CITY OF MOUNTAIN VIEW

MEMORANDUM

Finance and Administrative Services Department

DATE: April 27, 2017

TO: City Council

FROM: Helen Ansted, Principal Financial Analyst
Suzanne Niederhofer, Assistant Finance and Administrative Services Director
Patty J. Kong, Finance and Administrative Services Director

VIA: Daniel H. Rich, City Manager

SUBJECT: **General Operating Fund 5-Year Financial Forecast**

INTRODUCTION

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 Financial Forecast is prepared annually and a 10-year Long-Range Financial Forecast is prepared periodically and initially discussed with the City Council during the Narrative Budget Study Session. This report is a 5-Year Forecast (Forecast) for the time period of Fiscal Years 2017-18 through 2021-22. The most recent 10-year Long-Range Financial Forecast was completed for Fiscal Years 2015-2024.

A financial forecast, even with fluctuating economic variables, can assist with identification of long-term financial trends, causes of fiscal imbalances, future fiscal challenges, opportunities, and potential requirements, all of which may assist in keeping the City on a continuing 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. This Forecast provides a foundation for the City Council's decision making for Fiscal Year 2017-18 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 lease terms, and economic and property development. The level of City services, staffing, and cost of operations projected for Fiscal Year 2017-18 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. It has been approximately 9.5 years since the beginning of the last recession and will be 11 years if the slowdown occurs in Fiscal Year 2018-19, which is assumed in the Forecast. As a result, a general slowdown in economic activity is projected to begin in Fiscal Year 2018-19 and continue into Fiscal Year 2019-20. In the past several years, some economists have said the current recovery has been very long and slow; therefore, the next downturn could occur after a longer than usual recovery period. However, more recently, the ability to accurately forecast the economies of the State and nation is hampered by the uncertainties surrounding the policies of the current administration.

The Forecast is not intended to predict precisely when the next slowdown in the economy will occur, but rather an indication of what the financial picture could look like when it occurs. The next slowdown could occur sooner or later than projected, but it is anticipated another downturn *will* occur at some point during the Forecast period. The trend, based on the assumptions utilized, and assuming $1.8 million annual budget savings, indicates revenues in Fiscal Year 2017-18 through Fiscal Year 2019-20 will exceed expenditures even with the onset of a recession, but as a result of an anticipated economic downturn, revenues may not be sufficient to fund all expenditures in Fiscal Years 2020-21 and 2021-22.

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 through the major impact of the downturn, it is important to note the five-year period includes revenues from projected development. If development is hampered and does not occur, annual negative operating balances would be greater and could occur earlier.

Impacting Factors

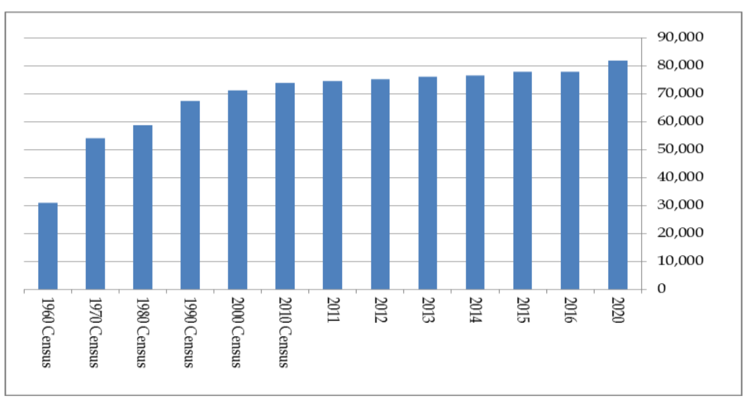
There are factors which impact each individual revenue source, some of which have broad ranges affecting multiple revenues and some are specific to an individual revenue source. The Forecast includes a discussion of these factors below.

Population

The following chart shows historical population annually for the past five years, 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 California State Department of Finance, the City's population is 77,925 in 2016, a 5.2 percent growth since the census. With the current pace of housing development, and potential for housing in the North Bayshore Area, the population could exceed the Association of Bay Area Governments' (ABAG) projections of 81,992 for 2020.

Population

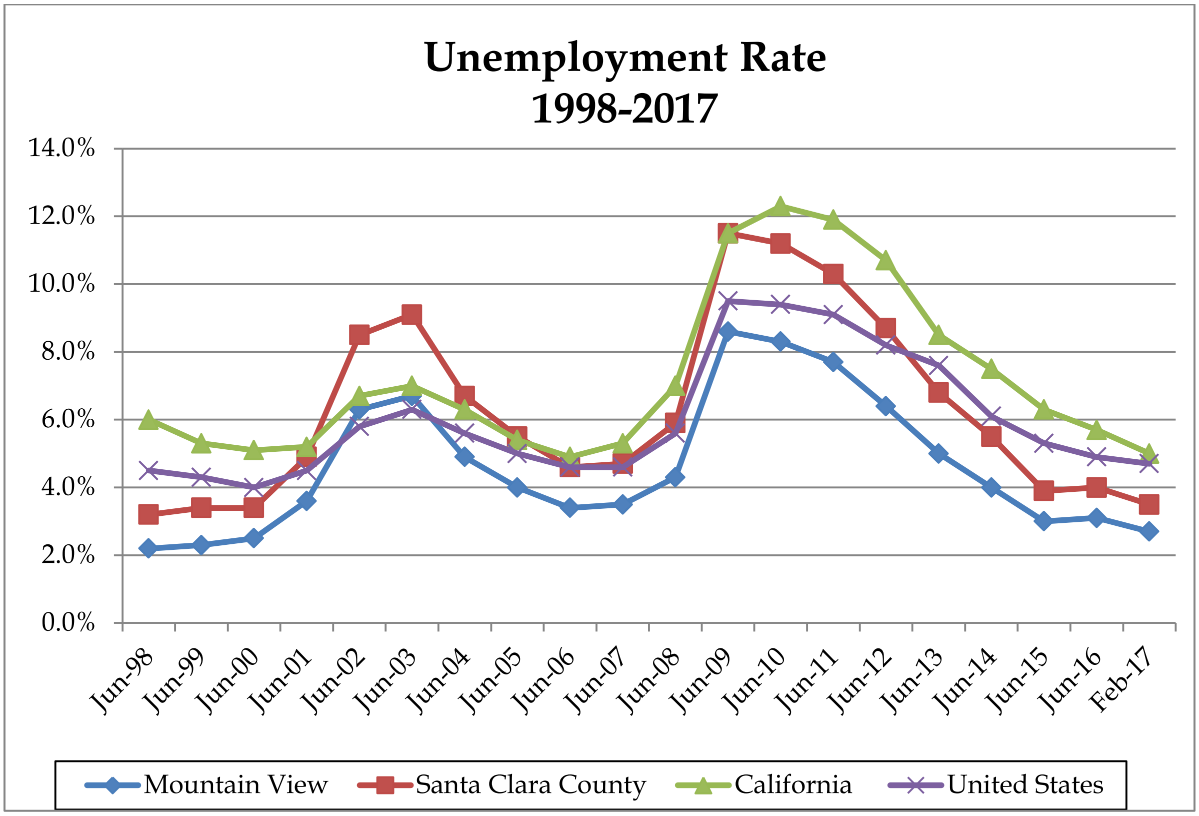
1960 Census	30,889
1970 Census	54,132
1980 Census	58,722
1990 Census	67,460
2000 Census	71,369
2010 Census	74,066
2011	74,723
2012	75,275
2013	76,260
2014	76,781
2015	77,914
2016	77,925
2020 Forecast	81,992



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

Unemployment

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 February 2017, the preliminary unemployment rate in the City is at 2.7 percent, lower than the prerecession rate and well below the County (3.5 percent), the State (5.0 percent), and the nation (4.7 percent).



State of California

Six years ago, the unemployment rate exceeded 12.0 percent and the State faced a significant budget gap. At that time, the budget was balanced with permanent spending cuts and temporary taxes from Proposition 30. The Governor's Fiscal Year 2017-18 Budget Summary reflects a decline in revenue resulting in a deficit and the Governor continues to stress the importance of fiscal restraint and reserves.

Revenue and Expenditure Overview

In order to maintain a base level of services in the City, 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 2017-18 revenues are projected to increase $9.3 million (7.8 percent) compared to Fiscal Year 2016-17 adopted revenues and $3.0 million (2.4 percent) compared to the Fiscal Year 2016-17 estimated revenues.

The City is in a stronger financial position with an annual surplus projected for the next couple of fiscal years, the result of increased revenue generated by continued economic recovery, continued fiscal restraint, and improved efficiencies such as position and staff support consolidations and implementation of additional energy and utility conservation efforts. The continued economic growth is apparent locally and in some other areas of the State and nation. Locally, this includes major new private and public developments, such as The Village at San Antonio Center Phase II, Ameswell (Moffett Gateway) project, and various rental and ownership housing, hotel, and commercial office developments. These developments will provide housing, hotel rooms, shopping, and entertainment as well as generating additional ongoing revenues for the City, some as early as Fiscal Year 2017-18. The revaluation of the long-term ground lease for the Charleston East site will also contribute increased revenue beginning February 2018.

Fiscal Year 2017-18 recommended expenditures are $9.2 million (8.5 percent) higher compared to the Fiscal Year 2016-17 adopted expenditures. The increases in expenditures are primarily related to personnel costs, as 80.0 percent of the budget is for employee services. New ongoing expenditures of $2.2 million are included to address some of the strains on staff resources. After allowing for a $4.0 million contribution to the unfunded California Public Employees' Retirement System (CalPERS) liability, $2.0 million to the unfunded Retirees' Health Other Post-Employment Benefits (OPEB) liability, a $2.0 million transfer to the Strategic Property Acquisition Reserve (SPAR), and anticipated budget savings of $1.8 million, the operating balance is projected to be $2.4 million for Fiscal Year 2017-18, which represents 1.9 percent of GOF projected revenues.

