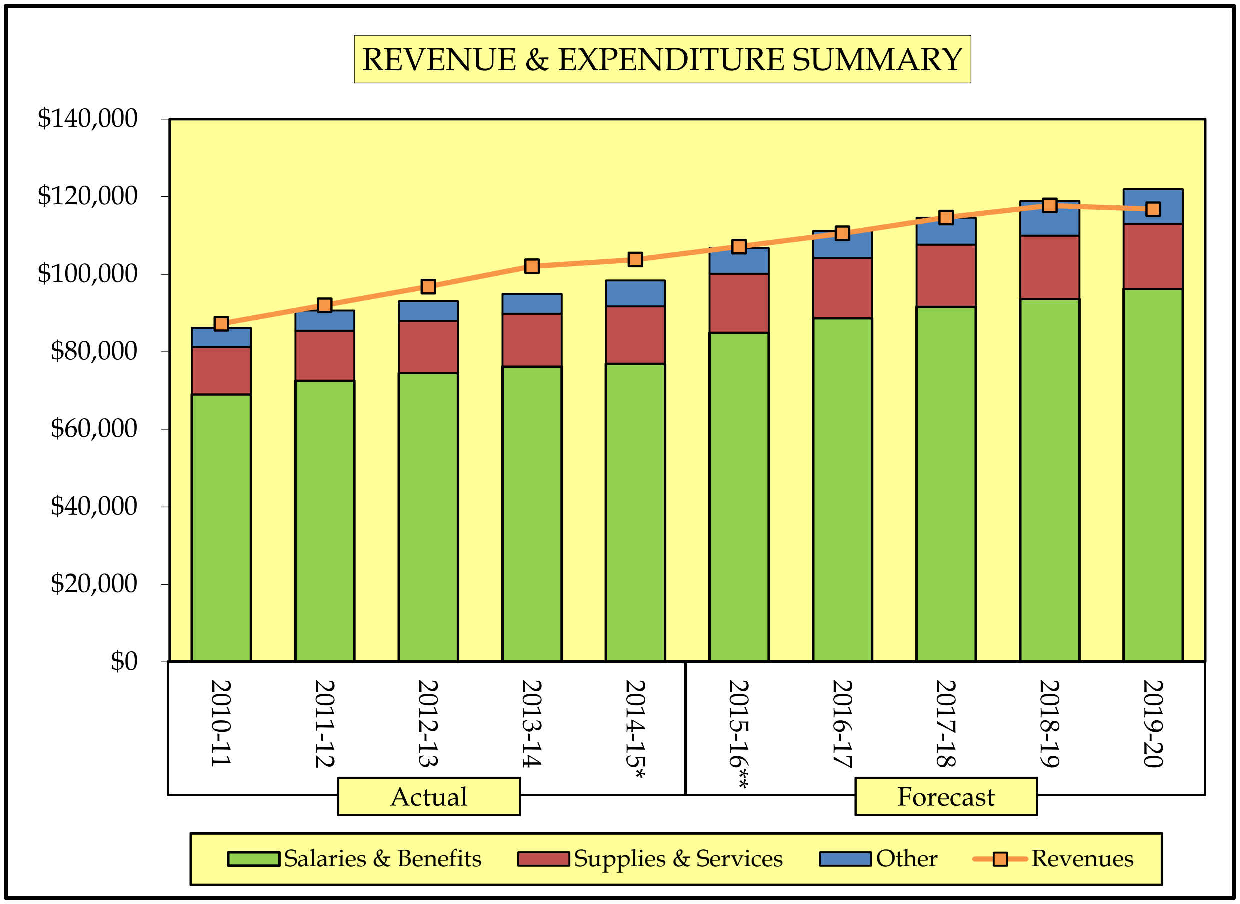
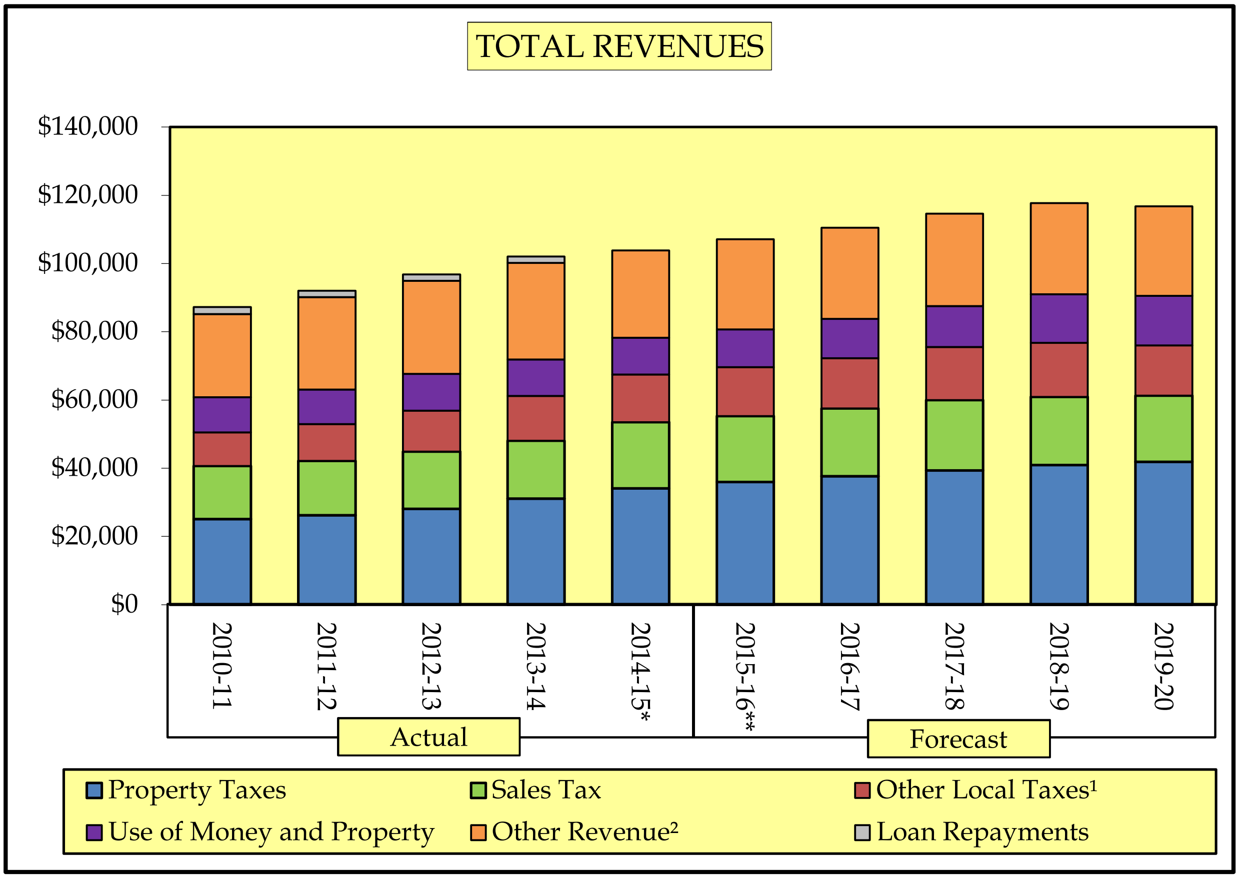


Fiscal Year		Revenues	Expenditures
2010-11		87,240	86,160
2011-12		92,041	90,605
2012-13		96,811	93,041
2013-14		102,047	94,933
2014-15	*	103,798	98,420
2015-16	**	107,115	106,816
2016-17		110,531	111,147
2017-18		114,650	114,548
2018-19		117,742	118,875
2019-20		116,796	121,942

* Estimated
** Recommended
(dollars in thousands)

The Fiscal Year 2015-16 recommended expenditures and all forecast years do not include the projected operating budget savings.



Fiscal Year		Total Revenues	% Change
2010-11		87,240	(1.8%)
2011-12		92,041	5.5%
2012-13		96,811	5.2%
2013-14		102,047	5.4%
2014-15	*	103,798	1.7%
2015-16	**	107,115	3.2%
2016-17		110,531	3.2%
2017-18		114,650	3.7%
2018-19		117,742	2.7%
2019-20		116,796	(0.8%)

* Estimated
** Recommended
(dollars in thousands)

[1] Includes Business Licenses, Transient Occupancy and Utility Users Tax.

[2] Includes Licenses, Permits & Fees/Fines & Forfeitures; Intergovernmental; Charges for Services; Miscellaneous Revenue; and Interfund Revenues & Transfers.

PROPERTY TAXES

Property Taxes include the revenue generated from the City's share of the 1.0 percent levy assessed on the taxable value of real and personal property located within the City limits. The assessed value (AV) of secured real property that does not experience a change in ownership or is not subject to new construction is increased annually at a rate not to exceed the California Consumer Price Index (CCPI) or 2.0 percent, whichever is lower. However, if a property changes ownership, it is reassessed (up or down) at the current market value and new construction is initially valued at the cost of the construction. In addition, the County Assessor can proactively adjust the AV of properties downward to market value during periods of declining property values. Unsecured tax on personal property, such as computers and other equipment, is assessed on the value of the property as reported annually to the County by the owner.

SOURCES

- Property tax assessed on secured real property.
- Property tax assessed on unsecured personal property.
- Property tax assessed on leased property.

ECONOMIC FACTORS

- General economic conditions.
- Proposition 13—determines methodology of tax application, limits the annual AV increase, and sets the tax rate.
- California Consumer Price Index (CCPI—October through October).
- Property demand, sales, and values.
- New development.
- County processing time for new development and ownership transfers and inclusion on the tax roll.
- Proactive assessment reductions by the County Assessor.

- Assessment appeals.
- Availability of credit.
- State legislation regarding tax allocation.

HISTORY

In 1992, as a way of solving its own budget shortfall, the State enacted legislation that shifted partial financial responsibility for funding education to local government. Property tax revenues belonging to cities, counties, and special districts were shifted to the Education Revenue Augmentation Fund (ERAF). The net cumulative loss to the GOF resulting from all ERAF shifts through Fiscal Year 2014-15 exceeds $78.0 million (almost $82.0 million for the entire City).

For the past two decades, housing activity has remained strong with short periods of uncertainty or declines related to the availability of housing stock, interest rates, and the overall economy. During Fiscal Year 2008-09, the housing market collapsed and assessed valuation across the County suffered and caused some properties to be appraised at less than the outstanding debt on the property. In Fiscal Years 2010-11 and 2011-12, the annual CCPI was 0.237 percent and 0.753 percent, respectively, lower than the maximum 2.0 percent allowed. During that time, foreclosures nationwide increased dramatically as homeowners defaulted on their mortgages and California was the epicenter of the foreclosure crisis. The number of foreclosures in the nation and California has declined significantly, to the lowest level since 2006. The number of foreclosures in both the County and the City has also fallen dramatically, with only three in Mountain View during 2014.

Beginning Fiscal Year 2008-09, the County began processing Proposition 8 (Prop 8) reductions for residential and commercial properties. The majority of the lost value was recaptured in Fiscal Years 2013-14 and 2014-15 and the remaining 15.0 percent is anticipated to be recaptured in Fiscal Year 2015-16.

In the time period since the beginning of the recession, commercial property owners have also submitted applications for value reductions. The number of appeals submitted County-wide for 2014 is the lowest since 2007. Because of the variable nature of commercial properties, the process of reviewing and valuing them is more complicated and lengthy. The County has processed Countywide AV roll reductions (primarily the result of resolved appeals) during the current fiscal year and anticipates a net of $2.0 billion in AV reductions through June 30, 2015. The General Fund's share of this property tax revenue loss for Fiscal Year 2014-15 is approximately $180,000. As of

February 2015, the County had approximately 7,000 pending appeals remaining and the Forecast includes some loss in property tax revenue as a result of resolution of these appeals.

Tracking of sales activity was initiated in 2007. The highest number of sales transactions occurred in 2012, but the largest increase in assessed value resulting from a change in ownership occurred in 2014. As detailed in the table below, there has been growth in the median price of single-family homes (SFH) with changes in ownership (CIO) every year beginning in 2010, with a more significant increase in the SFH median price for sales since 2011.

Median Price Statistics (Mountain View Residential Properties with a CIO)

Year	Single-Family Home (SFH)	Number of SFH CIO	Condo/ Townhome	Number of Condo/ Townhome CIO
2007	$955,000	218	$575,000	255
2008	$963,250	200	$590,000	184
2009	$845,000	182	$535,000	179
2010	$892,000	267	$572,500	268
2011	$900,750	306	$445,000	241
2012	$1,000,000	341	$570,000	299
2013	$1,245,000	297	$639,000	356
2014	$1,450,000	255	$781,000	322

In total, Fiscal Year 2014-15 estimated Property Tax revenues of $34.1 million exceeds both the Fiscal Year 2014-15 Adopted Budget of $33.8 million and the Fiscal Year 2013-14 actual of $31.1 million.

FORECAST

The Fiscal Year 2015-16 projected secured property tax revenues is based on the Fiscal Year 2014-15 tax roll adjusted for the following:

- A 1.998 percent CCPI increase to the AV of all eligible residential and commercial property;

- Small net AV loss resulting from restoration of Prop 8 reductions and projected loss from resolution of pending appeals;

- Value changes related to property transfers and sales prior to the lien date;

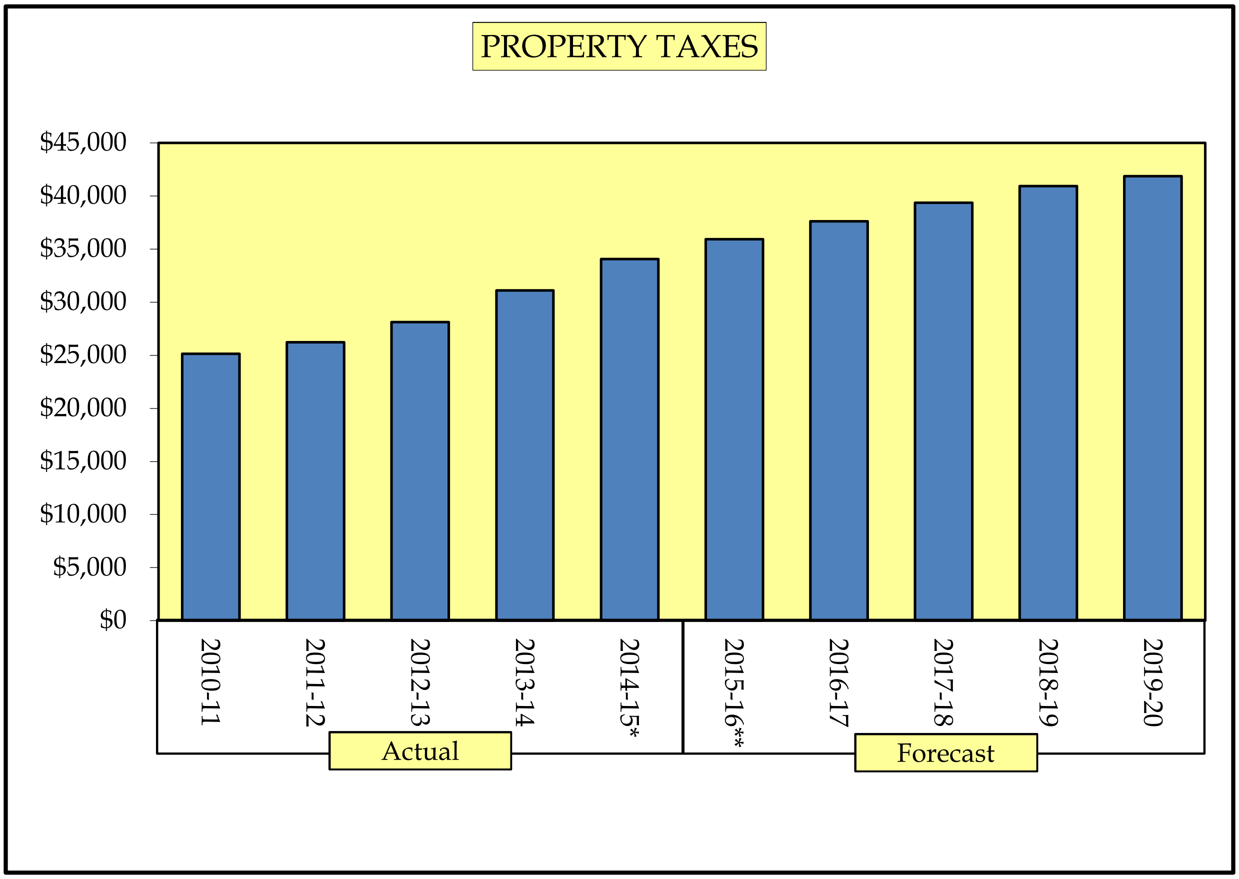
- Increased AV projection related to new development and remodels; and

- Share of property tax from the former Revitalization Authority.

As mentioned earlier, the County has a backlog of approximately 7,000 appeals. As the County is not able to provide information about pending appeals specific to each local agency, the Fiscal Year 2015-16 revenues include a projection for Prop 8 restoration and resolution of pending appeals.

For the remaining Forecast years, total secured property tax is projected with net growth ranging from 3.7 percent to 6.4 percent annually. These average annual increases include an annual change in AV based on a 2.0 percent CCPI, new development projects in the pipeline (including The Village at San Antonio Phase II and Moffett Gateway projects), anticipated growth from changes in ownership and remodeling, and the City's share of the projected property tax from the former Revitalization Authority. The increased revenue from Moffett Gateway has been identified as a possible dedicated revenue source for the Police/Fire Administration Building capital improvement project (CIP).

For Fiscal Year 2015-16 and the following two fiscal years, unsecured property tax revenue is projected to increase 1.0 percent annually. Fiscal Years 2018-19 and 2019-20 are projected with 10.0 percent and 5.0 percent declines, respectively, reflecting the impact of an anticipated downturn in the economy.



Fiscal Year		Property Taxes	% Change
2010-11		25,142	(2.0%)
2011-12		26,216	4.3%
2012-13		28,122	7.3%
2013-14		31,120	10.7%
2014-15	*	34,055	9.4%
2015-16	**	35,933	5.5%
2016-17		37,619	4.7%
2017-18		39,360	4.6%
2018-19		40,919	4.0%
2019-20		41,860	2.3%

* Estimated
** Recommended
(dollars in thousands)

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SALES TAX

Sales Tax revenue is the second largest single revenue source of the GOF and also the most volatile. The City of Mountain View is allocated 1.0 percent of every sales dollar subject to sales tax. In the late 1990s, sales tax from commercial/industrial businesses generated a greater amount of sales tax than retail businesses, an approximate 1.5:1 ratio. During the current decade, as a result of relocations, recession, and Board of Equalization (BOE) reporting changes, retail contributes a greater share and the ratio is approximately 12:1.

SOURCES

- Retail sales of tangible personal property to individuals and other businesses.
- Use and excise taxes on business consumption of personal property.
- State and County pooled sales tax allocated by population.

ECONOMIC FACTORS

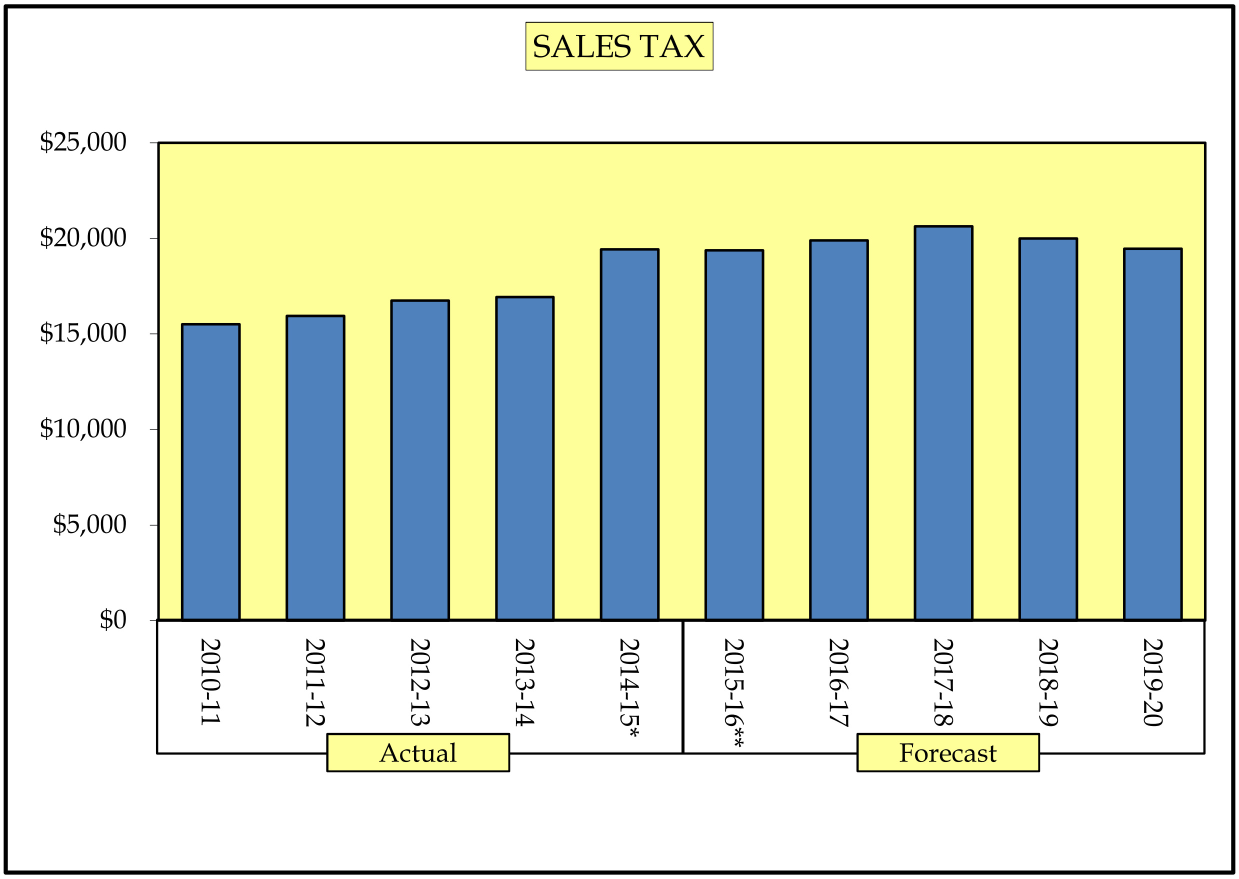
- Business expansion, reduction, or relocation.
- State of the economy.
- Purchasing patterns.
- State Board of Equalization allocation decisions.
- Level of business-to-business sales.
- Technology changes.

HISTORY

Since the early 1990s, sales tax has been an extremely volatile revenue source, reaching an all-time record high of $24.1 million in Fiscal Year 2000-01, primarily resulting from high-tech businesses. A precipitous decline to $14.2 million occurred in Fiscal Year 2003-04 followed by steady growth through Fiscal Year 2007-08 to $17.3 million. These variations typically occur as businesses move in and out of the City, companies modify reporting and/or sales methods, and the economy changes. Fundamentally, as the service economy grows, less manufacturing is done locally, and sales tax is not applicable to company sales, there is a smaller commercial tax base. As a result of the Great Recession, sales tax revenue fell in excess of $2.0 million (11.8 percent) to $15.2 million. Since then, sales tax revenue has again steadily grown. The most recent sales tax data indicates there is net growth within Santa Clara County, the nine Bay Area counties, and the State year over year. Fiscal Year 2014-15 is estimated to exceed the current year Adopted Budget and Fiscal Year 2013-14 actual, the result of increased activity and the recognition of prior fiscal year sales tax in the current fiscal year due to the prior period accrual adjustment.

FORECAST

Fiscal Year 2015-16 Sales Tax revenue is projected to be essentially level with the current fiscal year estimate. Growth of 2.7 percent is projected for Fiscal Year 2015-16; however, due to the prior period adjustment, the current fiscal year estimated is higher and masking the growth projected. The subsequent two Forecast years include an anticipated annual growth of 2.7 percent and the last two fiscal years reflect 5.0 percent annual declines related to an anticipated downturn in the economy. The Village at San Antonio Center Phase II is projected to be completed in Fiscal Year 2017-18 and retail tenants in place beginning to generate sales tax.



Fiscal Year		Sales Tax	% Change
2010-11		15,502	(4.7%)
2011-12		15,940	2.8%
2012-13		16,744	5.0%
2013-14		16,936	1.1%
2014-15	*	19,423	14.7%
2015-16	**	19,380	(0.2%)
2016-17		19,900	2.7%
2017-18		20,634	3.7%
2018-19		19,992	(3.1%)
2019-20		19,462	(2.7%)

* Estimated
** Recommended
(dollars in thousands)

OTHER LOCAL TAXES

Other Local Taxes is comprised of Transient Occupancy Tax (TOT), Business License Tax, and Utility Users Tax (UUT).

SOURCES

- TOT is a 10.0 percent tax assessed on hotel and motel occupancies. Any occupancy by a government employee while on government business, or a stay exceeding 30 consecutive days, is exempt from the tax. This tax is self-reported on a quarterly basis by hotels and motels within the City limits, and a compliance audit is performed on a periodic basis.

- Business License Tax is assessed on all businesses known to be operating in Mountain View and billed annually. The tax rate varies by type of business, generally $30 per year for most (73.0 percent of Mountain View businesses), but can be as high as $630 for certain types of businesses.

- UUT is a 3.0 percent tax assessed on the consumption of all telecommunication, electricity, and gas services. Companies providing taxable utility services remit UUT payments monthly and a compliance audit is performed on a periodic basis.

ECONOMIC FACTORS

- <u>TOT</u>: Number of hotel rooms, room rate, occupancy rate, and number of exemptions.

- <u>Business License Tax</u>: Number and types of businesses licensed by the City and the applicable tax rate.

- <u>UUT</u>: Customer base, level of consumption, and price of the commodity.

HISTORY

<u>TOT</u>: The current tax rate is 10.0 percent, last modified in June 1991 from 8.0 percent. Occupancy and room rates in the City typically grow in nonrecessionary times. The impacts of economic downturns or disruptions are immediately felt in TOT revenue as demonstrated after the dot-com bust and the Great Recession when TOT fell by 26.6 percent. TOT revenues began to recover from this last recession in spring 2010 and growth has continued through December 2014.

Business License Tax: This revenue does not change significantly from year to year as the tax rate has remained essentially unchanged since June 1954 (excluding two business types updated in 1985). For 2014, approximately 6,500 business licenses were issued. Fluctuation in the number of businesses does not significantly change annual revenue because of the low annual tax.

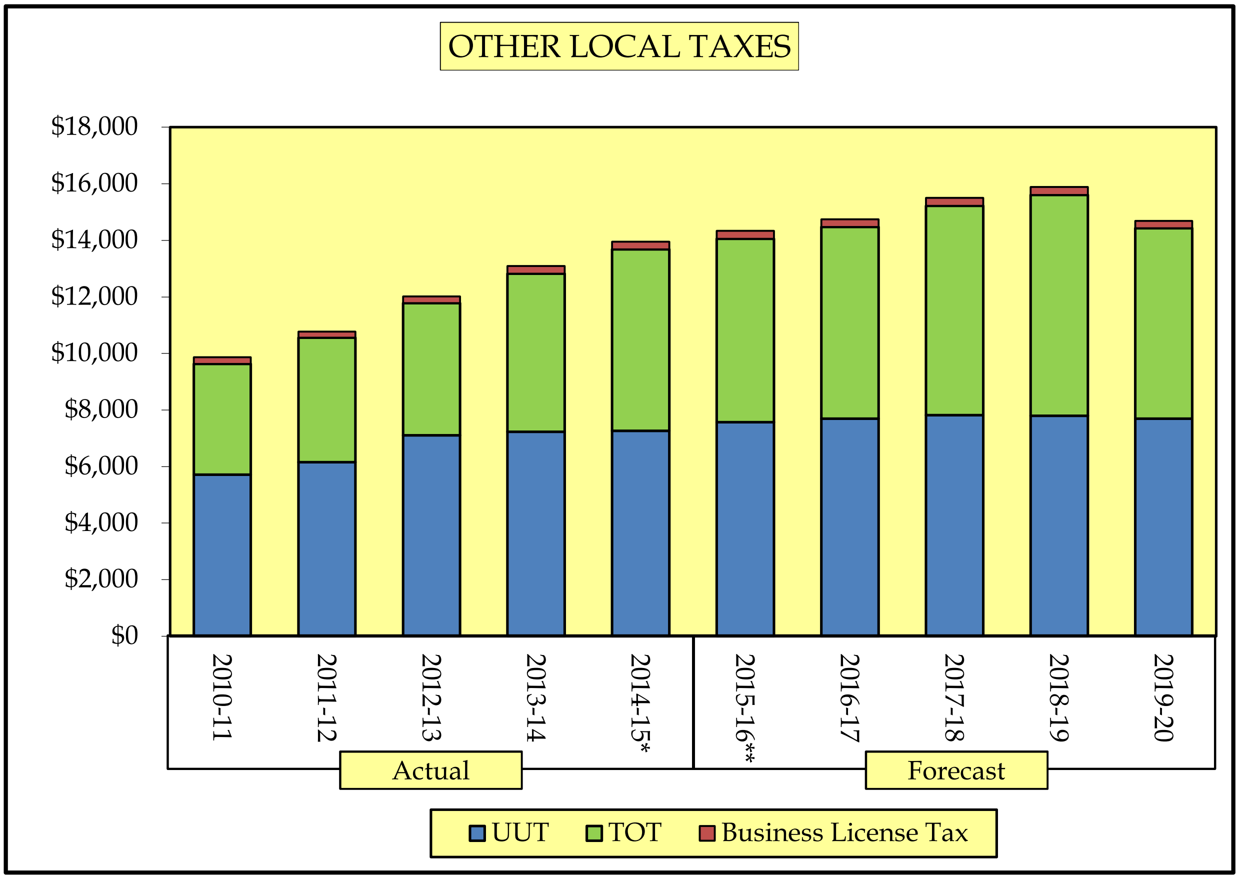
UUT: The tax is calculated on the consumer cost of the energy (gas and electricity) and telecommunication services utilized. The tax revenue fluctuates with the cost, customer usage, and/or customer base and is negatively impacted by economic downturns as businesses close and many customers reduce usage. In November 2010, the voters approved a ballot measure which broadened the base to include all telecommunications services in order to treat all customers equally and the amended ordinance became effective March 2011. As a result, UUT generated from telecommunications increased. An audit of the telecommunications providers was completed in January 2014 and resulted in a $1.1 million settlement, one-time assessment payments, and new ongoing revenue. Overall, Fiscal Year 2014-15 revenue is estimated at essentially the same level as the prior fiscal year, the net of an estimated lower amount related to telecommunications and higher amount related to energy.