Staff and Council recognized the opportunity to take advantage of the City's improved financial position to reduce unfunded liabilities for CalPERS and OPEB. The past and recommended future contributions are as follows (dollars in millions):

	Fiscal Year 2014-15		**Fiscal Year 2015-16**		**Fiscal Year 2016-17**		**Fiscal Year 2017-18**		**Fiscal Year 2018-19**		**Total**	
	PERS	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**
GOF	–	$1.0 M	$2.0 M	$1.0 M	$2.0 M	$2.0 M	$4.0 M	$2.0 M	$2.0 M	–	$10.0 M	$6.0 M
GNOF	$1.0 M	$1.0 M	$1.5 M	$0.5 M	$1.0 M	$1.0 M	$6.0 M	$2.0 M			$9.5 M	$4.5 M
Other Funds	–	–	$687 K	–	$854 K	–	$2.35 M	–	$469 K	–	$4.36 M	–

For Fiscal Years 2014-15 through 2016-17 Council approved allocations of $9.0 million toward the CalPERS liability and $6.5 million toward the OPEB liability. For CalPERS, the City's funded status as of June 30, 2015, the date of the most recent valuation, is 71.7 percent combined for both safety and miscellaneous. This compares to the 74.3 percent funded status as of June 30, 2014. The unfunded liability is estimated to be $191.4 million as of June 30, 2016 and increase to $194.0 million by June 30, 2017. For Retirees' Health, the City has made great strides in funding this obligation. The actuarial accrued liability is $137.4 million and is 78.5 percent funded.

Over the past couple of years, the percentage of funding has been similar for both unfunded liabilities, however, the liability and the unfunded liability for CalPERS is significantly greater. In addition, CalPERS announced the discount rate used for actuarial calculations will be reduced from 7.5 percent to 7.0 percent, being phased in over three years, commencing in Fiscal Year 2018-19. This change to the discount rate will have a significant impact to the City's future annual pension expense. Therefore, staff is recommending a strategy to make a significant lump sum contribution of $10.0 million (General Fund), from a combination of available resources. Staff recommends a $6.0 contribution to CalPERS based on the options recommended and $4.0 million contribution for Fiscal Year 2017-18 for the $10.0 million lump sum payment. In addition, a $2.0 million contribution is recommended for Fiscal Year 2018-19 and an additional $10.0 million General Fund payment is recommended from the future Google Parking Lease revenues (see Attachment 1).

For the OPEB liability, the contribution from the Fiscal Year 2016-17 carryover depends on the CalPERS funding strategy option Council prefers. However, a $2.0 million contribution for Fiscal Year 2017-18 is recommended. Other funds continuously fully fund their share of the OPEB liability; only the GOF is not fully funded.

Fiscal Years 2017-18 and 2018-19 include sustainable COLAs as placeholders in anticipation of labor negotiations currently in process with the MVFF, POA, EAGLES, and SEIU represented labor groups and for all other groups. There are no COLAs for the remaining Forecast years, as the numbers in the Forecast cannot support additional COLAs at this time. All Forecast years include step and merit increases.

The following table includes the adopted revenues and expenditures by category for Fiscal Year 2017-18 and projections for the subsequent Forecast years.

GENERAL OPERATING FUND FORECAST
(dollars in thousands)

	2016-17 ADOPTED	2016-17 ESTIMATED	2017-18 FORECAST	2018-19 FORECAST	2019-20 FORECAST	2020-21 FORECAST	2021-22 FORECAST
REVENUES:							
Property Taxes	$ 40,208	44,080	45,285	46,652	48,038	49,784	52,185
Sales Tax	20,091	22,051	21,194	20,330	19,075	19,272	19,625
Other Local Taxes[1]	16,082	15,550	15,589	15,608	16,663	17,657	18,514
Use of Money and Property	16,403	16,607	19,833	21,972	22,816	23,684	24,537
Other Revenues[2]	25,934	26,730	26,121	25,888	25,697	26,046	26,392
TOTAL REVENUES	118,718	125,018	128,022	130,450	132,289	136,443	141,253
EXPENDITURES:							
Salaries and All Pays	56,850	54,502	59,605	62,725	63,188	63,523	63,724
Retirement	14,721	14,720	16,311	18,831	20,848	23,714	26,121
Health Benefits	9,780	8,300	10,219	11,039	11,873	12,775	13,753
All Other Benefits	6,279	5,975	6,660	6,887	7,009	7,123	7,233
Salaries and Benefits	87,630	83,497	92,795	99,482	102,918	107,135	110,831
Supplies and Services	16,175	16,032	17,218	17,641	18,076	18,547	19,032
Capital Outlay/ Equipment Replacement	3,024	3,175	3,228	3,310	3,394	3,481	3,570
Interfund Expenditures and Transfers	3,404	3,404	6,185	7,319	6,272	6,665	6,942
Debt Service	-0-	-0-	-0-	-0-	3,000	3,000	3,000
Budget Savings	(1,800)	Included	(1,800)	(1,800)	(1,800)	(1,800)	(1,800)
NET EXPENDITURES	108,433	106,108	117,626	125,952	131,860	137,028	141,575
Transfer to GNOF	(500)	(500)	-0-	-0-	-0-	-0-	-0-
CalPERS Contribution	(2,000)	(2,000)	(4,000)	(2,000)	-0-	-0-	-0-
OPEB Contribution	(2,000)	(2,000)	(2,000)	-0-	-0-	-0-	-0-
Transfer to SPAR	(2,000)	(2,000)	(2,000)	-0-	-0-	-0-	-0-
OPERATING BALANCE/(DEFICIT)	$ 3,785	12,410[3]	2,396	2,498	429	(585)	(322)

1 Other Local Taxes consists of Transient Occupancy Tax, Business Licenses, and Utility Users Tax.
2 Other Revenue consists of License, Permits & Franchise Fees; Fines & Forfeitures, Intergovernmental; Charges for Services; Miscellaneous Revenue; and Interfund Revenues and Transfers.
3 Balance is prior to the change in assets and liabilities, encumbrances, and rebudgets for grants and donations.

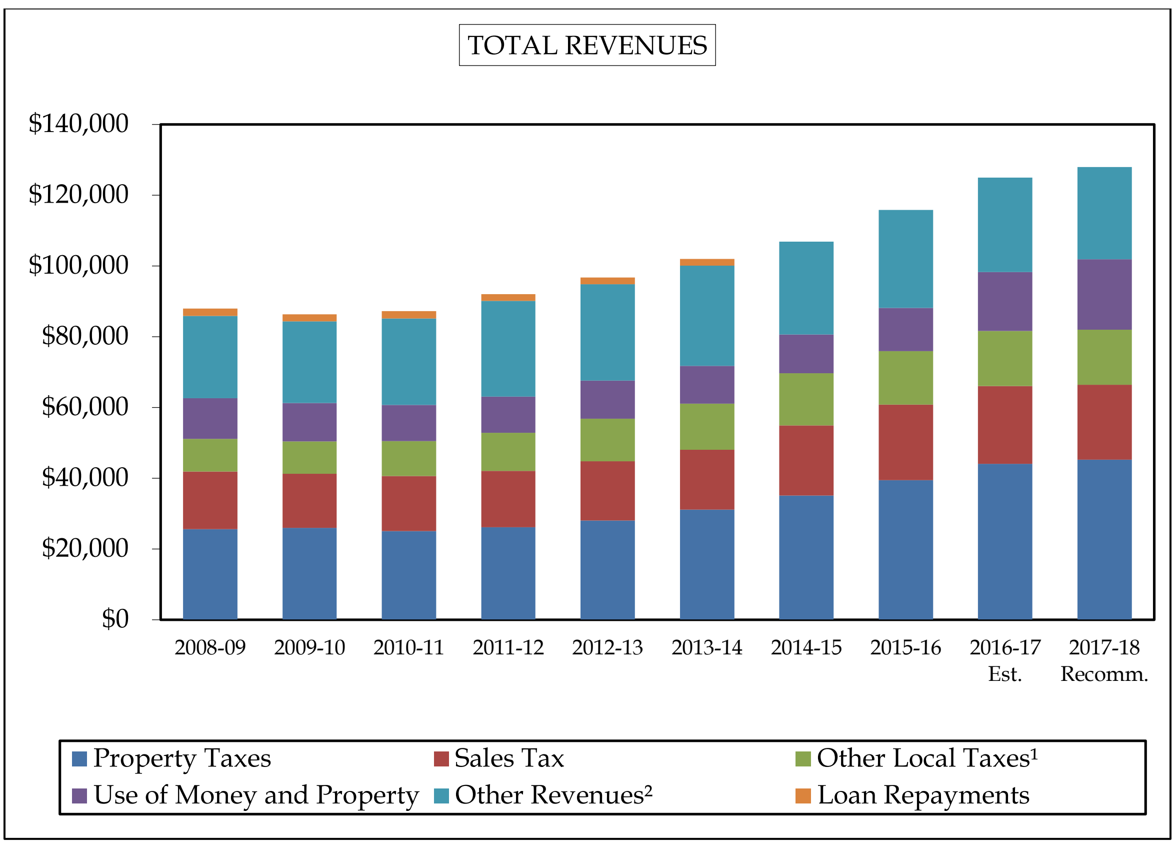
Revenue and Expenditure Background

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 Exhibit 1 for revenue and expenditure history). In addition to the overarching factors described in the Impacting Factors Section, the City's revenue volatility is continually impacted by local factors.

For Fiscal Year 2017-18, all the main categories of GOF Revenues listed in the previous table, except Other Local Taxes, are projected to meet or exceed the Fiscal Year 2016-17 Adopted Budget. Significant factors, such as increasing property and lease values, sales tax, and improved interest yields, are contributing to an improved financial condition and an overall indication the City is in a strong revenue growth period. The Other Local Taxes category is lower due to slower growth than anticipated in the current fiscal year and net no growth trended for Fiscal Year 2017-18.

A history of total GOF 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, Permits & Franchise Fees/Fines & Forfeitures, Intergovernmental, Charges for Services, Miscellaneous Revenue, and Interfund Revenues and Transfers.

Total Fiscal Year 2017-18 revenues are projected to increase $9.3 million (7.8 percent) compared to the Fiscal Year 2016-17 Adopted. Additional discussion of individual revenue sources can be found later in this Forecast.

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 recovered sufficiently and no budget restructuring was necessary beginning in Fiscal Year 2013-14. The economic health of the City has continued to improve, resulting in a higher level of demand for services to support significant commercial and residential development, as well as to support other community priorities such as affordable housing, transportation and sustainability. Revenue projections for Fiscal Year 2017-18 indicate the strong economic activity will continue and allow for the opportunity to address infrastructure needs and a strategy for reducing employee benefit unfunded liabilities which the City was unable to address until the last few fiscal years.