FORECAST

TOT: The current growth phase is anticipated to continue at a reduced pace, reflecting an overall 8.0 percent growth factor for Fiscal Year 2015-16 compared to the Fiscal Year 2014-15 estimated, offset by the closure of a hotel. A varied growth pattern is projected through Fiscal Year 2018-19 and then declines in the final year of the Forecast. Fiscal Year 2017-18 reflects the anticipated opening of the hotel planned as part of the San Antonio Phase II project, and Fiscal Year 2018-19 reflects the opening of the hotel planned as part of the Moffett Gateway development project. The last two fiscal years of the Forecast include a decline resulting from the anticipated economic slowdown.

Business License Tax: Business license revenue is forecast with a 2.0 percent annual growth through Fiscal Year 2017-18 and the anticipated two-year downturn includes 3.0 percent annual declines. A business license compliance audit will commence during Fiscal Year 2014-15, and it is anticipated there will be an increase in business license revenue; however, the amount is unknown at this time.

UUT: Total projected UUT revenue for Fiscal Year 2015-16 is 4.2 percent higher than the current fiscal year estimate, primarily as a result of a significant new service provider identified that will soon commence remitting UUT. Telecommunications includes the net impact of the new service provider and anticipated decline partly resulting from change in taxation and payment for the use of prepaid phone cards. The other UUT sources are projected with growth. The BOE will be remitting the payment of UUT for prepaid phone cards but, at this point in time, the amount and timing are uncertain. The following two years include low growth followed by declines related to the anticipated economic downturn.



Fiscal Year		Utility Users Tax	Transient Occupancy Tax	Business License Tax	Total Other Local Taxes	% Change
2010-11		5,711	3,914	245	9,870	6.8%
2011-12		6,157	4,397	220	10,774	9.2%
2012-13		7,108	4,668	239	12,015	11.5%
2013-14		7,226	5,595	268	13,089	8.9%
2014-15	*	7,269	6,414	268	13,951	6.6%
2015-16	**	7,573	6,486	274	14,333	2.7%
2016-17		7,693	6,777	279	14,749	2.9%
2017-18		7,815	7,400	285	15,500	5.1%
2018-19		7,801	7,805	276	15,882	2.5%
2019-20		7,697	6,727	268	14,692	(7.5%)

* Estimated
** Recommended
(dollars in thousands)

USE OF MONEY AND PROPERTY

Use of Money and Property is comprised of investment earnings and revenue from rents and leases of City property. Investment earnings are generated from the General Fund's share of the City's pooled investment portfolio. Rents and Leases revenue is generated from rental properties and lease agreements.

SOURCES

- Monthly interest allocation generated by the City's pooled investment portfolio.
- Leased and rented properties, including:
  - Crittenden, Charleston East, and North Charleston sites
  - Shoreline Amphitheatre
  - Moffett Gateway
  - Recology
  - Center for the Performing Arts
  - Michaels at Shoreline
  - Community School of Music and Arts (CSMA)
  - CVS (parking structure, retail space)
  - Bean Scene Café, Olympus Caffe, and Savvy Cellar Wines, Inc.
  - Bank of America (ATM)
  - Wireless Telecommunication Providers (GTE Mobilnet, Metro PCS, Sprint)

ECONOMIC FACTORS

- Economy.
- Federal Reserve policy and interest rates.
- Portfolio balance.
- City Investment Policy.
- Lease agreements.

HISTORY

Investment Earnings: Over the past decade, part of the City's financial strategy was to build reserves in anticipation of budget constraints in order to generate additional revenue in the form of investment earnings and to maintain sufficient funds to weather any further significant declines in revenues. The Federal Reserve has aggressively managed short-term interest rates since 2006 in an effort to combat the ripple effect of the subprime lending crisis and support the economic recovery by reducing the Federal funds rate from 5.25 percent to the current target of 0.25 percent. This has significantly impacted the City's interest earnings.

Rents and Leases: Over time, the City has strategically developed City-owned properties and negotiated lease agreements which generate long-term revenue for the General Operating Fund. These leases and the revenue generated become even more important during economic downturns as they do not immediately fluctuate with the economy, and most include annual inflationary increases.

In 1995, 1996, and 2008, the City first negotiated and signed ground lease agreements for the North Charleston, Crittenden, and Charleston East sites, respectively. As allowed in the ground leases, the market rent includes fixed annual increases and is revalued every 10 years.

In late Fiscal Year 2005-06, Council approved the amended and restated lease between the City and SFX Entertainment, Inc. (operating company of Live Nation, Inc.), for the lease of the Shoreline Amphitheatre. The terms of the lease eliminated the percentage rent structure and replaced it with a fixed amount of $200,000 per month for the concert season (nine months), a total of $1.8 million annually.

In September 2007, CVS opened in the Bryant Street parking structure and began paying the City the negotiated monthly lease rent. The parking structure was partially funded with former Revitalization Authority funds and, based on the Compensation Agreement, any revenues generated from the parking structures are shared with the taxing entities in the same portion of the Authority's contribution to the structures. The Compensation Agreement is effective July 1, 2014, resulting in reduced annual lease revenue of $165,000 to the GOF, a loss of $78,000 annually.

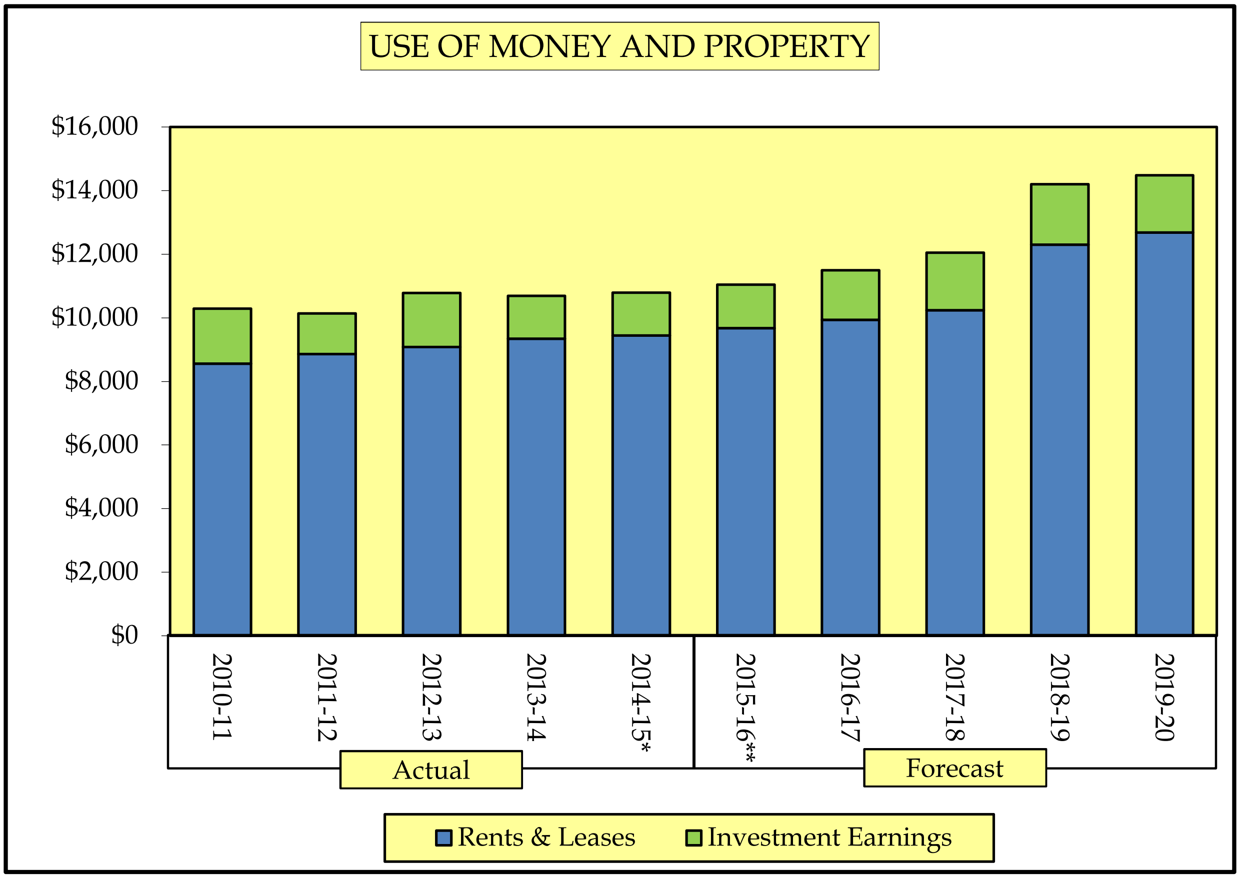
In May 2010, Savvy Cellars opened to the public at the Centennial Plaza Train Depot and, in accordance with the lease, the annual revenue to the City for the first five years was $29,700. The first increase of 3.1 percent was effective December 2014.

FORECAST

Investment Earnings: The Fiscal Year 2015-16 projection is based on the assumption that as instruments mature, the funds will be reinvested at rates slightly higher than those available in Fiscal Year 2014-15, resulting in an average portfolio yield of 1.31 percent for Fiscal Year 2015-16. This assumes the Local Agency Investment Fund (LAIF) pooled rate averages 0.80 percent (currently at 0.28 percent). The City's average portfolio yield is anticipated to continue rising through Fiscal Year 2018-19 and then declines in the final year of the Forecast as the impact of the projected economic downturn affects rates.

Rents and Leases: Three of the leases with Google include 3.0 percent or 4.0 percent annual increases and all will have a revaluation during the Forecast period. The fair-market value of the leases is projected in the Forecast to remain at the same level as at the time of revaluation.

The City receives $1.8 million annually from SFX Entertainment, Inc., for lease of the Shoreline Amphitheatre through Fiscal Year 2016-17 and 2.0 percent annual contractual increases begin the following fiscal year. The lease agreement with CSMA includes an increase effective during Fiscal Year 2018-19. The Savvy Cellars lease provides for an increase in Fiscal Year 2015-16. In Fiscal Year 2017-18, the CVS lease agreement provides for an 11.9 percent increase. The remaining lease agreements will remain essentially level.



Fiscal Year		Rents & Leases	Investment Earnings	Total Use of Money and Property	% Change
2010-11		8,557	1,733	10,290	(10.4%)
2011-12		8,866	1,272	10,138	(1.5%)
2012-13		9,083	1,700	10,783	6.4%
2013-14		9,345	1,345	10,690	(0.9%)
2014-15	*	9,448	1,343	10,791	0.9%
2015-16	**	9,671	1,375	11,046	2.4%
2016-17		9,934	1,565	11,499	4.1%
2017-18		10,235	1,810	12,045	4.7%
2018-19		12,301	1,903	14,204	17.9%
2019-20		12,680	1,800	14,480	1.9%

* Estimated
** Recommended
(dollars in thousands)

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LICENSES, PERMITS, AND FEES/FINES AND FORFEITURES

This revenue category is comprised of Licenses and Permits, Franchise Fees, and Fines and Forfeitures.

SOURCES

- Licenses and Permits revenues are generated from businesses requiring specific City permits.

- Franchisees are required to pay Franchise Fees as compensation to the City for the use of City property while providing a commercial service to Mountain View businesses and residents.

- Fines and Forfeitures are generated from citations issued by the City and the California Highway Patrol.

ECONOMIC FACTORS

- State of the economy.

- Franchise agreements and revenues generated by franchisees.

- Level of development activity.

- State and Federal regulations, legislation, and funded programs.

HISTORY

Licenses, Permits, and Fees: Licenses and Permits revenue tends to fluctuate with the development cycle. In Fiscal Year 2006-07, Building Services was separated from the General Operating Fund to better facilitate tracking and accounting. This revenue category has grown with the development activity of the past several years. In order to provide a more comprehensive picture of the development process and to more accurately align all development-related revenues and expenditures, Council approved the consolidation of all development-related functions within the City into a Development Services Fund for Fiscal Year 2014-15. Development-related revenues and expenditures were moved from the GOF to the Development Services Fund which decreased revenue in several categories, including this one. Revenues are estimated to slightly exceed budget for the current fiscal year.

Franchise Fee revenue generated from gas and electricity usage has historically increased as a result of significant commercial and residential development and declined during economic downturns as a result of commercial office vacancies.

In accordance with the agreement between the City and the City's trash and recycling collector, Recology, a monthly service fee is owed to the City. This fee includes a portion for the exclusive right to perform this activity and a portion is attributable to other solid waste services. This revenue has fluctuated over the past decade as a result of conservation efforts, migration to larger-size containers, and increases in refuse service charges in addition to the economic reasons listed above.