From the peak in Fiscal Year 2001-02 through Fiscal Year 2012-13, the GOF employee count was reduced by over 70.0 positions (over 14.0 percent). Although there have been positions added in recent years, overall, the City continues to operate at level less than pre-recessionary staffing level. This is further exacerbated by the high level of development activity and corresponding demand of services, which involves many City departments. The Fiscal Year 2017-18 recommendations include additional regular and limited-period positions to address the workload demands.

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 Year 2017-18 and Fiscal Year 2018-19, sustainable COLAs have been included pending negotiations currently in process. Also included are 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 are based on health-care trends and historical experience. The projected CalPERS rates for Fiscal Years 2017-18 through 2021-22 were provided by CalPERS and adjusted for the change in discount rate.

For Supplies and Services and the remaining categories, a base level of expenditures is calculated 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, reduced to $2.0 million in Fiscal Year 2014-15 and to $1.8 million in Fiscal Year 2015-16. It remains at $1.8 million annually throughout the Forecast period.

SUMMARY

Silicon Valley continues to be a leader in the local and national economic recovery—job creation, vacant space utilization, development of both residential and commercial projects, and the recovery of property values are contributing to the health of the local economy. Although anticipated CalPERS and medical rate increases are significant factors, the Forecast projects revenue growth and positive operating balances (including funds set aside for CalPERS and OPEB) through Fiscal Year 2019-20. The final two years of the Forecast project small negative balances below $1.0 million each before any corrective actions. Future financial stability will be dependent upon the strength of the economy, the timing of the next recession, and continued fiscal restraint.

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

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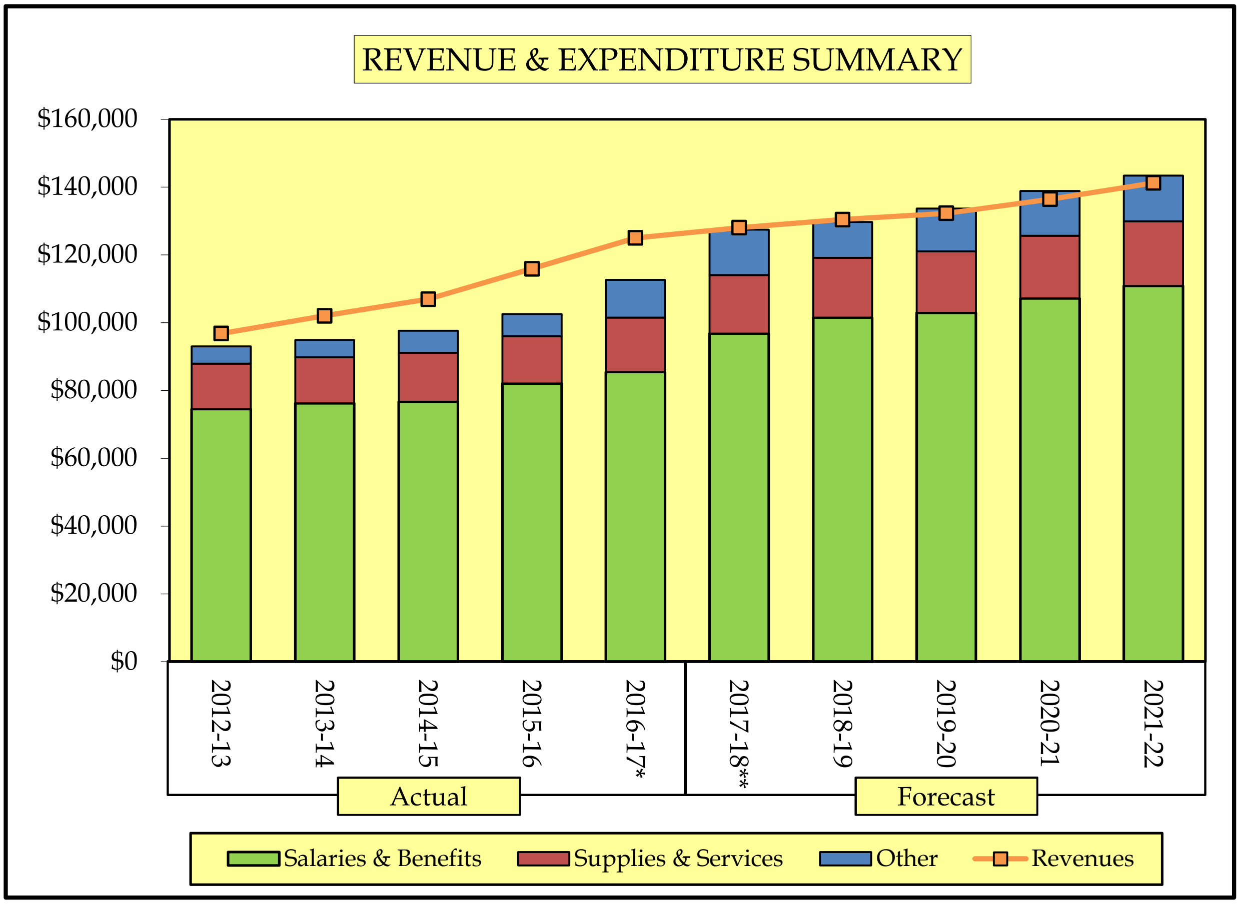
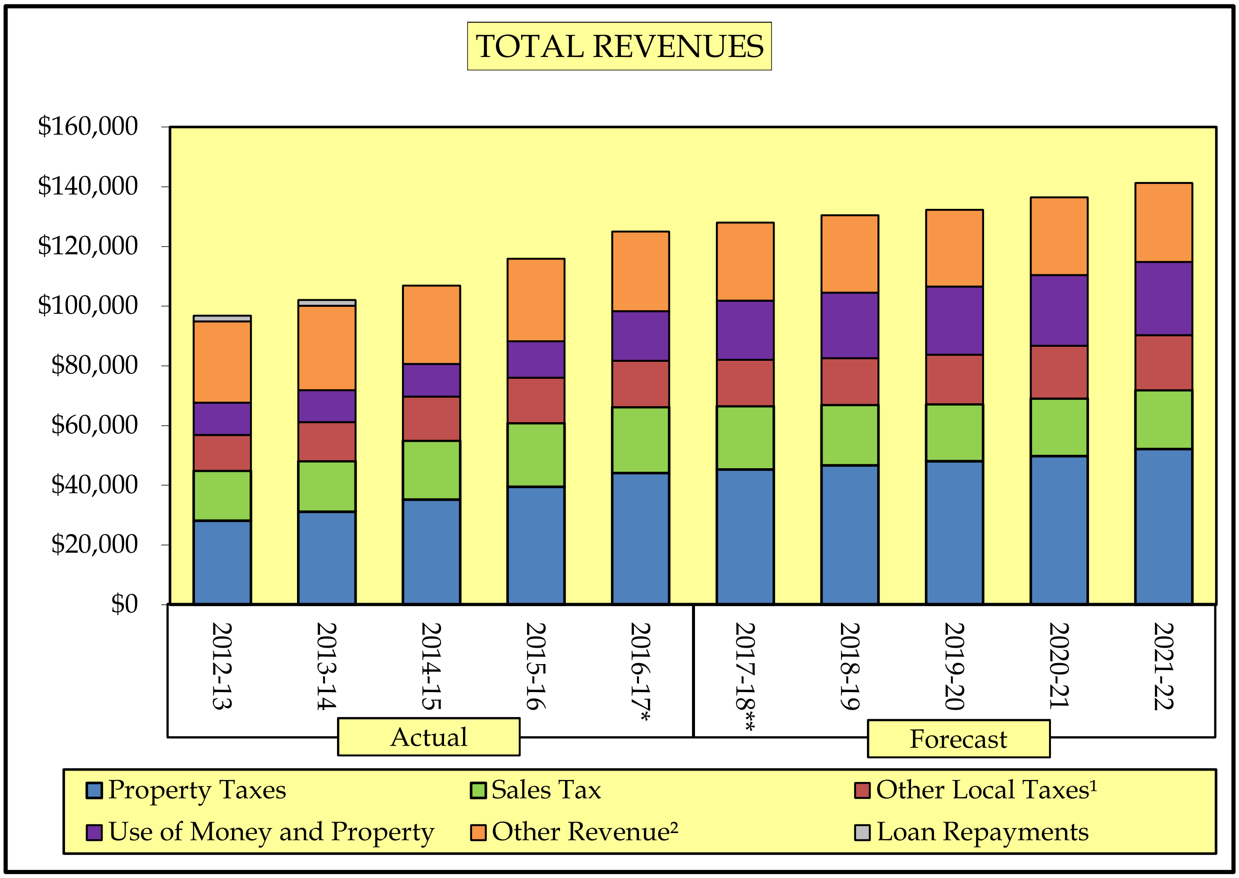


Fiscal Year		Revenues	Expenditures
2012-13		96,811	93,041
2013-14		102,045	94,933
2014-15		106,940	97,677
2015-16		115,911	102,590
2016-17	*	125,018	112,608
2017-18	**	128,022	127,426
2018-19		130,450	129,752
2019-20		132,289	133,660
2020-21		136,443	138,828
2021-22		141,253	143,375

* Estimated
** Recommended
(dollars in thousands)

The Fiscal Year 2017-18 recommended expenditures and all forecast years do not include the projected operating budget savings.



Fiscal Year		Total Revenues	% Change
2012-13		96,811	5.2%
2013-14		102,045	5.4%
2014-15		106,940	4.8%
2015-16		115,911	8.4%
2016-17	*	125,018	7.9%
2017-18	**	128,022	2.4%
2018-19		130,450	1.9%
2019-20		132,289	1.4%
2020-21		136,443	3.1%
2021-22		141,253	3.5%

* Estimated
** Recommended
(dollars in thousands)

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

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

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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).
- New development.
- Property demand, sales, and values.
- County processing time for new development and ownership transfers and inclusion on the tax roll.
- Assessment appeals and proactive assessment reductions by the County Assessor.

- 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 2015-16 exceeds $90.0 million (almost $94.0 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. During that time, foreclosures nationwide increased dramatically as homeowners defaulted on their mortgages and California was the epicenter of the foreclosure crisis. Mountain View experienced foreclosures, but not as severely as other parts of the State. The number of foreclosures in the nation and California has declined significantly, now at the lowest level since 2006. For calendar 2016, the most recent information available, there were a total of 219 foreclosures in the County. Mountain View was one of three cities in the County with no foreclosures.