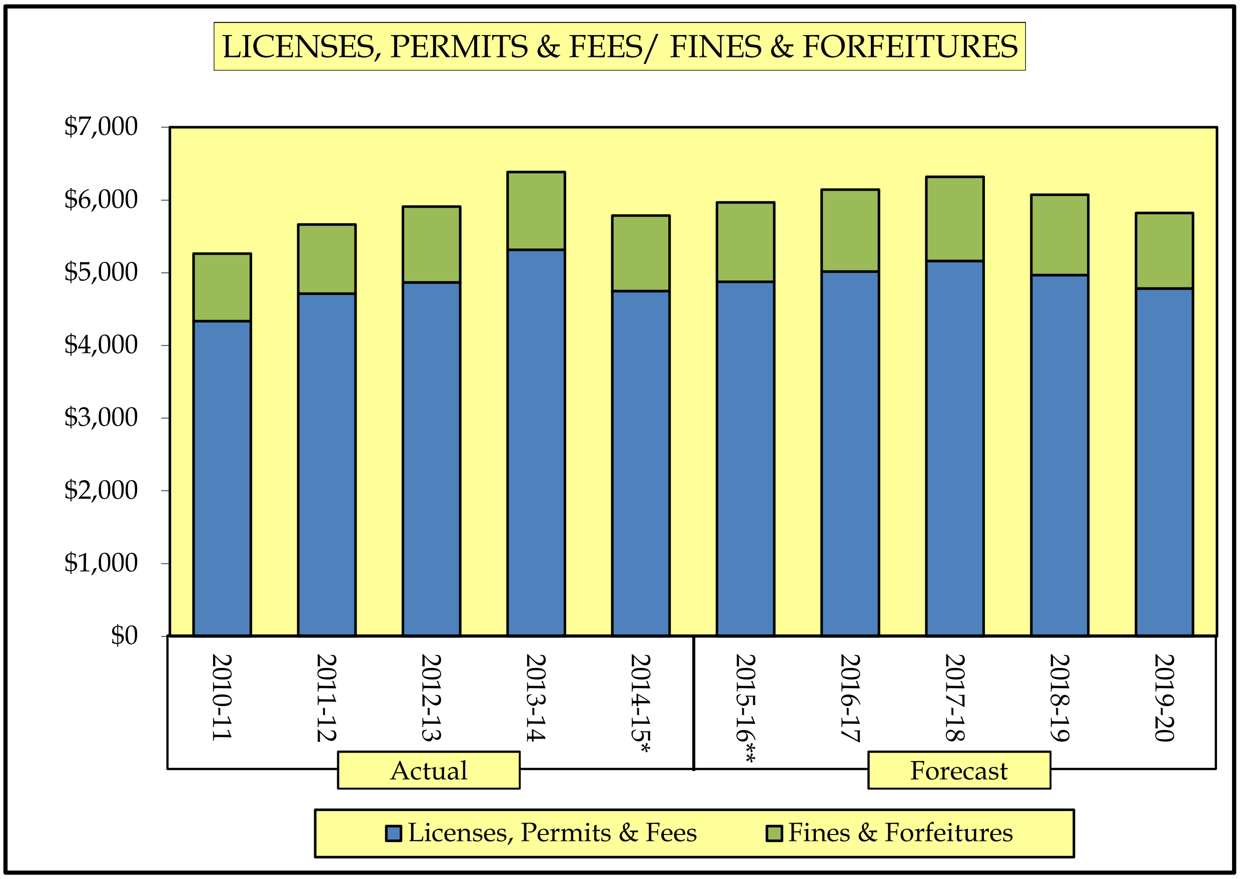
Beginning in Fiscal Year 2011-12, Cable Franchise revenues were budgeted directly as General Fund Franchise revenue in lieu of a transfer from the Cable Fund. In total, Franchise Fee revenue has been growing since Fiscal Year 2009-10.

Fines and Forfeitures: This revenue source includes false alarm fees, bail/fine payments from the County, and parking violation payments which grew steadily from Fiscal Year 2005-06 through Fiscal Year 2013-14. The current fiscal year revenue is estimated slightly below budget as a result of parking enforcement position vacancies.

FORECAST

Licenses, Permits, and Fees: Fiscal Year 2015-16 Licenses and Permits revenue is projected at a slightly higher level than the Fiscal Year 2014-15 Adopted Budget. The following two fiscal years include minimal increases to some revenues and the remainder of the Forecast period includes a decline due to an anticipated economic downturn. The Forecast includes average annual increases of 2.9 percent for Franchise Fees, then declines 3.8 percent annually during the anticipated economic downturn.

Fines and Forfeitures: Average annual increases of 3.6 percent are included for Fines and Forfeitures over the next three fiscal years followed by 5.2 percent average annual declines for the remaining two fiscal years.



Fiscal Year		Licenses, Permits & Fees	Fines & Forfeitures	Total Licenses, Permits & Fees/ Fines & Forf	% Change
2010-11		4,334	930	5,264	30.4%
2011-12		4,711	954	5,665	7.6%
2012-13		4,867	1,043	5,910	4.3%
2013-14		5,315	1,068	6,383	8.0%
2014-15	*	4,747	1,041	5,788	(9.3%)
2015-16	**	4,874	1,094	5,968	3.1%
2016-17		5,016	1,126	6,142	2.9%
2017-18		5,162	1,159	6,321	2.9%
2018-19		4,968	1,103	6,071	(4.0%)
2019-20		4,782	1,041	5,823	(4.1%)

* Estimated
** Recommended
(dollars in thousands)

INTERGOVERNMENTAL

Intergovernmental revenue is remitted or allocated to the City by other governmental agencies.

SOURCES

- Other governmental agencies—Santa Clara County, State of California, and U.S. government.

ECONOMIC FACTORS

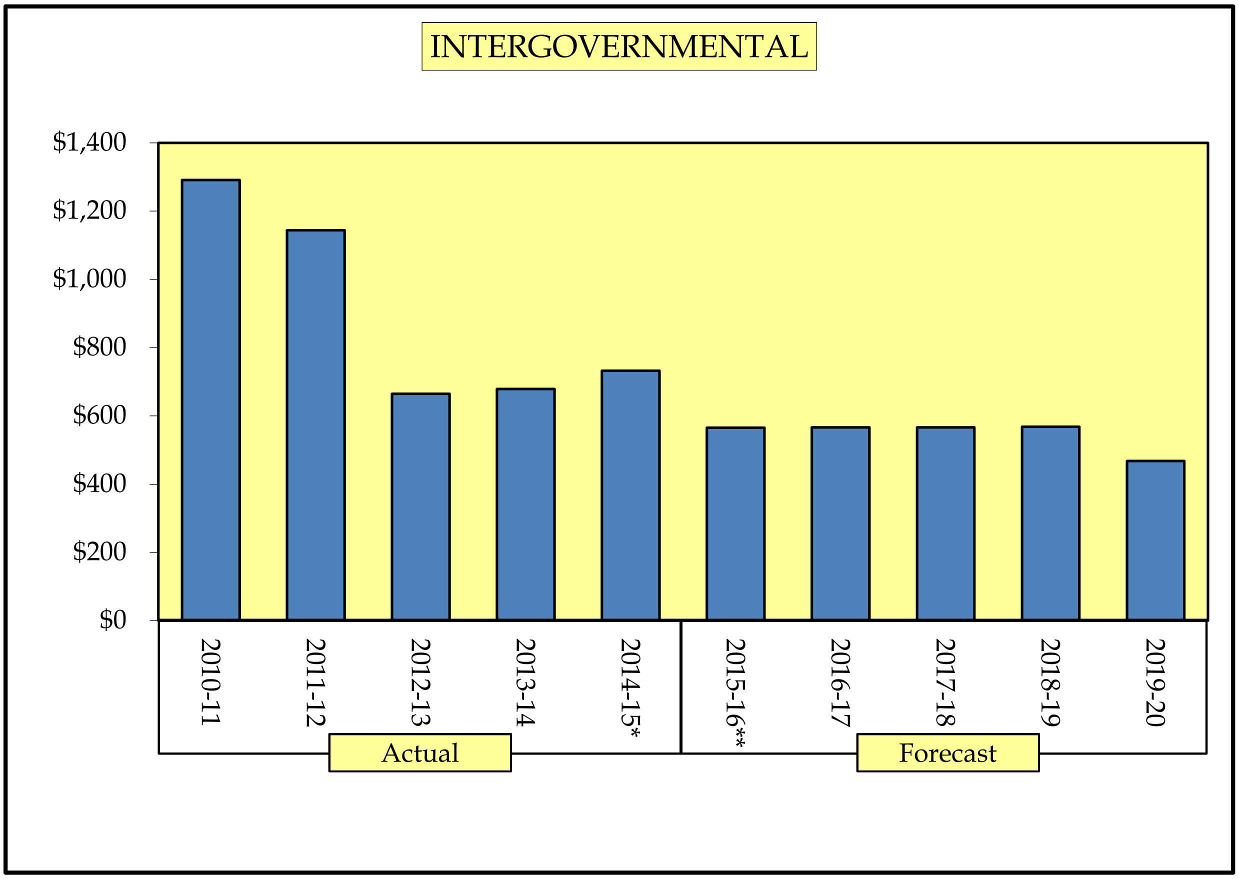
- Actions by the State Legislature.
- State and Federal regulations, legislation, and funded programs.

HISTORY

During the past decade, many revenues from the State have been reduced or eliminated, including Vehicle License Fees (VLF), Community-Oriented Policing Services (COPS), Public Library Funds, Rapid Enforcement Allied Computer Team (REACT), SB 90 mandate reimbursement, and other programs. The Fiscal Year 2014-15 estimated revenue exceeds both the Fiscal Year 2014-15 Adopted Budget and the Fiscal Year 2013-14 actual.

FORECAST

Fiscal Year 2015-16 projected revenue is essentially on target with the current fiscal year adopted but declines compared to the current fiscal year estimated, primarily as the projection for Fiscal Year 2015-16 does not include one-time grant funds or mandate reimbursements that were received in the 2014-15 fiscal year. The remaining Forecast years include small incremental increases to several reimbursements from the County and the end of Regional Auto Theft Task Force (RATTF) funding in Fiscal Year 2019-20.



Fiscal Year		Intergovernmental	% Change
2010-11		1,291	34.8%
2011-12		1,144	(11.4%)
2012-13		665	(41.9%)
2013-14		679	2.1%
2014-15	*	732	7.8%
2015-16	**	566	(22.7%)
2016-17		567	0.2%
2017-18		567	0.0%
2018-19		568	0.2%
2019-20		468	(17.6%)

*   Estimated
** Recommended
(dollars in thousands)

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CHARGES FOR SERVICES

Charges for Services revenue is comprised of revenue from fees for services provided by various City departments, primarily related to recreation and development activities.

SOURCES

- City Recreation programs.
- Private development activity.
- Other provided services.

ECONOMIC FACTORS

- State of the economy.
- Level of participation in City Recreation programs.
- Level of development activity.

HISTORY

Historically, revenue generated from private development has fluctuated with the cycle of development activity, experiencing declines when the economy has faltered. During the past few years, activity has increased more significantly with the recovery of the economy.

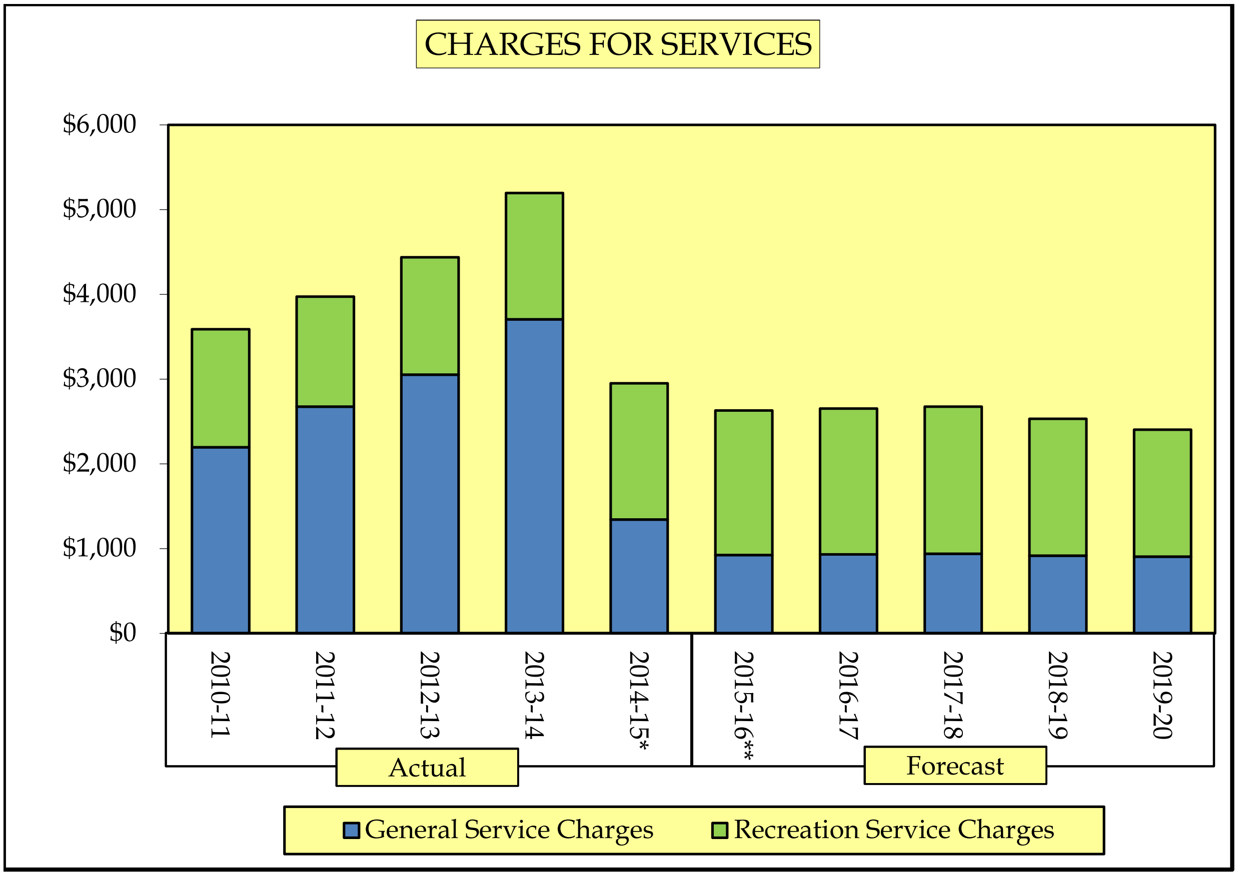
In order to ensure appropriate pricing for services, several years ago staff completed a Police services cost-of-service study, and Council approved a Recreation Cost Recovery Policy (Policy). As a result of these, increased recovery levels for services provided by other departments, and new or increased service fees were adopted. Since approval of the Policy, staff completed an analysis of participation levels, revenues, and changes in programming related to Recreation services. There was an indication that participation levels decreased in some programs and the utilization of the fee waiver program increased (likely as a result of the struggling economy). Therefore, the number of programs and classes was reduced as a result of minimum attendance requirements authorized in the Policy and new revenue sources, such as sponsorships, were approved. Staff continually reviews programming and pricing and makes changes as appropriate, and Recreation-related Service Charge revenue is slowly recovering from the recession.

In total, the estimated revenue for Charges for Services exceeds the Adopted Budget. This is primarily due to revenue received from Google pertaining to the reimbursement agreement to fund two limited-period positions related to development. These will be moved to the Development Services Fund for the next fiscal year.

FORECAST

On March 24, 2015, Council approved the recommended changes to the Recreation Financial Assistance Program (FAP), from a subsidy of $800 per family to an individual subsidy of 75.0 percent with a cap of $400 per person, to offset the cost of youth classes and programs. The modest change in revenue related to this is included with the Fiscal Year 2015-16 budget recommendations.

Fiscal Year 2015-16 Charges for Services revenue is projected at essentially the same level as the current fiscal year Adopted Budget. The remainder of the Forecast period includes average annual increases of approximately 1.0 percent before declining during the anticipated economic downturn.