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 for residential Prop 8 reductions was recaptured by 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 Countywide as of February 2017 is slightly higher than the same time frame in 2016 but still low compared to the level of activity during and after the recession. Because of the variable nature of commercial properties, the process of reviewing and valuing them is more complicated and lengthy. The County processes Countywide AV roll reductions (primarily the result of resolved appeals) and corrections throughout the year and estimates a net $1.0 billion reduction through June 30, 2017. The General Fund’s share of this property tax revenue loss for Fiscal Year 2016-17 is approximately $96,000. As of January 2017, the County has approximately 5,500 active appeals and the

Forecast includes some loss in property tax revenue as a result of the 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 AV resulting from changes in ownership (CIO) occurred in 2015. As detailed in the table below, there has been growth in the median price of single-family homes (SFH) with a CIO every year since 2010, with more significant increases 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
2015	$1,600,000	274	$910,000	312
2016	$1,700,000	253	$1,013,000	345

Also impacting the growth in Property Taxes is the CCPI. Over the past ten fiscal years (2007-08 to 2016-17), five years have had annual CCPI increases less than the maximum 2.0 percent allowed, and one of those five years was a negative CCPI.

In total, Fiscal Year 2016-17 estimated Property Tax revenues of $44.1 million exceeds both the Fiscal Year 2016-17 Adopted Budget of $40.2 million and the Fiscal Year 2015-16 audited of $39.5 million.

FORECAST

The Fiscal Year 2017-18 projected secured property tax revenues is based on the July 1, 2016 tax roll adjusted for the following:

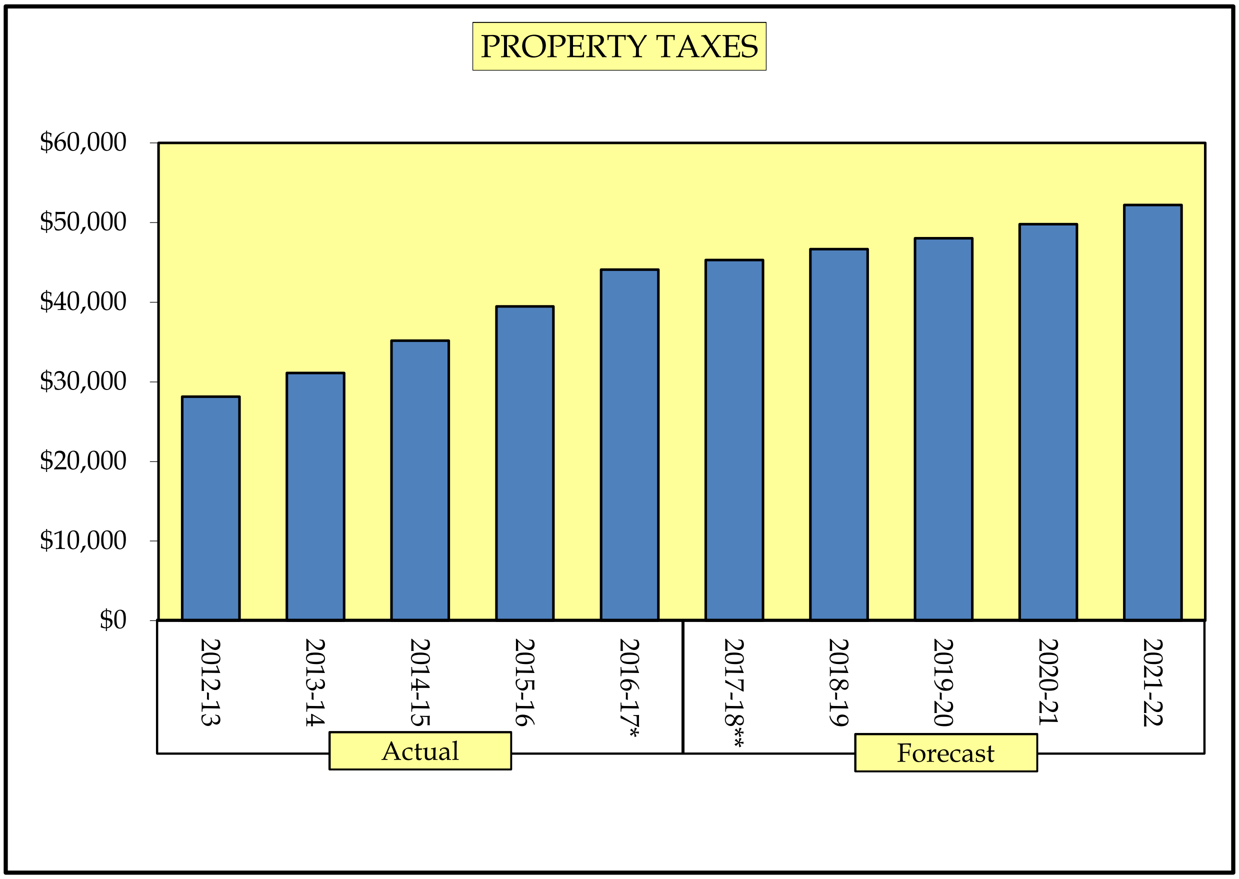
- A 2.0 percent CCPI increase to the AV of all eligible residential and commercial property;

- Projected AV loss from resolution of pending appeals;
- AV changes related to property transfers and sales prior to the lien date; and
- Projected AV increase related to new development and remodels.

As mentioned earlier, the County has approximately 5,500 active appeals. The County has provided some information about pending appeals specific to each local agency, and the Fiscal Year 2017-18 revenue includes a projected tax loss based on the historical resolution of resolved appeals.

For the remaining Forecast years, total secured property tax is projected with net growth ranging from 3.7 percent to 4.5 percent annually. These average annual increases include an annual change in AV based on a 2.0 percent CCPI for Fiscal Years 2018-19 and 2021-22. The anticipated economic downturn is projected to impact the intervening two fiscal years resulting in CCPI increases of 1.5% and 1.75%. In addition, increased AV is projected as a result of new development projects under construction and in the pipeline (including The Village at San Antonio Phase II, Ameswell, and various housing, hotel, and office developments), and anticipated growth from CIO and remodeling. The increased revenue from Ameswell has been identified as a potential revenue source for the Police/Fire Administration Building capital improvement project (CIP).

Unsecured property tax revenue is projected to increase slightly for Fiscal Year 2017-18, remain the same for Fiscal Year 2018-19, decline for two fiscal years as a result of the economic downturn, and significantly recover in the final Forecast year.



Fiscal Year		Property Taxes	% Change
2012-13		28,122	7.3%
2013-14		31,120	10.7%
2014-15		35,173	13.0%
2015-16		39,461	12.2%
2016-17	*	44,080	11.7%
2017-18	**	45,285	2.7%
2018-19		46,652	3.0%
2019-20		48,038	3.0%
2020-21		49,784	3.6%
2021-22		52,185	4.8%

* 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 1.5:1.0 ratio. During the current decade, as a result of relocations, recession, growth of the service economy (nontaxable products), and Board of Equalization (BOE) reporting changes, retail contributes a greater share and the ratio for the most recent completed fiscal year is 1.0:4.8.

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

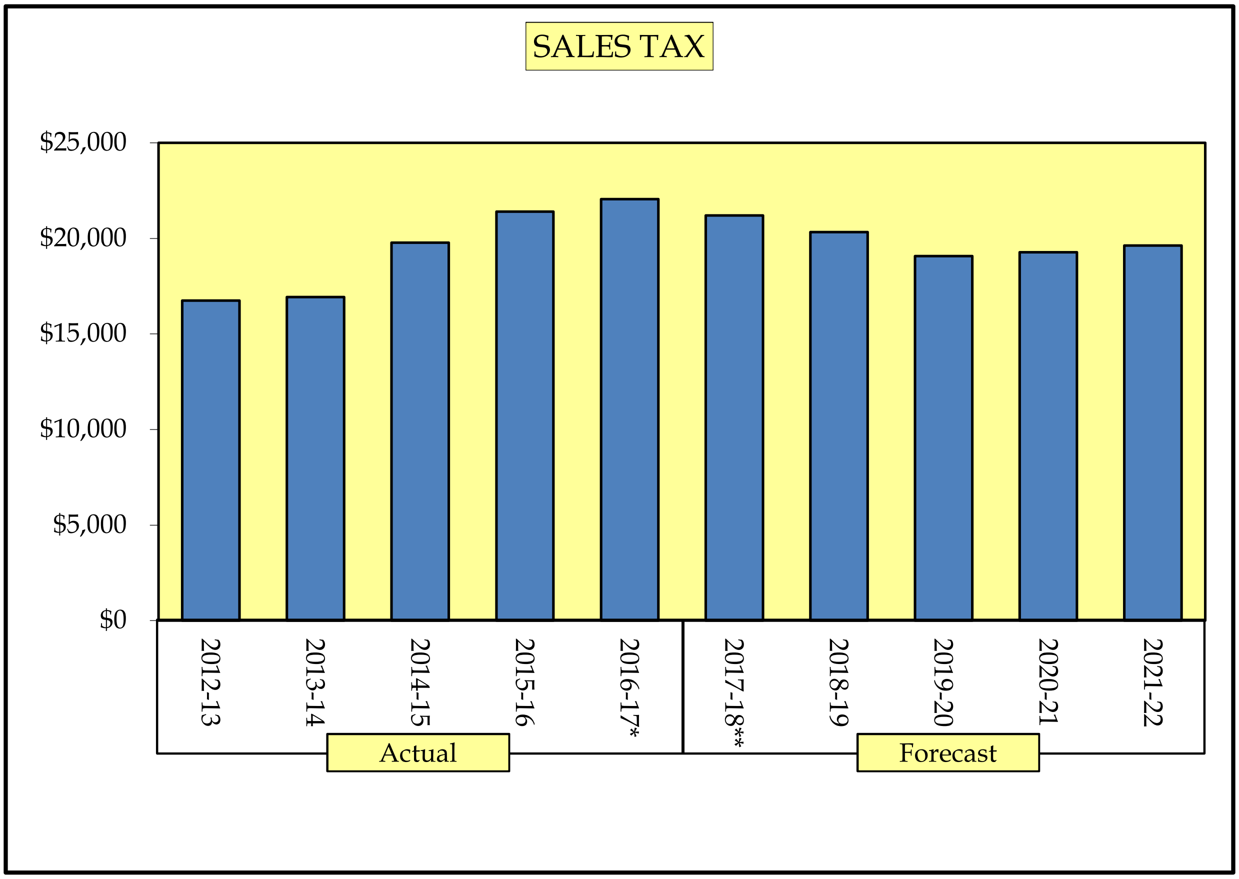
- Business expansion, reduction, or relocation.
- State of the economy.
- Purchasing patterns.
- State BOE allocation decisions.
- Level of business-to-business sales.
- Technology changes.

HISTORY

Since the early 1990s, sales tax has been an extremely volatile revenue source, reaching a 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, so there is a smaller commercial tax base because sales tax is not applicable to most technology company sales. As a result of the Great Recession, Sales Tax revenue fell in excess of $2.0 million (11.8 percent) to $15.2 million in Fiscal Year 2009-10. Since then, sales tax revenue has again grown steadily, and is estimated at $22.1 million in Fiscal Year 2016-17, exceeding both the Fiscal Year 2016-17 Adopted Budget and Fiscal Year 2015-16 audited, but still lower than the peak of $24.1 million in Fiscal Year 2000-01.

FORECAST

Fiscal Year 2017-18 sales tax revenue is projected at $21.2 million, $857,000 less than the Fiscal Year 2016-17 estimated, primarily due to known changes in businesses and adjustments for one-time payments received in Fiscal Year 2016-17. Fiscal Year 2017-18 includes 2.0 percent projected growth, the two subsequent Forecast years reflect 4.0 and 6.0 percent declines related to an anticipated downturn in the economy, and a recovery begins in Fiscal Year 2020-21. The Village at San Antonio Center Phase II is projected to be completed in Fiscal Year 2017-18 with retail tenants in place beginning to generate sales tax.



Fiscal Year		Sales Tax	% Change
2012-13		16,744	5.0%
2013-14		16,936	1.1%
2014-15		19,773	16.8%
2015-16		21,401	8.2%
2016-17	*	22,051	3.0%
2017-18	**	21,194	(3.9%)
2018-19		20,330	(4.1%)
2019-20		19,075	(6.2%)
2020-21		19,272	1.0%
2021-22		19,625	1.8%

* 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. Currently, there are approximately 6,300 businesses with licenses. The tax rate varies by type of business, generally $30 per year for most (73.0 percent), but can exceed $1,000 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

- TOT: Number of hotel rooms, room rate, occupancy rate, and number of exemptions.

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

- UUT: Customer base, level of consumption, and price of the commodity.

HISTORY

TOT: The current tax rate of 10.0 percent was last modified in June 1991 from 8.0 percent. Occupancy and room rates in the City typically grow in non-recessionary times. The impacts of economic downturns or disruptions are immediately felt in TOT revenue as demonstrated by the 52.1 percent decline resulting from the dot-com bust and the 26.6 percent decline during the Great Recession. TOT revenues began to recover from this last recession in spring 2010 and growth has continued into Fiscal Year 2016-17, although at a slower rate. The estimate for Fiscal Year 2016-17 reflects the completion of the Hampton Inn and Residence Inn remodel/room addition projects and increased revenue for a portion of the fiscal year.

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). Fluctuation in the number of businesses does not significantly change annual revenue because of the low annual tax rate. Fiscal Year 2016-17 is estimated at 6.9 percent below budget. At the time the current fiscal year budget was prepared the Fiscal Year 2015-16 year to date activity indicated a higher trend of revenue by fiscal year end. A business license compliance audit commenced during Fiscal Year 2015-16 and continues, but, again due to the low tax rate, the increase in revenue is minimal. The primary objective of the audit is for businesses to be in compliance.

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 a result of business closures and reduction in usage by many residential customers. 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 telecommunications providers was completed in January 2014 and resulted in a $1.1 million settlement and one-time assessment payments. In addition, during Fiscal Year 2014-15, staff worked to bring another telecommunications provider into compliance, resulting in a payment of the amount due for that fiscal year and a $1.6 million payment for a prior time period. Both of these companies are remitting monthly UUT payments, contributing to ongoing revenue.

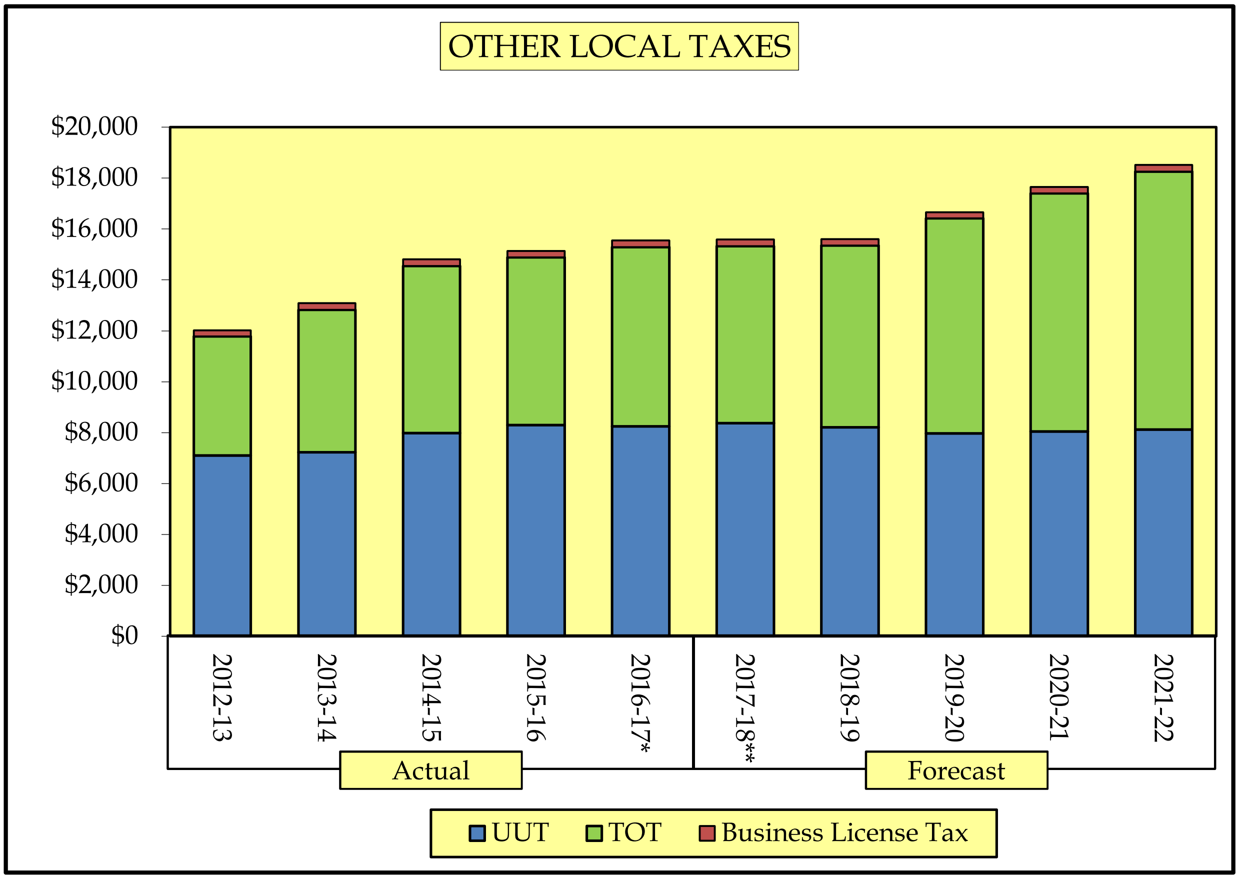
The Agreement between the BOE and the City for prepaid phone cards was executed in December 2015 and the City received the first quarterly payment in September 2016. In addition, direct providers of prepaid phone cards began remitting UUT payments in July 2016. Overall, Fiscal Year 2016-17 estimated revenue is essentially on target with both the Fiscal Year 2016-17 Adopted Budget and the Fiscal Year 2015-16 audited.

FORECAST

TOT: Fiscal Year 2017-18 revenue is essentially the same as the current fiscal year estimate. The following two Forecast years include a reduction in revenue resulting from the anticipated economic downturn offset by the opening of the Shashi hotel and the hotel planned as part of the San Antonio Phase II project in Fiscal Year 2018-19 and the opening of Holiday In Express and the hotel planned as part of the Ameswell (Moffett Gateway) project in Fiscal Year 2019-20.

Business License Tax: Business license revenue is forecast with a 2.0 percent annual growth for Fiscal Year 2017-18 and the anticipated two-year downturn includes 3.0 percent average annual declines followed by recovery in the final two Forecast years. The business license compliance audit is continuing.

UUT: Total projected UUT revenue for Fiscal Year 2017-18 is slightly higher than the Fiscal Year 2016-17 estimated. The tax resulting from telecommunications and other energy services are level with the current fiscal year and tax related to PG&E services is projected with a 3.0 percent increase. The UUT revenues for the following two Forecast years decline as a result of the anticipated economic downturn and then begin to slowly increase in the final two Forecast years.



Fiscal Year		Utility Users Tax	Transient Occupancy Tax	Business License Tax	Total Other Local Taxes	% Change
2012-13		7,108	4,668	239	12,015	11.5%
2013-14		7,226	5,595	268	13,089	8.9%
2014-15		7,988	6,559	258	14,805	13.1%
2015-16		8,301	6,591	245	15,137	2.2%
2016-17	*	8,246	7,044	260	15,550	2.7%
2017-18	**	8,370	6,954	265	15,589	0.3%
2018-19		8,214	7,137	257	15,608	0.1%
2019-20		7,966	8,448	249	16,663	6.8%
2020-21		8,046	9,359	252	17,657	6.0%
2021-22		8,126	10,133	255	18,514	4.9%

* 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 owned 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:

  - North Charleston, Crittenden and Charleston East ground leases
  - Shoreline Amphitheatre
  - Ameswell (Moffett Gateway)
  - Recology
  - Center for the Performing Arts
  - Michaels at Shoreline
  - Community School of Music and Arts (CSMA)
  - CVS (parking structure, retail space)
  - Historic Adobe Building, Community Center, and Senior Center
  - 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.

- Rental revenues received and 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 a target of 0.25 percent. This has significantly impacted the City's interest earnings. For Fiscal Year 2016-17 Adopted Budget the portfolio was anticipated to earn an average return of 1.26 percent, up from the low of the average 1.14 percent earned in Fiscal Year 2014-15, but lower than the high average 5.7 percent earned in Fiscal Year 2000-01. Fiscal Year 2016-17 investment earnings is anticipated to exceed both the current fiscal year budget and the prior fiscal year audited by $164,000 and $211,000, respectively. The Federal Open Market Committee (FOMC) has increased the benchmark interest rate 75 basis points since December 2015. It is anticipated the FOMC will continue to implement small incremental increases in the upcoming years if the economy continues to improve.