Fiscal Year		General Service Charges	Recreation Service Charges	Total Charges for Services	% Change
2010-11		2,196	1,395	3,591	25.9%
2011-12		2,675	1,299	3,974	10.7%
2012-13		3,055	1,383	4,438	11.7%
2013-14		3,705	1,491	5,196	17.1%
2014-15	*	1,346	1,606	2,952	(43.2%)
2015-16	**	925	1,705	2,630	(10.9%)
2016-17		933	1,721	2,654	0.9%
2017-18		940	1,737	2,677	0.9%
2018-19		917	1,614	2,531	(5.5%)
2019-20		905	1,501	2,406	(4.9%)

* Estimated
** Recommended
(dollars in thousands)

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MISCELLANEOUS REVENUES

Miscellaneous Revenues is comprised of a variety of reimbursed services and nonspecific revenues.

SOURCES

- Donations and Grants.
- Reimbursements for services provided by City.
- Miscellaneous.

ECONOMIC FACTORS

- State of the economy.
- Grant availability and City applications.
- Services provided to businesses, school districts, and other agencies.

HISTORY

The City receives numerous donations and grants for a variety of City programs and services, many of which are not budgeted. Appropriations are increased when a grant or donation is approved by the grantor/donor or the funds are received by the City (requires City Council approval if over $100,000, City Manager authority up to $100,000, or Finance and Administrative Services Director authority up to $20,000). Appropriation adjustments within the authority of the City Manager and Finance and Administrative Services Director are reported to the Council semiannually.

Some reimbursement for services provided in Fiscal Year 2014-15 and prior fiscal years are budgeted as they are ongoing in nature. Other reimbursements are one-time in nature and are not budgeted. The City provides the following categories of services:

- Maintenance services to the school districts for Graham Athletic Field, Whisman Sports Complex, and Mountain View Sports Pavilion.
- Mutual-aid fire support to other cities and the State of California which are later reimbursed by the State and Federal government.

- Public safety dispatch to the Midpeninsula Regional Open Space District (MROSD).

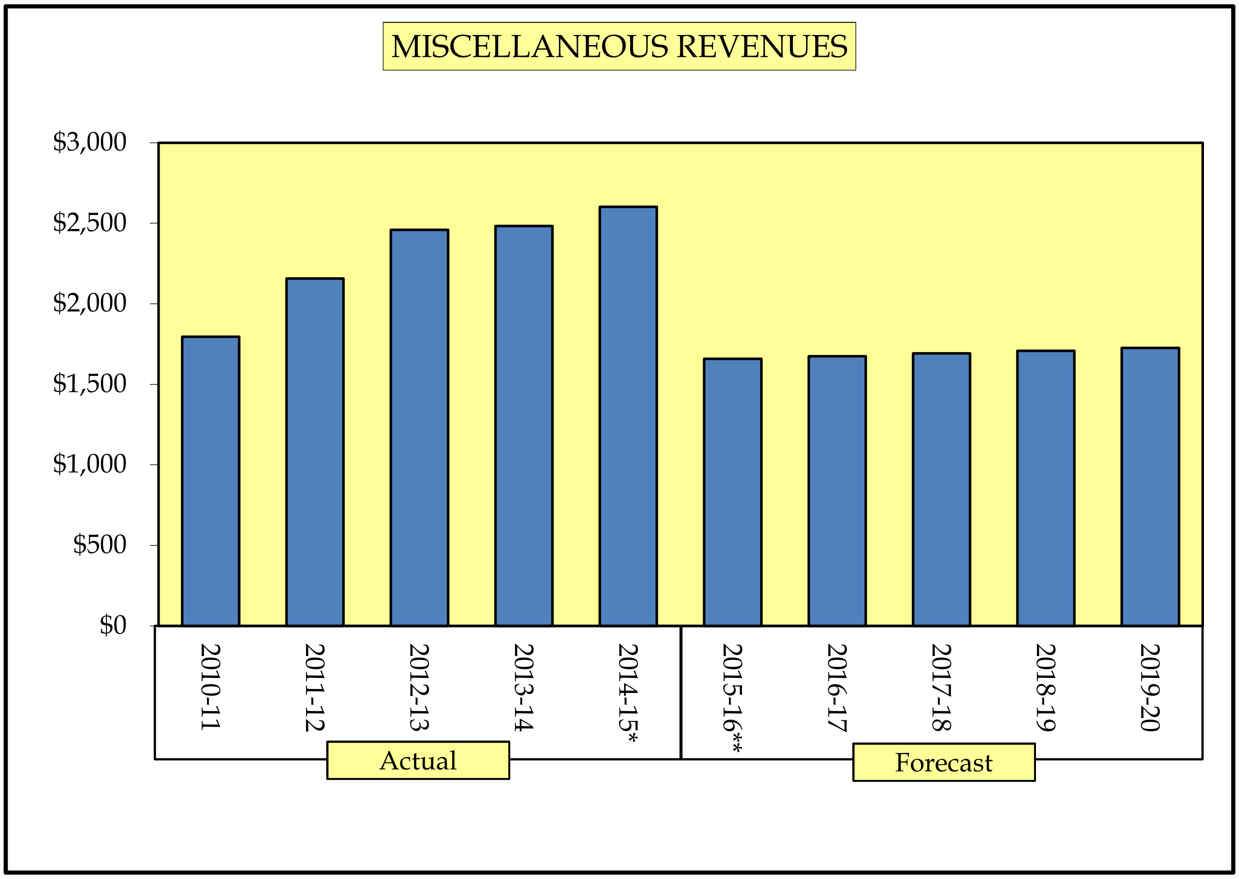
- Contractual first responder for Rural Metro.

- Staffing and other support for some Shoreline Amphitheatre events and other special events.

Total annual Miscellaneous Revenues vary, but over the past 10 years has averaged approximately $1.9 million annually.

FORECAST

Fiscal Year 2015-16 Miscellaneous Revenues is projected to be essentially at the same level as the Fiscal Year 2014-15 Adopted Budget. The remaining Forecast years increase an average of 1.0 percent annually.



Fiscal Year		Miscellaneous Revenues	% Change
2010-11		1,795	(14.4%)
2011-12		2,158	20.2%
2012-13		2,459	13.9%
2013-14		2,484	1.0%
2014-15	*	2,602	4.8%
2015-16	**	1,658	(36.3%)
2016-17		1,674	1.0%
2017-18		1,692	1.1%
2018-19		1,708	0.9%
2019-20		1,725	1.0%

* Estimated
** Recommended
(dollars in thousands)

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INTERFUND REVENUES AND TRANSFERS

Interfund Revenues result from internal charges for staff time, building space, and maintenance services provided to other funds and capital projects by the General Operating Fund. The cost of this internal support provided to other funds is calculated in the City's Full Cost Allocation Plan (Plan). Interfund Transfers include transfers between the GOF and a variety of other funds.

SOURCES

- Interfund Revenues are reimbursements to the GOF for internal support services provided to other funds and capital improvement projects.

- Interfund Transfers are transfers from other City funds.

ECONOMIC FACTORS

- Level and cost of services provided by GOF staff to other funds and capital improvement projects.

HISTORY

Interfund Revenues: In the early 1990s, with the assistance of a cost plan consultant, the City began preparing and utilizing a full cost plan for reimbursement to the GOF. The Plan has been updated approximately every two to three years and this revenue source accounts for approximately 11.0 percent of total GOF revenues.

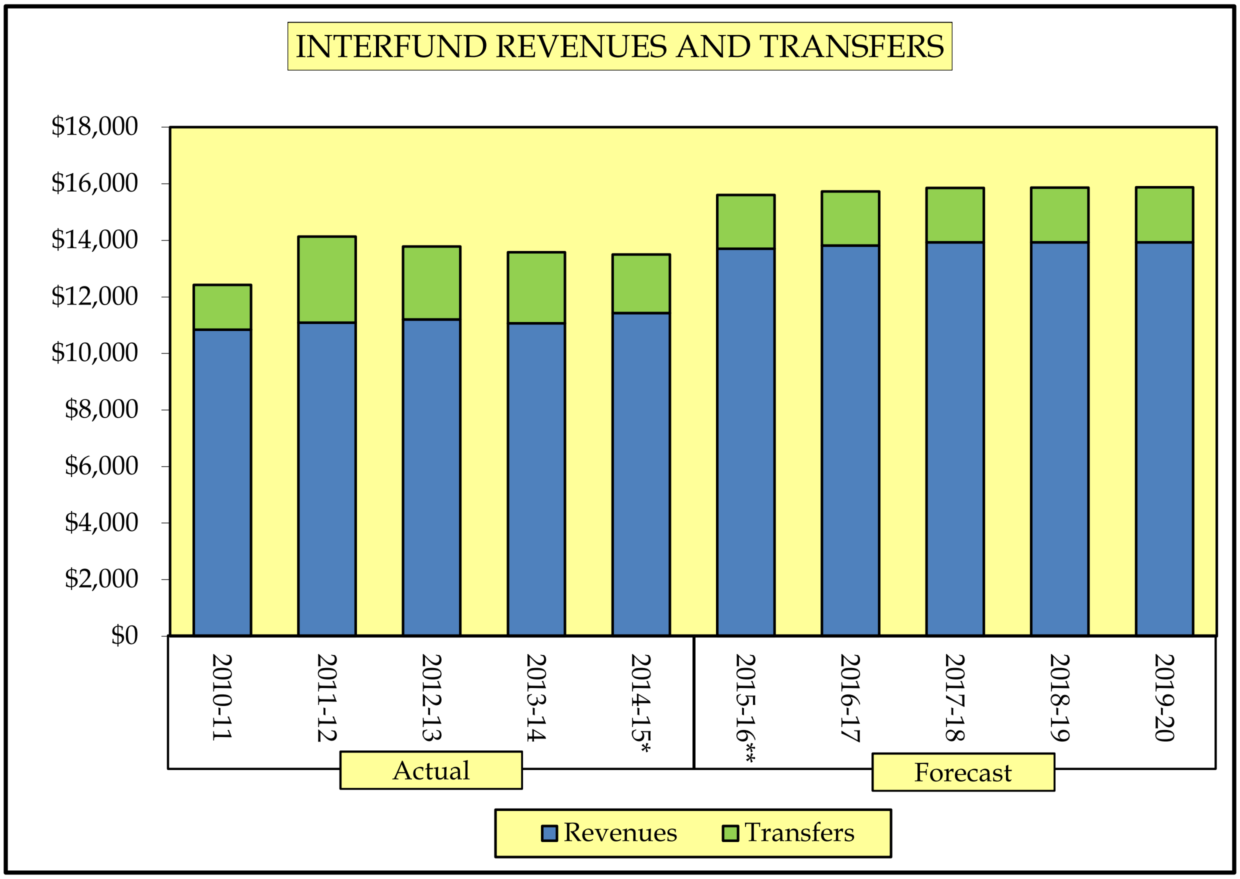
Interfund Transfers: These vary from year to year, and are ongoing and one-time/ limited-period in nature. The Fiscal Year 2014-15 estimated includes the annual transfers from the Gas Tax and Parking District funds, $350,000 of investment earnings from the Google prepaid rent, and net operating income from Shoreline Golf Links.

In April 2011, the City executed a long-term (52 years) ground lease with Google Inc. for the other portion of the Charleston East site which became effective in June 2011. Google remitted $30.0 million in prepaid rent to the City which is invested and generates annual investment earnings. The $30.0 million of prepaid rent was received from Google Inc. for the Charleston East site when the portfolio yield was above 2.5 percent. Due to the recession, the Federal Open Market Committee (FOMC) has reduced and maintained the current low interest rate environment and the actual investment yields have been significantly lower than the average annual 3.5 percent previously projected. This low interest rate environment has been longer than anticipated so in order to preserve the principal amount of prepaid rent, as approved by Council, the transfer from the Earned Lease Revenue Reserve has been reduced from $750,000 to $350,000. This approximates the current actual 1.25 percent portfolio yield and is recommended to remain at this level until interest rates rise again and the transfer amount can be reevaluated.

FORECAST

Interfund Revenues: For Fiscal Year 2015-16, Interfund Revenues include reimbursement from various funds which receive support from the GOF. An update of the Plan was recently completed and the results have been incorporated. Significant changes compared to the 2014-15 fiscal year include an increase in reimbursement from the Development Services Fund resulting from the broadening of all development activity into the Development Services Fund, the high level of development activity and the support from other departments. An increase from the Shoreline Community Fund results primarily from the inclusion of a broader range of Police services and, to a lesser extent, all funds are impacted due to a change in the allocation basis. The remaining Forecast period includes small incremental annual increases.

Interfund Transfers: For Fiscal Year 2015-16, Interfund Transfers include $1.3 million of reimbursement from the Gas Tax Fund, $350,000 of interest from the Google prepaid rent, $175,000 of operating income from Shoreline Golf Links, and $108,000 of reimbursement from the Parking District. The Forecast period includes level or slightly increasing transfers from the same funds.



Fiscal Year		Interfund Revenues	Interfund Transfers	Total Interfund Rev & Trans	% Change
2010-11		10,841	1,579	12,420	0.2%
2011-12		11,085	3,053	14,138	13.8%
2012-13		11,204	2,577	13,781	(2.5%)
2013-14		11,064	2,512	13,576	(1.5%)
2014-15	*	11,432	2,072	13,504	(0.5%)
2015-16	**	13,699	1,902	15,601	15.5%
2016-17		13,812	1,915	15,727	0.8%
2017-18		13,927	1,927	15,854	0.8%
2018-19		13,927	1,940	15,867	0.1%
2019-20		13,927	1,953	15,880	0.1%

* Estimated
** Recommended
(dollars in thousands)

LOAN REPAYMENTS

This revenue source reflects the annual repayment of loan obligations from other funds.

SOURCES

- Shoreline Regional Park Community.
- Revitalization Authority.

ECONOMIC FACTORS

- Financial condition of the paying funds.