<u>Rents and Leases</u>: Over time, the City has strategically developed City-owned properties and negotiated lease agreements which generate long-term revenue for the GOF. 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 rent includes fixed annual increases and is revalued every 10 years to market. The decennial revaluation of the North Charleston lease was completed in February 2016, resulting in a 141.0 percent rent increase ($3.3 million for a full year). The new rent amount was effective April 1, 2016 and will continue to escalate 4.0 percent annually. The decennial revaluation of the Crittenden lease was completed in December 2016, resulting in a 104.8 percent rent increase ($3.1 million for a full year). The new rent amount was effective January 1, 2017 and will continue to escalate 4.0 percent annually.

In late Fiscal Year 2005-06, Council approved the amended and restated lease between the City and SFX Entertainment, Inc. (SFX-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 annual lease revenue of $165,000 to the GOF, a loss of $78,000 annually.

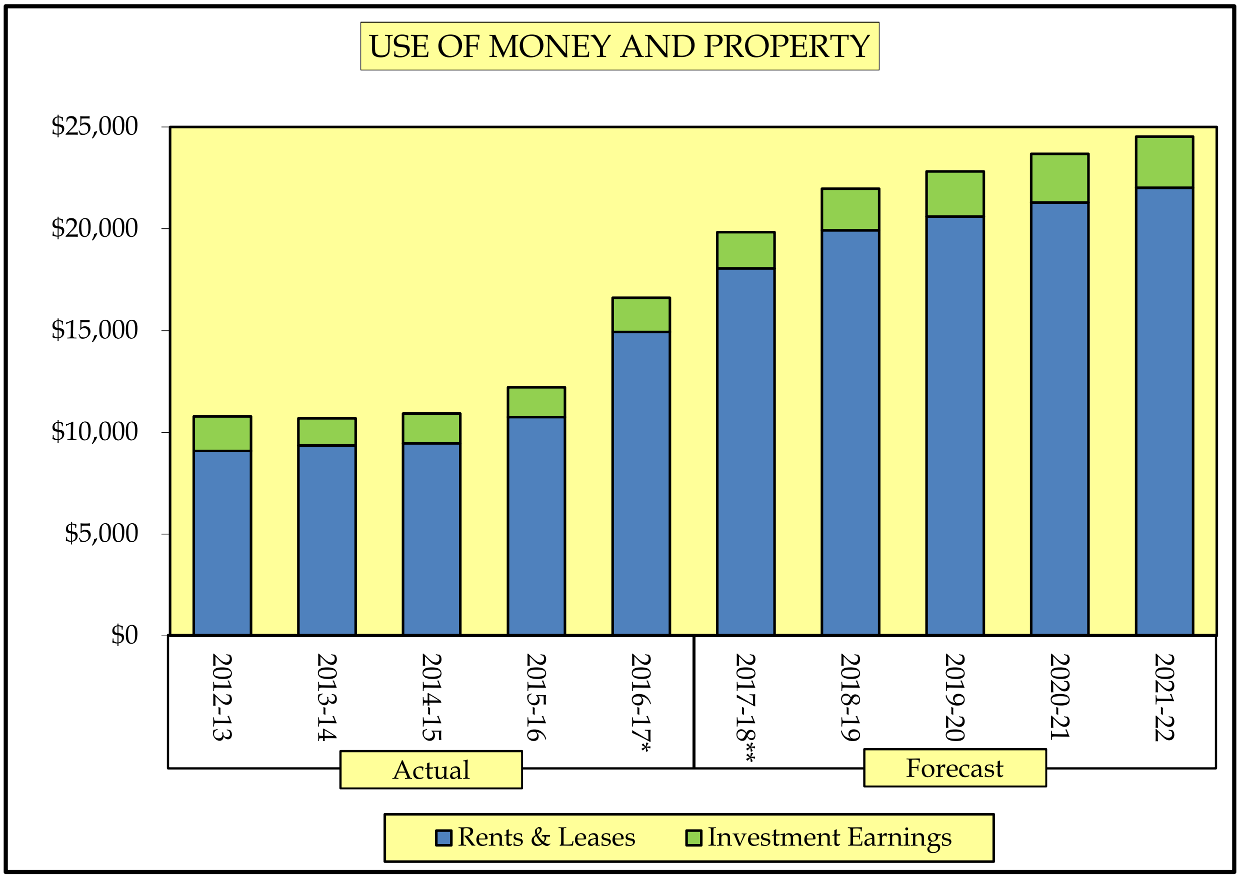
In May 2010, Savvy Cellars opened to the public at the Centennial Plaza Train Depot and, in accordance with the lease, the annual revenue to the City for the first five years was $29,700. The first annual increase was effective December 2014 and there have been annual increases effective each subsequent December. Effective with the Fiscal Year 2015-16 Adopted Budget, rental income from the Adobe Building, Community Center, and Senior Center was permanently moved from Recreation Service Charge revenue to Rents and Leases.

FORECAST

Investment Earnings: The Fiscal Year 2017-18 projection is based on the assumption that as security instruments mature, the funds will be reinvested at rates slightly higher than those available in Fiscal Year 2016-17, resulting in an average portfolio yield of 1.48 percent for Fiscal Year 2017-18. This assumes the Local Agency Investment Fund (LAIF) pooled rate averages 1.0 percent. The City's average portfolio yield is anticipated to continue rising through Fiscal Year 2021-22. During the projected economic downturn, reinvestment rates are expected to be higher than the rates on the instruments maturing.

Rents and Leases: The Charleston East ground lease includes a revaluation effective February 2018 and an estimate for that is included in the forecast. The City leases the land underneath the Shoreline Amphitheatre to SFX, and 2.0 percent annual contractual increase will begin in Fiscal Year 2017-18. The lease agreement with CSMA includes an increase effective Fiscal Year 2018-19. The Savvy Cellars lease provides for annual increases through the Forecast period, which have been projected at 3.0 percent annually. In Fiscal Year 2017-18, the CVS lease agreement provides for an 11.9 percent increase. The remaining lease agreements will remain essentially level. All other rental fees remain level in the first two forecast years, and increase between 1.0 and 3.0 percent in the last three forecast years.

As discussed earlier in the Narrative Budget Report, Google has paid the City $600,000 for extending the sublease of Parking Lots C and D from SFX through 2020. In addition, Google will be leasing the parking lots from the City for an additional five years (January 2021 to December 2025) and paying over $2.0 million annually. As these payments are limited period in nature they will not flow through the GOF. The recommendation in the Narrative Budget Report is for $2.0 million to be recorded as one-time GF revenues and then remitted to CalPERS towards the City's unfunded pension liability and the amount over $2.0 million be transferred to the CIP or other reserve.



Fiscal Year		Rents & Leases	Investment Earnings	Total Use of Money and Property	% Change
2012-13		9,083	1,700	10,783	6.4%
2013-14		9,345	1,345	10,690	(0.9%)
2014-15		9,463	1,465	10,928	2.2%
2015-16		10,751	1,468	12,219	11.8%
2016-17	*	14,927	1,680	16,607	35.9%
2017-18	**	18,053	1,780	19,833	19.4%
2018-19		19,934	2,038	21,972	10.8%
2019-20		20,600	2,216	22,816	3.8%
2020-21		21,299	2,385	23,684	3.8%
2021-22		22,024	2,513	24,537	3.6%

* Estimated
** Recommended
(dollars in thousands)

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LICENSES, PERMITS, AND FRANCHISE FEES/FINES AND FORFEITURES

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

SOURCES

- Licenses and Permits revenues are generated from businesses requiring specific City permits such as police business 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. The City has franchise agreements with Recology; Pacific, Gas and Electric; Comcast and AT&T cable; and California Water Service.

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

ECONOMIC FACTORS

- State of the economy.

- Franchise agreements and revenues generated by franchisees.

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

HISTORY

Licenses, Permits, and Franchise Fees: Historically, Licenses and Permits revenue tended to fluctuate with the development cycle. In Fiscal Year 2006-07, Building Services was separated from the GOF 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 revenues in several categories, including this one, and eliminated the effect of development. Fiscal Year 2016-17 estimated Licenses and Permits revenue is 3.0 percent higher than Fiscal Year 2016-17 Adopted and 4.6 percent below Fiscal Year 2015-16 Audited.

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, reduced construction debris discarded, and conservation by residential customers.

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 the City providing billing and collection services. This revenue has fluctuated over the past decade as a result of conservation efforts, migration to larger-size containers, and increases in trash and recycling service charges in addition to the economic factors 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.

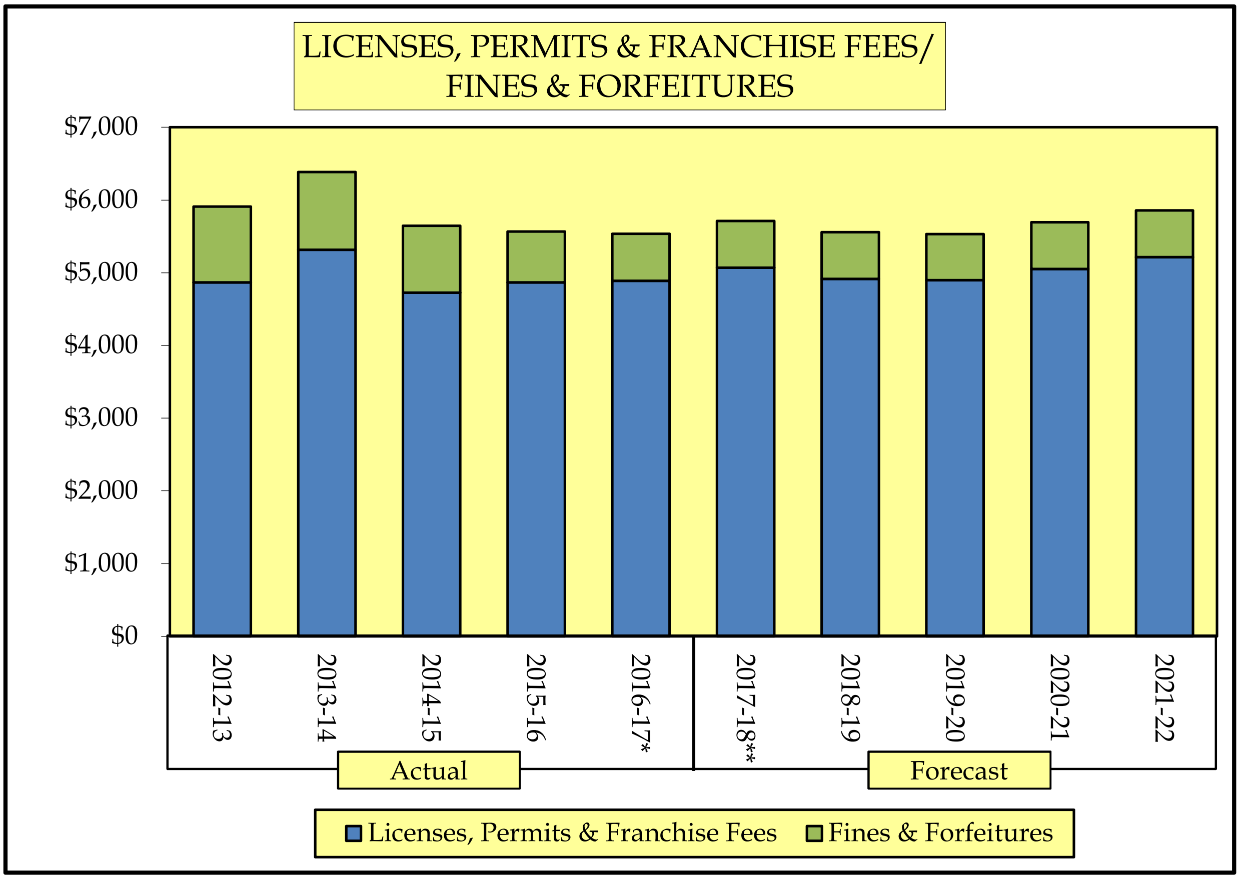
Fiscal Year 2016-17 estimated Franchise Fee revenues are 1.6 percent below the Fiscal Year 2016-17 Adopted and essentially the same as the Fiscal Year 2015-16 audited.

Fines and Forfeitures: This revenue source includes false alarm response fees, bail/fine payments from the County, and parking violation payments. The Fiscal Year 2016-17 estimated Fines and Forfeitures revenue sources are below or at budget and all are below the Fiscal Year 2015-16 Audited. Depending on the specific revenue, the decline is related to either position vacancies, a focus on higher priorities, or recent legislation.

FORECAST

Licenses, Permits, and Franchise Fees: Fiscal Year 2017-18 Licenses and Permits revenue reflects a 2.6 percent decrease from the current fiscal year estimated. The next two Forecast years reflect the economic downturn and there is a recovery in the last two Forecast years. Fiscal Year 2017-18 Franchise Fees revenue reflects a 4.9 percent increase over the current fiscal year estimated, the next two Forecast years decline as a result of the economic downturn, and the last two Forecast years reflect 3.0 percent increases.

Fines and Forfeitures: Fiscal Year 2017-18 and the last two fiscal years of the Forecast include increases ranging from less than 1.0 percent to 3.0 percent. The two intervening Forecast years reflect a decline due to the economic downturn.



Fiscal Year		Licenses, Permits & Franchise Fees	Fines & Forfeitures	Total Licenses, Permits & Franchise Fees/ Fines & Forf	% Change
2012-13		4,867	1,043	5,910	4.3%
2013-14		5,315	1,068	6,383	8.0%
2014-15		4,725	920	5,645	(11.6%)
2015-16		4,869	697	5,566	(1.4%)
2016-17	*	4,891	647	5,538	(0.5%)
2017-18	**	5,068	646	5,714	3.2%
2018-19		4,915	642	5,557	(2.7%)
2019-20		4,896	637	5,533	(0.4%)
2020-21		5,053	640	5,693	2.9%
2021-22		5,215	642	5,857	2.9%

* 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.

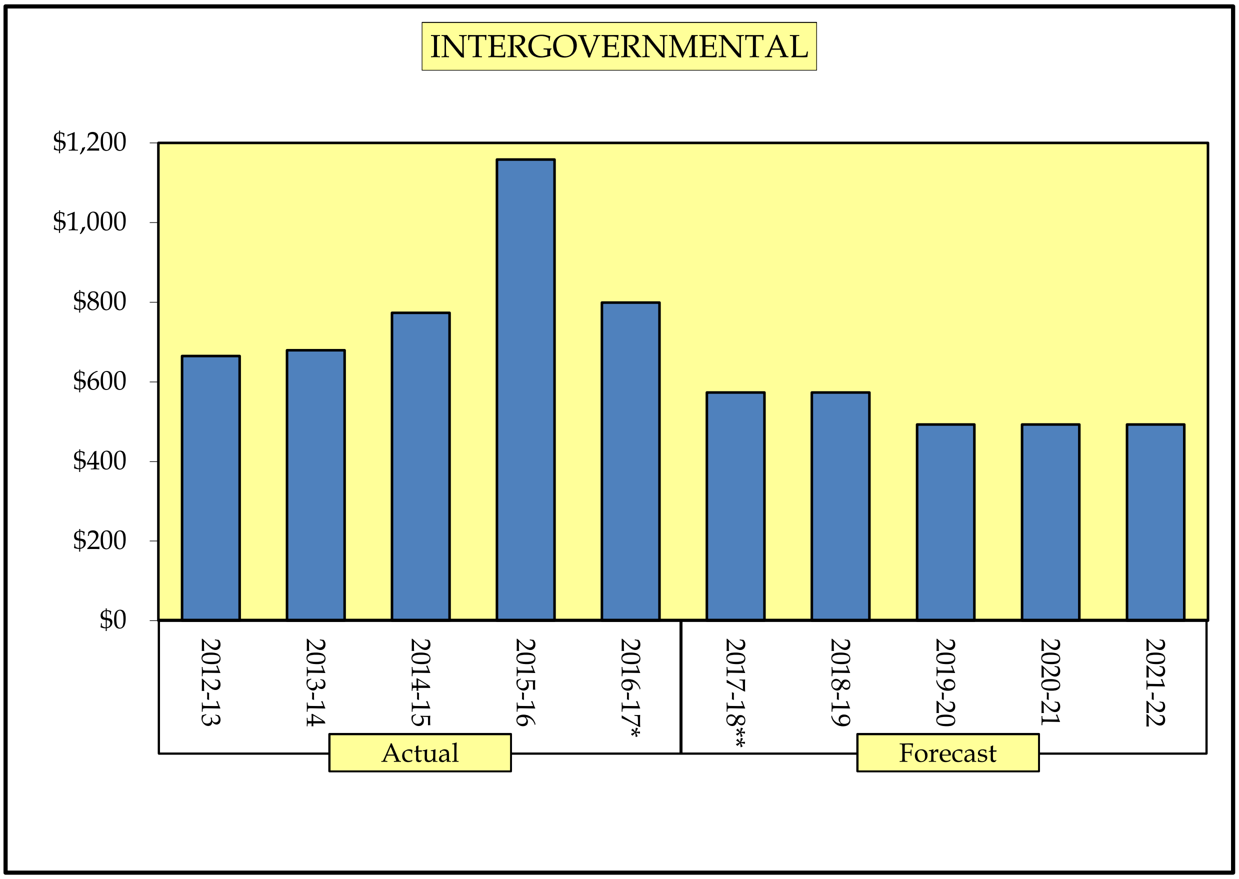
- State and Federal regulations, legislation, and funded programs.

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 2016-17 estimated revenue exceeds the Fiscal Year 2016-17 Adopted Budget due to grants and Public Safety Realignment (AB109) funding received that were not budgeted, and is 31 percent lower than the Fiscal Year 2015-16 audited, which was unusually high as a result of payment for deferred SB 90 claims.

FORECAST

Fiscal Years 2017-18 and 2018-19 are 3.8 percent lower than Fiscal Year 2016-17 Adopted as they include a lower projection for Regional Auto Theft Task Force (RATTF) reimbursement which is more in-line with actual payments received for the past couple of fiscal years. The remaining Forecast years reflect the end of RATTF funding beginning in Fiscal Year 2019-20.



Fiscal Year		Intergovernmental	% Change
2012-13		665	(41.9%)
2013-14		679	2.1%
2014-15		773	13.8%
2015-16		1,158	49.8%
2016-17	*	799	(31.0%)
2017-18	**	573	(28.3%)
2018-19		573	0.0%
2019-20		493	(14.0%)
2020-21		493	0.0%
2021-22		493	0.0%

* 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.
- City Sports Facility Use.
- Reimbursement of administrative costs related to private development activity.
- Performing Arts Center Facility Use and Ticket Service Charge.
- Library fines, lost books and interlibrary loans.
- Center for the Performing Arts facility use and ticket services

ECONOMIC FACTORS

- State of the economy.
- Level of participation in City Recreation programs.
- Level of attendance at Center for the Performing Arts programs.
- Level of development activity.

HISTORY

In order to ensure appropriate pricing for services, during Fiscal Year 2009-10 staff initiated 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. Subsequent to 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 at that time). 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, adjusts as appropriate, and Recreation-related Service Charge revenue has continued to improve. Effective with the Fiscal Year 2015 16 Adopted Budget, some Charges for Services revenue was determined to be rental income and was moved to the appropriate revenue category.