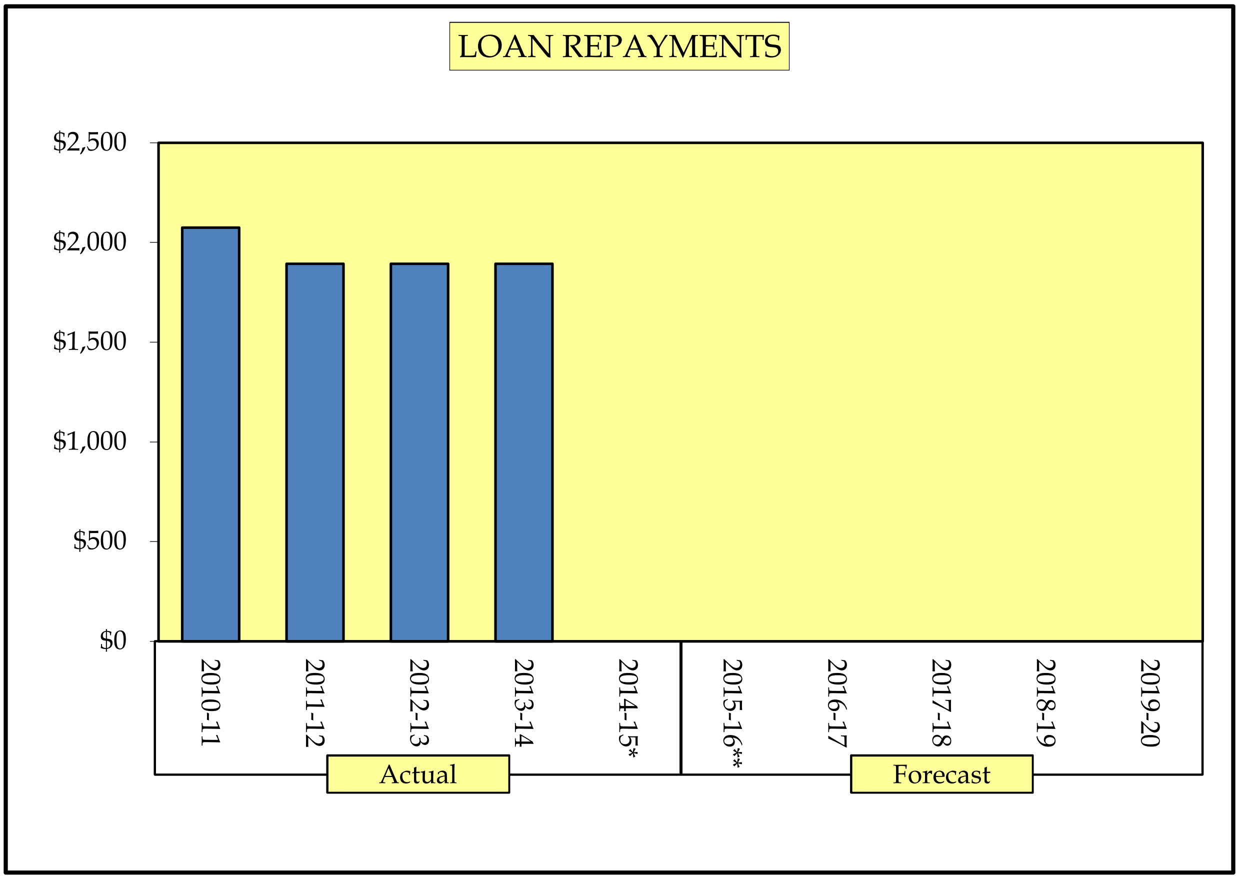
HISTORY

Shoreline Regional Park Community (Shoreline Community): The General Fund made a series of loans to the Shoreline Community beginning in Fiscal Year 1985-86, which eventually totaled $17.8 million. The loans were consolidated during Fiscal Year 1988-89. Because this revenue stream was long-term in nature, it had been included as operating revenues. However, with the Fiscal Year 2014-15 Adopted Budget, as there were only two years of payments remaining, Council adopted staff's proposal to account for the final two payments in the General Non-Operating Fund.

Revitalization Authority (Authority): The General Fund made two loans to the Authority during 1988 and 1989 to fund the Castro Street improvements. In Fiscal Year 2002-03, the loans were reamortized to 2019, the deadline for debt to be repaid by the Authority at a 6.0 percent interest rate with an annual loan payment in the amount of $165,500. AB 1484 dissolved all redevelopment agencies (RDA) throughout California and subsequent legislation invalidated loans between RDAs and the cities that created them. Through the dissolution plan for the Authority, these loans were credited against the purchase by the City of real property previously owned by the Authority for redevelopment purposes.

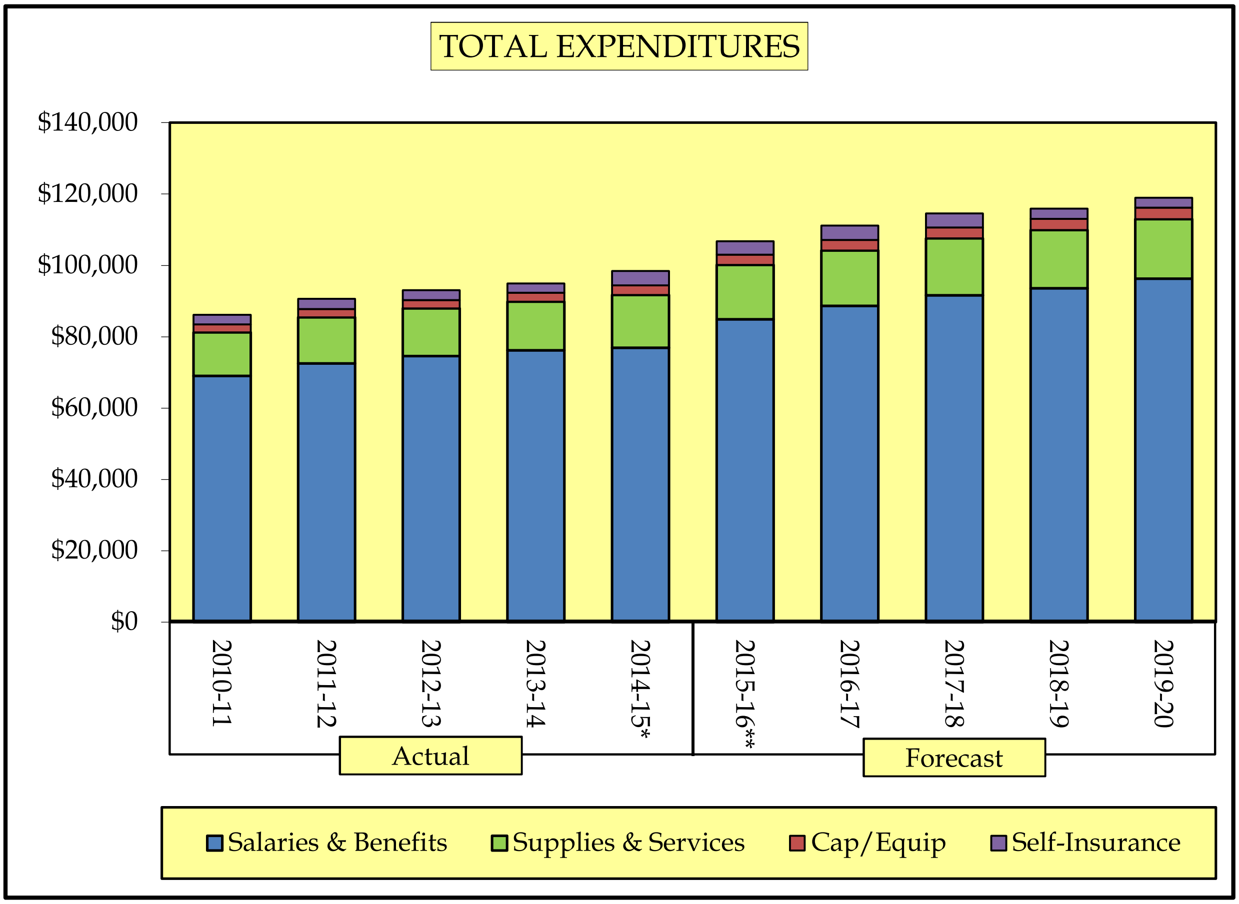
FORECAST

There are no longer any loan repayments included in the General Operating Fund.



Fiscal Year		Loan Repayments	% Change
2010-11		2,075	0.7%
2011-12		1,894	(8.7%)
2012-13		1,894	0.0%
2013-14		1,894	0.0%
2014-15	*	0	(100.0%)
2015-16	**	0	0.0%
2016-17		0	0.0%
2017-18		0	0.0%
2018-19		0	0.0%
2019-20		0	0.0%

* Estimated
** Recommended
(dollars in thousands)



Fiscal Year		Total Expenditures	% Change
2010-11		86,160	1.9%
2011-12		90,605	5.2%
2012-13		93,041	2.7%
2013-14		94,933	2.0%
2014-15	*	98,420	3.7%
2015-16	**	106,816	8.5%
2016-17		111,147	4.1%
2017-18		114,548	3.1%
2018-19		118,875	3.8%
2019-20		121,942	2.6%

* Estimate
** Recommended
(dollars in thousands)

The Fiscal Year 2015-16 recommended expenditures and all forecast years do not include the projected operating budget savings.

SALARIES AND BENEFITS

The City is essentially a service organization, based on the efforts of our employees. As such, the Salaries and Benefits category makes up the largest component of General Operating Fund expenditures and represents all personnel-related costs. The City is obligated by law to meet and confer with bargaining units and also meets with other employees on matters of employee compensation. There are currently four recognized bargaining groups in the City: the Police Officers Association (POA sworn and nonsworn), the Mountain View Professional Firefighters Union (MVFF Local 1965), the Service Employees International Union (SEIU Local 715), and the EAGLES (Management, Professional, and certain Front-Line positions). The remaining employees include certain unrepresented Management, Professional, and Front-Line positions. The outcome of negotiations with each group is a major factor in salary and benefit costs.

CATEGORIES

- Salaries.
- Wages.
- Overtime.
- Other Pays (e.g., holiday-in-lieu, out-of-class, etc.).
- Health Benefits.
- Retirees' Health.
- Public Employees Retirement System (PERS).
- Workers' Compensation.
- Unemployment Insurance.
- Other Benefits (e.g., life insurance, long-term disability, FICA, etc.).

HISTORY

Since Fiscal Year 2000-01, there have been two downturns in the economy necessitating a net reduction of approximately 70.0 positions and employee compensation cost containment. During Fiscal Year 2011-12, the City negotiated three-year contracts with all employee groups that expire June 30, 2015. Cost-containment measures that became effective for Fiscal Year 2012-13 for all or some of the employee groups include maximum vacation accruals, modified sick-leave incentive program, HMO medical plan copay, option of new high-deductible health plans, improved alignment of dental and vision plans between groups, and Retirees' Health Trust contributions.

The PERS Safety rate includes both Police and Fire groups. For Fiscal Year 2011-12, the Fire Safety group chose to amend the PERS contract to include their previous cost share as part of the employee contribution, thus reducing the employer rate by the same amount. Because both groups make up the Safety rate, the PERS rate is a blend of the two groups.

Pension costs have increased dramatically since 2000, when they were $2.9 million (4.7 percent of GOF expenditures), and now are $12.3 million (12.4 percent of GOF expenditures) for Fiscal Year 2014-15. Pension costs continue to grow and in many cities the employer pays some or all of the employee contribution. Mountain View employees not only pay the full employee contribution, but they also pay a portion of the employer contribution. This was an unusual and progressive arrangement when instituted in Mountain View and reflects the collaborative approach of our employees. For Fiscal Year 2014-15, cost shares range from 11.5 percent to 15.798 percent, depending on the employee group.

As a result of the significant financial losses to PERS and the resulting impacts to the financial sustainability of the pension plans, many changes in the way PERS rates are calculated have been adopted in the past several years as follows:

- In March 2012, the PERS Board approved the reduction of 0.25 percent in the discount rate used to calculate the pension liability and corresponding employer contribution rates. The impact was a 0.92 percent and 1.4 percent employer rate increase for miscellaneous employees and a 2.56 percent and 1.6 percent employer rate increase for safety employees for Fiscal Years 2013-14 and 2014-15, respectively. For Mountain View, this resulted in an increase to pension costs of $1.3 million (net of additional cost share) phased in over two years.

- On April 17, 2013, the PERS Board adopted recommendations of the Chief Actuary. The recommendations changed the methodology for the amortization and smoothing of rates. Overall, the proposed methods are expected to result in higher volatility in employer rates in normal years, but less volatility in employer rates in years where extreme events occur (e.g., significant investment losses). The method will result in increased higher employer rates over time, but are also expected to result in improved funding levels. This change is being reflected in the employer rates for Fiscal Year 2015-16.

- On February 18, 2014, the PERS Board adopted changes as a result of the demographic study. The study resulted in increased rates as life expectancy continues to rise. Generational mortality tables are also being incorporated in the actuarial assumptions. The demographic changes are anticipated to raise rates by 4.5 percent and 7.05 percent over five years, for miscellaneous and public safety, respectively. This impact will be reflected in employers' rates beginning in Fiscal Year 2016-17.

As the funding level of this liability decreased during this past recession, the Fiscal Year 2014-15 Adopted Budget includes an additional contribution of $1.0 million from the Fiscal Year 2013-14 carryover towards the PERS unfunded liability.

FORECAST

The discussion below includes information regarding COLAs and medical rates and comparisons of projected costs.

In accordance with the MVFF MOU two-year extension adopted July 1, 2014, a 2.0 percent COLA is included in the projections for Fiscal Year 2015-16 and Fiscal Year 2016-17, along with an additional 2.0 percent increase in cost share each year. Staff is currently in negotiations with all other groups; however, modest COLAs have been included for the first two years of the Forecast and lessor amounts as placeholders for the remaining years. All Forecast years include step and merit increases.

Fiscal Year 2015-16 medical insurance rates are projected to increase 7.0 percent to 11.0 percent, depending on the health plan, and dental rates are projected to increase 2.0 percent. The remaining Forecast years assume medical rates will continue to increase 8.0 percent to 11.0 percent annually, depending on the health plan, and dental rates will continue to increase by 2.0 percent annually.

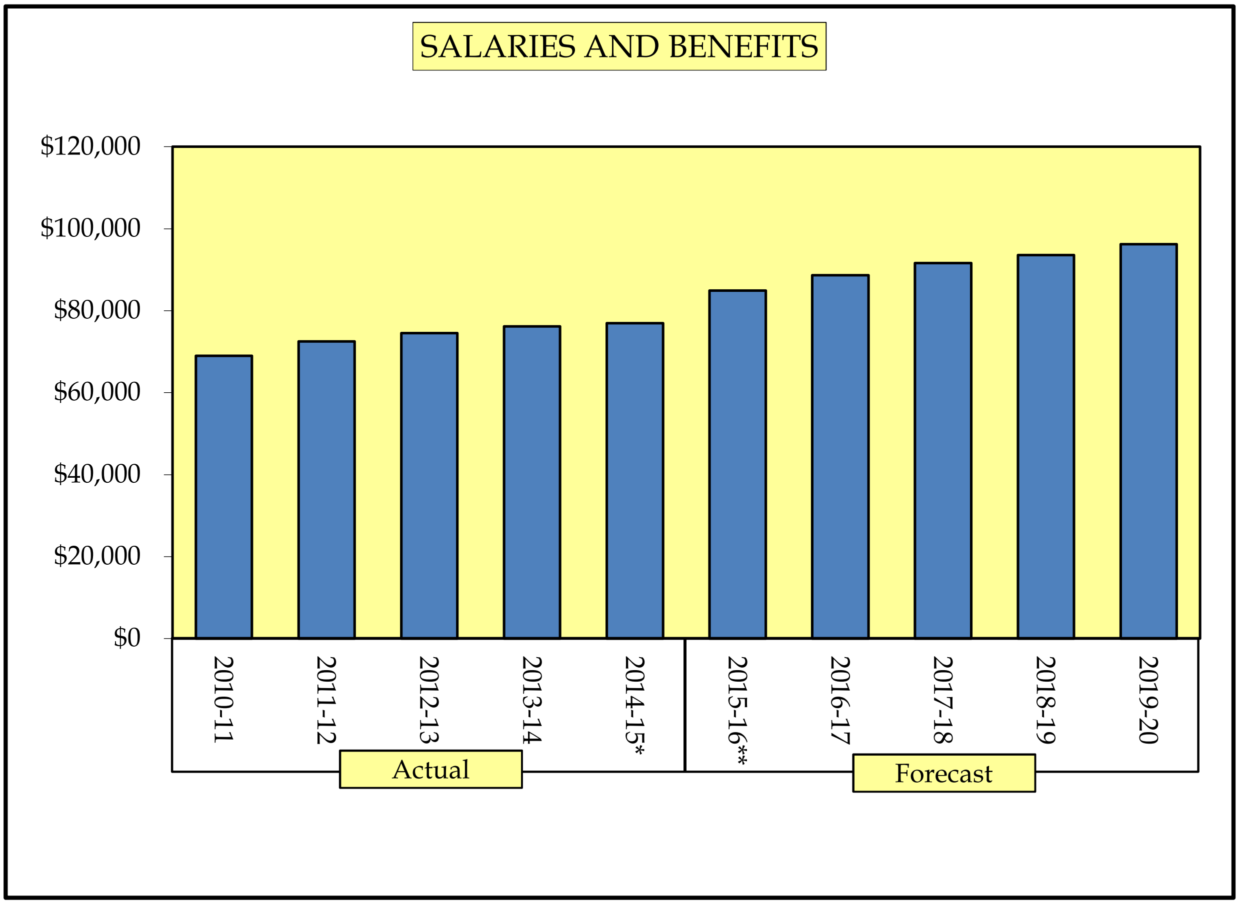
Overall, retirement costs are projected to increase 6.1 percent compared to the Fiscal Year 2014-15 Adopted Budget. In Fiscal Years 2016-17 through 2019-20, the annual increases are projected to fluctuate between 3.0 percent and 8.4 percent. All employee groups contribute their employee share of PERS costs plus a "cost share" of a portion of the City's contribution. Staff recommends additional contributions of $2.0 million in Fiscal Year 2015-16 and $1.0 million in each Fiscal Year 2016-17 and 2017-18 to reduce this unfunded liability. Contributions from other funds for their share of this liability are also recommended.

Below are the projected employer rates provided in the PERS actuarial valuations.

	FY 2014-15	**FY 2015-16**	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**
Miscellaneous	23.370	25.192	27.2	28.6	30.0	31.4
Safety(1)	33.389	34.89	37.2	38.8	40.3	41.9

(1) The PERS Safety rate reflects the impact of the Fire cost share contributed as member contributions.

The impact of the assumption changes previously discussed have been reflected beginning with employer rates in Fiscal Year 2016-17.



Fiscal Year		Salaries and Benefits	% Change
2010-11		69,007	1.3%
2011-12		72,537	5.1%
2012-13		74,561	2.8%
2013-14		76,198	2.2%
2014-15	*	76,924	1.0%
2015-16	**	84,911	10.4%
2016-17		88,626	4.4%
2017-18		91,658	3.4%
2018-19		93,597	2.1%
2019-20		96,254	2.8%

* Estimate
** Recommended
(dollars in thousands)

Fiscal Year 2015-16 includes an additional $2.0M PERS contribution and Fiscal Years 2016-17 and 2017-18 include $1.0M.

SUPPLIES AND SERVICES

The Supplies and Services category makes up the second largest component of General Operating Fund expenditures and represents costs of operations.

CATEGORIES

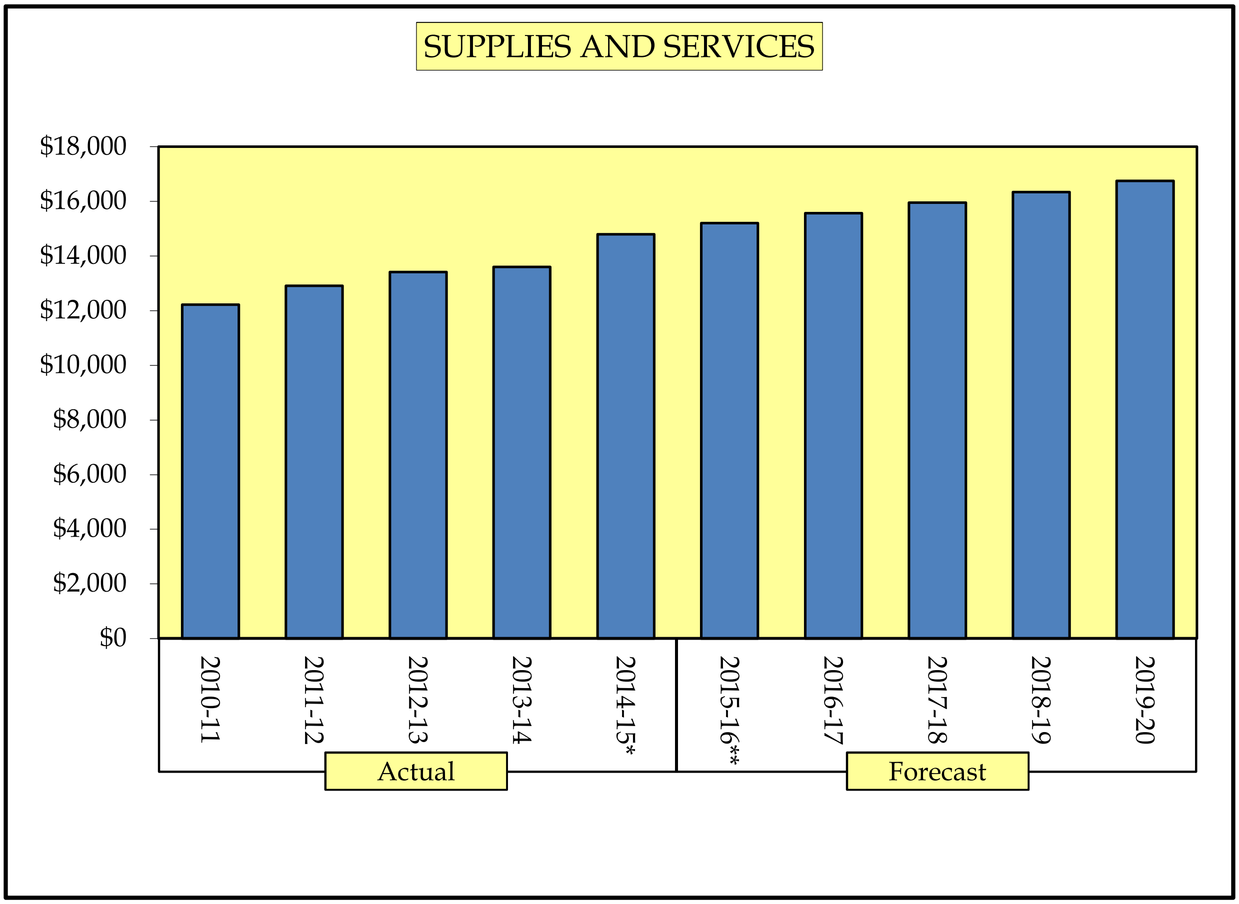
- Materials and Supplies.
- Maintenance and Operations.
- Utilities.
- Professional/Technical Services.
- Training, Conference, and Travel.
- Miscellaneous Expenditures.

HISTORY

The budget for Supplies and Services has fluctuated depending on economic conditions impacting the GOF and staff has worked diligently to contain costs, particularly during the Great Recession.

FORECAST

The 2015-16 Recommended Budget (including discretionary and nondiscretionary increases) is a $672,200 increase (4.6 percent) compared to the Fiscal Year 2014-15 Adopted. The remainder of the Forecast period includes average annual inflationary increases of 2.5 percent.



Fiscal Year		Supplies and Services	% Change
2010-11		12,226	(7.1%)
2011-12		12,910	5.6%
2012-13		13,414	3.9%
2013-14		13,608	1.4%
2014-15	*	14,797	8.7%
2015-16	**	15,204	2.8%
2016-17		15,576	2.4%
2017-18		15,957	2.4%
2018-19		16,347	2.4%
2019-20		16,748	2.5%

*   Estimate
** Recommended
(dollars in thousands)

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CAPITAL OUTLAY AND EQUIPMENT REPLACEMENT

The Capital Outlay and Equipment Replacement category represents the new and replacement equipment needs of the City. Although Capital Outlay is one-time in nature, the City includes this category in the Operating Budget to reflect capital needs on an annual basis. In addition, annual contributions to the Equipment Replacement Fund are made by the General Operating Fund, Development Services, Shoreline Golf Links, Parking District, Shoreline Regional Park Community, Water, Wastewater, Solid Waste Management, and Fleet Maintenance Funds based on the equipment used by each of those operations. Equipment replacement expenses are accounted for in the Equipment Replacement Reserve Fund.

CATEGORIES

- Capital Outlay.
- Equipment Replacement.

HISTORY

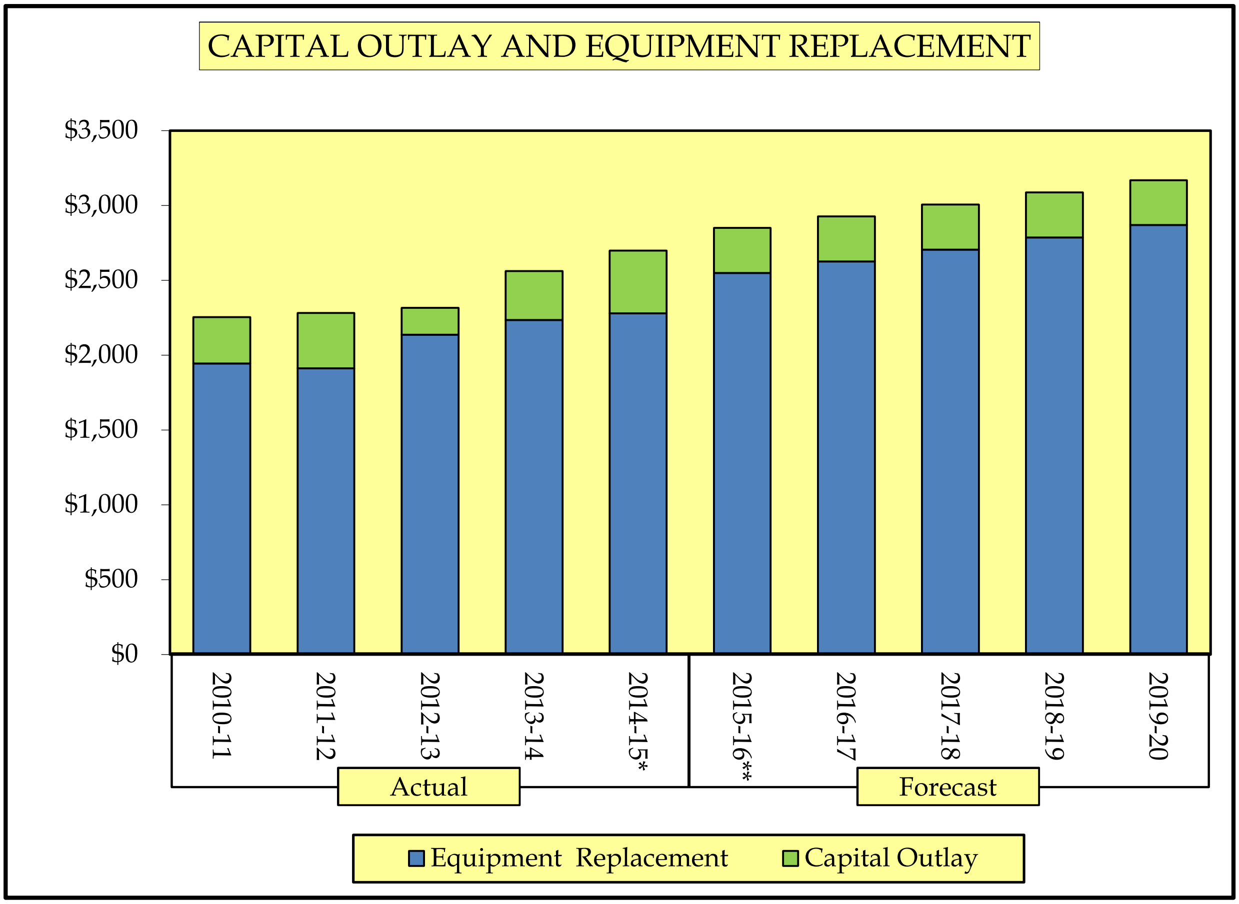
Capital Outlay: Since Fiscal Year 1993-94, the annual expenditures have grown as a result of an increased level of technology and related equipment, an increase in the number and quality of safety vehicles, and the addition of hybrid vehicles to the fleet. This category is also impacted by the economic condition impacting the GOF and has also experienced fluctuations over the past 10 fiscal years. For the past decade, annual budgeted expenditures for Capital Outlay have ranged between $200,000 and $400,000. For Fiscal Year 2014-15, capital outlay was funded at $310,000.

Equipment Replacement: The Equipment Replacement Reserve was funded with year-end General Fund carryover in Fiscal Years 1992-93 and 1993-94. Subsequently, appropriations were gradually increased until the GOF was fully funding its share in Fiscal Year 2001-02. Then, after several years of reduced contributions, a review of cost methodologies, useful life assumptions, and annual contributions was completed in Fiscal Year 2005-06, and staff concluded annual funding would need to be restored in order to financially sustain the replacement schedule. This was accomplished through a combination of increasing operating budget contributions supplemented by GOF carryover. Beginning in Fiscal Year 2009-10, the full share of funding is budgeted in the GOF. The Fiscal Year 2014-15 contribution to Equipment Replacement was adopted at $2.3 million.

FORECAST

Capital Outlay: For Fiscal Year 2015-16, recommended capital outlay items total $283,000, and funding of $300,000 is included as the base level of funding. The remainder of the Forecast period is projected at $300,000 annually.

Equipment Replacement: The Fiscal Year 2015-16 GOF contribution is projected to increase 11.2 percent to $2.5 million and the remainder of the Forecast period includes annual increases of 3.0 percent to continue full funding of the GOF's share of equipment replacement.



Fiscal Year		Capital Outlay	Equipment Replacement	Total Capital Outlay & Equip. Replcmnt.	% Change
2010-11		309	1,944	2,253	49.8%
2011-12		371	1,911	2,282	1.3%
2012-13		178	2,137	2,315	1.4%
2013-14		327	2,235	2,562	10.7%
2014-15	*	418	2,279	2,697	5.3%
2015-16	**	300	2,549	2,849	5.6%
2016-17		300	2,626	2,926	2.7%
2017-18		300	2,705	3,005	2.7%
2018-19		300	2,786	3,086	2.7%
2019-20		300	2,869	3,169	2.7%

* Estimate
** Recommended
(dollars in thousands)

SELF-INSURANCE

The Self-Insurance category represents the General Operating Fund's share of insurance costs accounted for in the Internal Service Funds. Special Funds and the Enterprise Funds also contribute to self-insurance.

CATEGORIES

- General Liability.
- Retirees' Health Program.
- Vision Care.

HISTORY

General Liability: In Fiscal Year 1993-94, the City joined a liability insurance pool (ACCEL) with other select cities for the provision of coverage in excess of the $1.0 million self-insured retention (SIR). Beginning in Fiscal Year 2001-02, funding of liability insurance was spread to all funds which receive a benefit from this insurance coverage. Previously, the cost was funded entirely by the GOF.

Retirees' Health Insurance Program: The medical premiums for eligible retirees are paid by the Retirees' Health Fund. Although the City was not yet required to fund this liability, Council allocated funds to this reserve beginning in Fiscal Year 1992-93.

In 2004, the Government Accounting Standards Board (GASB) published Statement No. 45—*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*—which required the City report the annual cost of this liability in the City's Comprehensive Annual Financial Report (CAFR) beginning in Fiscal Year 2007-08. An actuarial report was completed and beginning in Fiscal Year 2006-07, the calculated normal cost (NC) portion for current employees has been budgeted in all the affected funds. In addition, for Fiscal Year 2006-07, Council approved contributions from other funds for their proportionate share of the unfunded actuarial accrued liability (UAAL). The actuarial valuation is required to be updated every two years and was last updated as of July 1, 2013.

In February 2008, Council approved an agreement authorizing the City's participation in the PERS-administered California Employees Retiree Benefit Trust (CERBT) Fund, and in February 2009, the City began depositing funds into the CERBT. The balance in the CERBT as of March 31, 2015 is $86.9 million. Additional contributions are being made in the operating budget and carryover as available. In addition, as part of the agreement for Public Safety to move to the PERS Health Care system, Public Safety employees are contributing ongoing 1.2 percent of salary towards the OPEB liability.

Vision Care: Vision care claims for employees and retirees with Health Net medical coverage and reimbursement for safety glasses submitted by current employees are paid by the Employee Benefits Fund. The annual cost of this program is allocated to all operating funds.

FORECAST

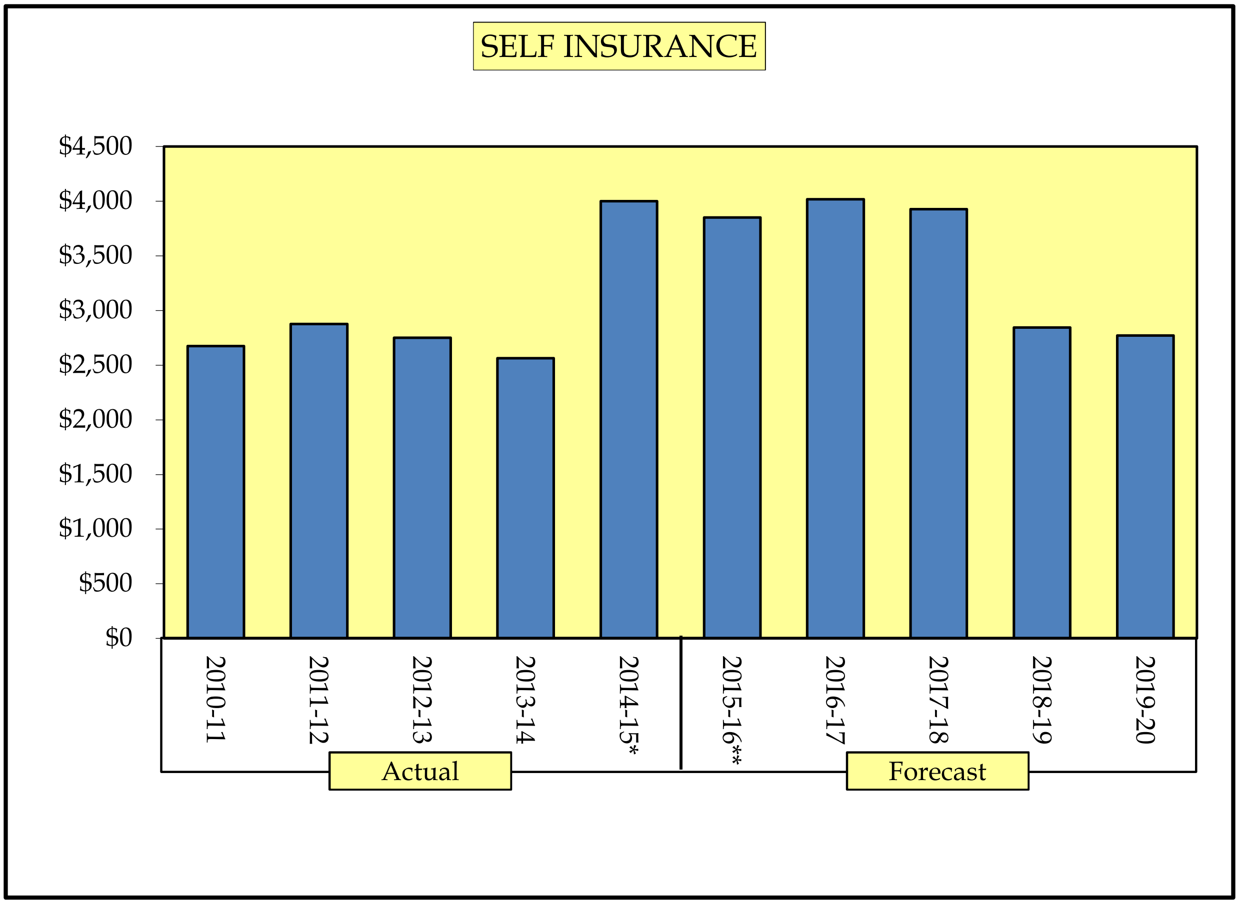
General Liability: The Fiscal Years 2015-16 through 2019-20 projections are based on maintaining the minimum policy level for reserve balances. The City has a $1.0 million self-insurance retention (SIR). For Fiscal Year 2015-16, the GOF is contributing $1.0 million, essentially the same level as the current fiscal year adopted. The remainder of the Forecast period includes 3.0 percent annual increases.

Retirees' Health Insurance Program: The Fiscal Year 2015-16 recommendation includes $1.8 million for the UAAL amortization and an additional $1.0 million contribution, for a total of $2.8 million.

Between July 1, 2011 and July 1, 2013, the Actuarial Accrued Liability (AAL) increased from $82.7 million to $101.9 million and is 81.9 percent funded as of March 31, 2015. A significant component of the increase in the AAL is due to the reduction of the discount rate from 7.61 percent to 7.0 percent (the City included a margin compared to the CERBT rate of 7.06 percent). All funds except the GOF have or continue to fully fund their share of the liability. The GOF continues to contribute its share of the amortization of the unfunded liability. As the financial health of the GOF improved, staff recognized the opportunity to contribute additional funds towards this liability and Council adopted staff's proposal to contribute $1.0 million from the Fiscal Year 2013-14 carryover, and $1.0 million annually for Fiscal Year 2014-15 and Fiscal Year 2015-16, to raise the funding status of this liability. The Fiscal Year 2015-16 recommendation is to continue this level of annual funding through Fiscal Year 2017-18, in addition to lump sum amounts from the carryover as available.

Fiscal Year 2015-16 uses the projection from the July 2013 valuation. The valuation will be updated as of July 2015 and will include a reduction in the discount rate to 6.73 percent. This reduction in discount rate was implemented by the CERBT during the current calendar year and staff has estimated the impact of the discount rate change throughout the Forecast period. The difference between the pay-as-you-go premiums and the Annual Required Contribution (ARC) will be deposited into the CERBT on an annual basis.

Vision Care: The GOF's contribution is based on the projected amount required to fund vision coverage for employees and retirees with Health Net coverage and safety glasses for employees.



Fiscal Year		Self Insurance	% Change
2010-11		2,674	230.5%
2011-12		2,876	7.6%
2012-13		2,751	(4.3%)
2013-14		2,565	(6.8%)
2014-15	*	4,002	56.0%
2015-16	**	3,852	(3.7%)
2016-17		4,019	4.3%
2017-18		3,928	(2.3%)
2018-19		2,845	(27.6%)
2019-20		2,771	(2.6%)

* Estimate
** Recommended
(dollars in thousands)

Fiscal Years 2014-15 through 2017-18 include an additional $1.0M OPEB contribution above the full funding of the amortization of the UAAL.

DEBT SERVICE

The Debt Service category represents the General Operating Fund's debt payment obligations.

CATEGORIES

- Police/Fire Building

HISTORY

The General Operating Fund has had no debt obligations since prior to Fiscal Year 2009-10, when the City Hall/Center for the Performing Arts debt repayment was transferred to Construction and Conveyance Tax funding.

FORECAST

The Forecast assumes revenue generated from the Moffett Gateway development beginning in Fiscal Year 2018-19. This revenue has potentially been earmarked for the Police/Fire Administration Building Expansion. It is assumed debt will be issued for the project and annual debt service payments will be approximately $3.0 million beginning in Fiscal Year 2018-19.

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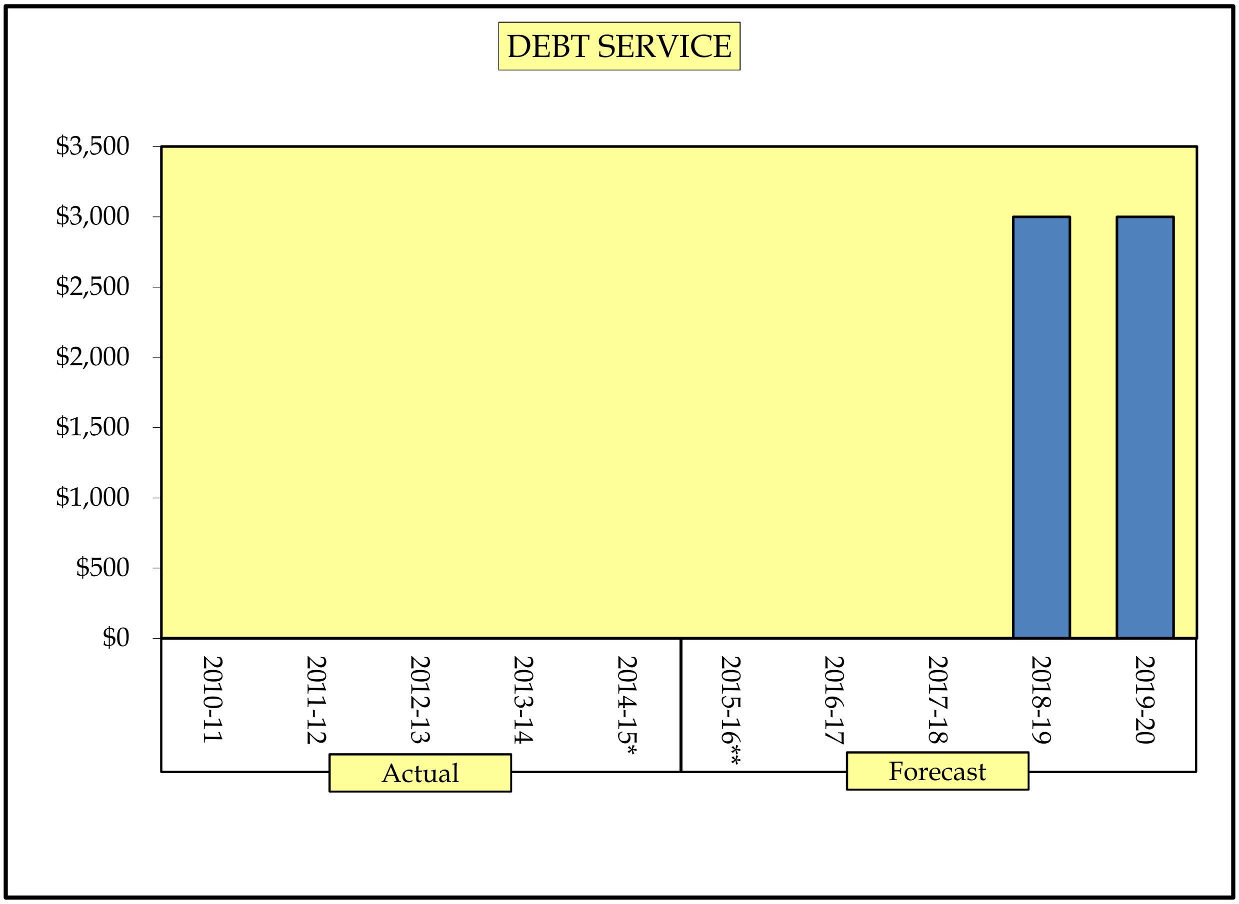

Fiscal Year		Debt Service	% Change
2010-11		0	0.0%
2011-12		0	0.0%
2012-13		0	0.0%
2013-14		0	0.0%
2014-15	*	0	0.0%
2015-16	**	0	0.0%
2016-17		0	0.0%
2017-18		0	0.0%
2018-19		3,000	100.0%
2019-20		3,000	0.0%

* Estimate
** Recommended
(dollars in thousands)

Attachment 1

GENERAL OPERATING FUND HISTORY
(dollars in thousands)

	2005-06 AUDITED	2006-07 AUDITED	2007-08 AUDITED	2008-09 AUDITED	2009-10 AUDITED	2010-11 AUDITED	2011-12 AUDITED	2012-13 AUDITED	2013-14 AUDITED
REVENUES:									
Property Taxes	$21,135	22,027	23,861	25,647	26,017	25,412	26,216	28,122	31,120
Sales Tax	16,019	17,223	17,273	16,264	15,242	15,502	15,940	16,744	16,936
Other Local Taxes	7,957	9,357	10,338	9,242	9,144	9,870	10,774	12,015	13,089
Use of Money and Property	8,991	10,242	11,165	11,480	10,881	10,290	10,138	10,783	10,690
Other Revenues[1]	22,751	24,232	23,623	23,270	23,072	24,361	27,079	27,253	28,316
Loan Repayments	2,060	2,060	2,060	2,060	2,060	2,075	1,894	1,894	1,894
TOTAL REVENUES	78,913	85,141	88,140	87,963	86,416	87,240	92,041	96,811	102,045
EXPENDITURES:									
Salaries and Benefits	54,818	58,454	63,374	68,091	69,549	69,007	72,537	74,561	76,198
Supplies and Services	12,563	13,782	13,567	13,155	11,933	12,226	12,910	13,414	13,608
Capital Outlay/ Equipment Replacement	775	1,284	1,777	1,504	2,213	2,253	2,282	2,315	2,562
Self Insurance	1,209	1,618	2,082	809	2,441	2,674	2,876	2,751	2,565
Debt Service	1,021	1,016	1,016	1,020	-0-	-0-	-0-	-0-	-0-
TOTAL EXPENDITURES	70,386	76,154	81,816	84,579	86,136	86,160	90,605	93,041	94,933
OPERATING BALANCE[2]	$ 8,527	8,987	6,324	3,384	280	1,080	1,436	3,770	7,112

[1] Includes Licenses, Permits & Fees; Fines and Forfeitures; Intergovernmental; Charges for Services; Miscellaneous Revenue; and Interfund Revenues & Transfers.

[2] Balance transferred to General Non-Operating Fund and General Fund Reserve.