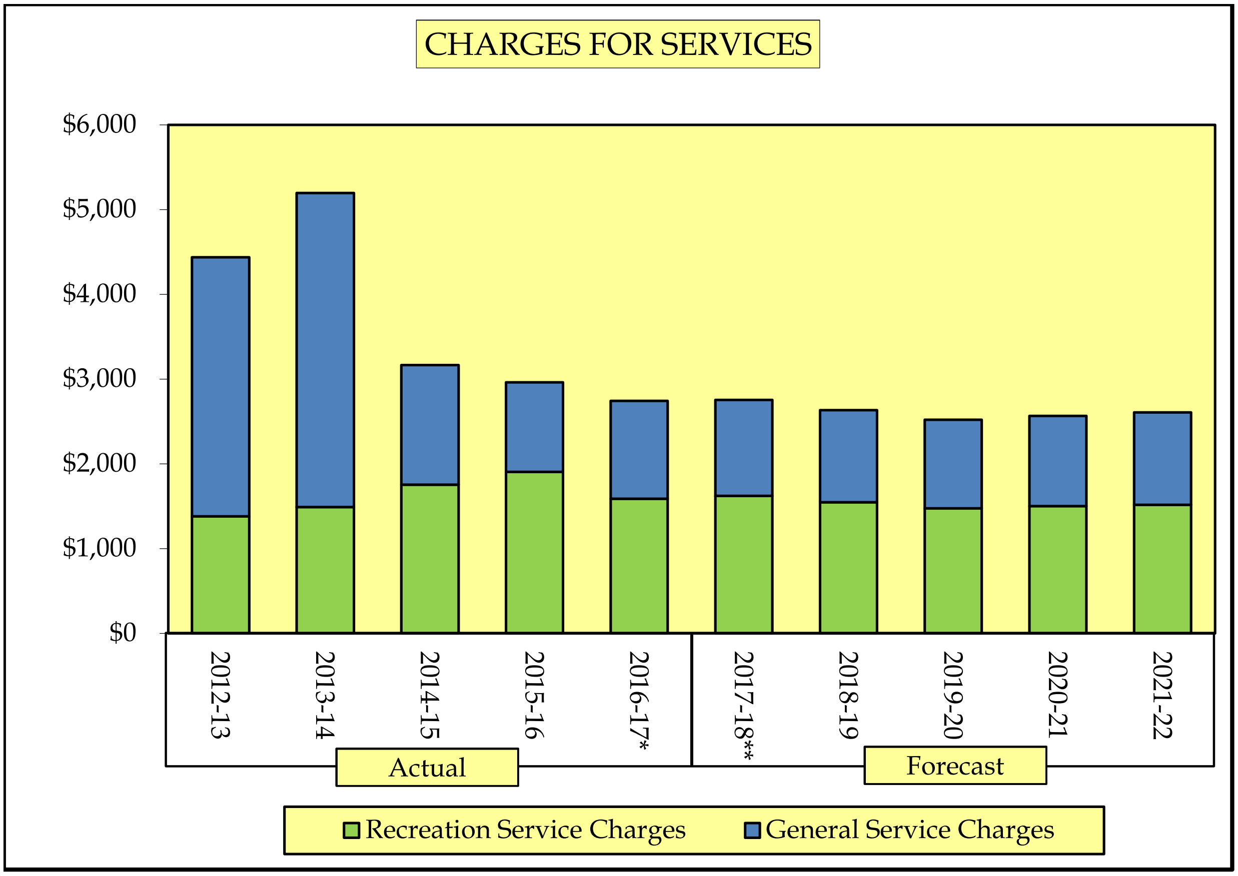
As noted earlier, effective with the Fiscal Year 2014-15 Adopted Budget, Development Services was separated from the GOF in order to facilitate better tracking and accounting and allow for an effective way to match revenues and expenditures. The separation caused the significant decline in actual revenue from Fiscal Year 2013-14 to Fiscal Year 2014-15. The remaining development-related revenue is for Heritage tree applications and reimbursement to the GOF for administrative support provided to development projects.

Total Service Charge revenue for Fiscal Year 2016-17 is estimated to exceed the adopted budget, primarily resulting from additional classes taught by contract instructors, sports facility reservations, and reimbursement of administrative support for development.

FORECAST

As the majority of Recreation enrollment payments are received late in the fiscal year, revenue for Fiscal Year 2017-18 is projected at approximately 2.0 to 3.0 percent higher than the Fiscal Year 2016-17 Adopted Budget and Estimated. Other Charges for Services revenues are also projected higher than both the Fiscal Year 2016-17 Adopted and Estimated. The remainder of the Forecast period includes a reduction during the economic downturn and slight increases for the last two Forecast years. The remainder of the Forecast period includes average annual increases of less than 2.0 percent.

On December 13, 2016, Council approved revision of the Recreation Financial Assistance Program (FAP), to a two-tier system consisting of one tier at a 90 percent subsidy up to $500 per child if their family's household income is "extremely low" or "very low" under HUD guidelines. The second tier is a 75 percent subsidy up to $400 per child if their family's household income level is "low" under HUD guidelines. In addition, City Council authorized staff to make future amendments to the FAP through amending the Master Fee Schedule as part of the City's annual budget process. This change will be implemented in September 2017, which works best with the Community Service Agency schedule of programs.



Fiscal Year		Recreation Service Charges	General Service Charges	Total Charges for Services	% Change
2012-13		1,383	3,055	4,438	11.7%
2013-14		1,491	3,705	5,196	17.1%
2014-15		1,756	1,410	3,166	(39.1%)
2015-16		1,906	1,056	2,962	(6.4%)
2016-17	*	1,590	1,153	2,743	(7.4%)
2017-18	**	1,623	1,134	2,757	0.5%
2018-19		1,549	1,084	2,633	(4.5%)
2019-20		1,477	1,043	2,520	(4.3%)
2020-21		1,504	1,064	2,568	1.9%
2021-22		1,518	1,089	2,607	1.5%

* Estimated
** Recommended
(dollars in thousands)

Fiscal Year 2015-16 includes full impact of development related revenue moved from GOF to Development Services Fund.

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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 the City.
- Miscellaneous.

ECONOMIC FACTORS

- State of the economy.
- Grant availability, City applications, and grants awarded to the City.
- 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 or the funds are received by the City.

Some reimbursement for services provided in Fiscal Year 2016-17 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:

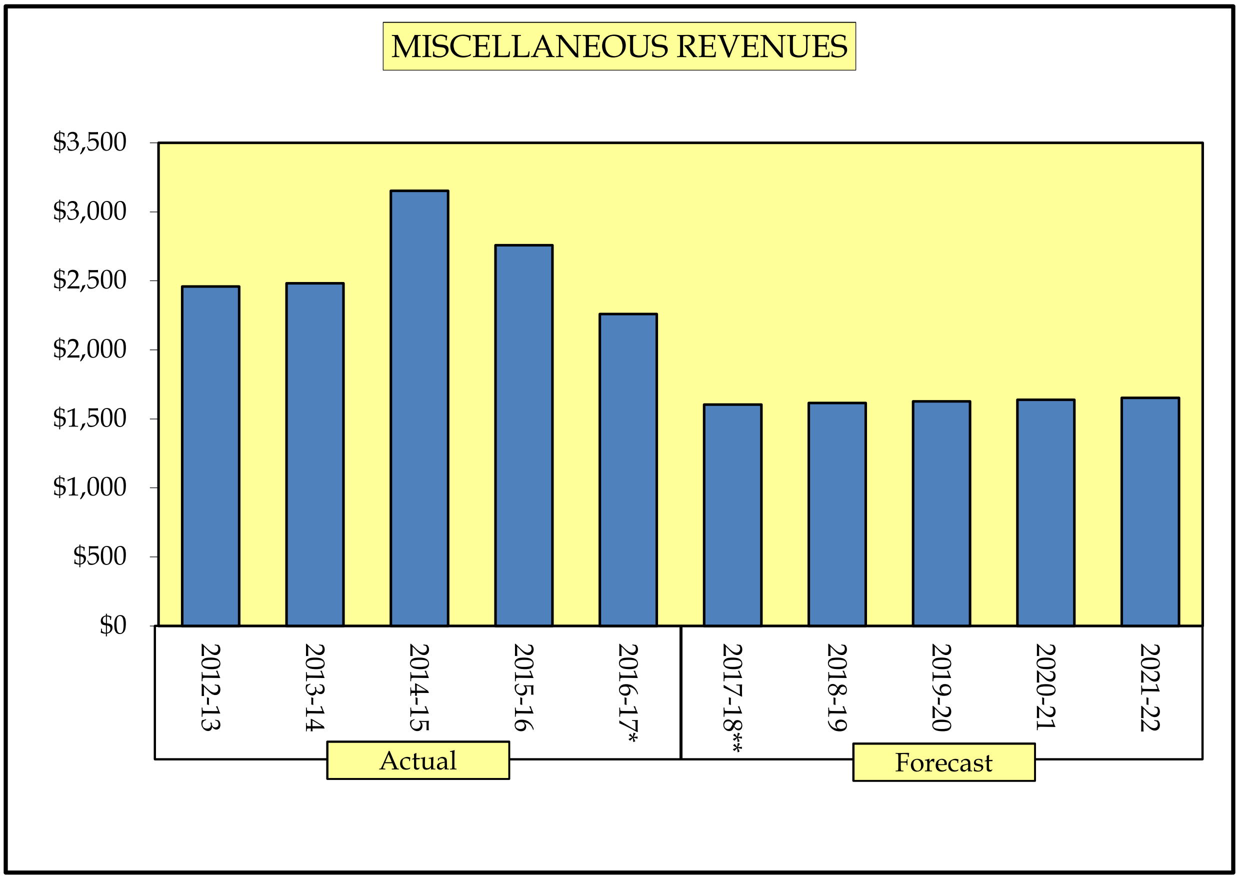
- Maintenance services to the school districts for Graham Athletic Field, Whisman Sports Complex, and Mountain View Sports Pavilion.
- Mutual-aid fire support to other cities and the State of California which are later reimbursed by the State and Federal government.
- Public safety dispatch to the Midpeninsula 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 $2.0 million annually.

FORECAST

Fiscal Year 2017-18 Miscellaneous Revenues is projected to be 1.7 percent below the Fiscal Year 2016-17 Adopted Budget and, as discussed earlier, lower than the Fiscal Year 2016-17 Estimated as a result of grants, donations, and reimbursements not budgeted. The remaining Forecast years increase less than 1.0 percent annually.



Fiscal Year		Miscellaneous Revenues	% Change
2012-13		2,459	13.9%
2013-14		2,483	1.0%
2014-15		3,152	26.9%
2015-16		2,757	(12.5%)
2016-17	*	2,259	(18.1%)
2017-18	**	1,603	(29.0%)
2018-19		1,614	0.7%
2019-20		1,626	0.7%
2020-21		1,639	0.8%
2021-22		1,651	0.7%

* 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 GOF. 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 allocation for reimbursement to the GOF. The Plan has been updated approximately every two to three years, and this revenue source accounts for approximately 12.0 percent of total GOF revenues. The most recent update of the Plan was completed and the results incorporated for Fiscal Year 2015-16.

Interfund Transfers: These vary from year to year and are both ongoing and one-time/ limited-period in nature. The Fiscal Year 2016-17 estimated includes the annual transfers from the Gas Tax and Parking District funds, and $150,000 of net operating income from Shoreline Golf Links.

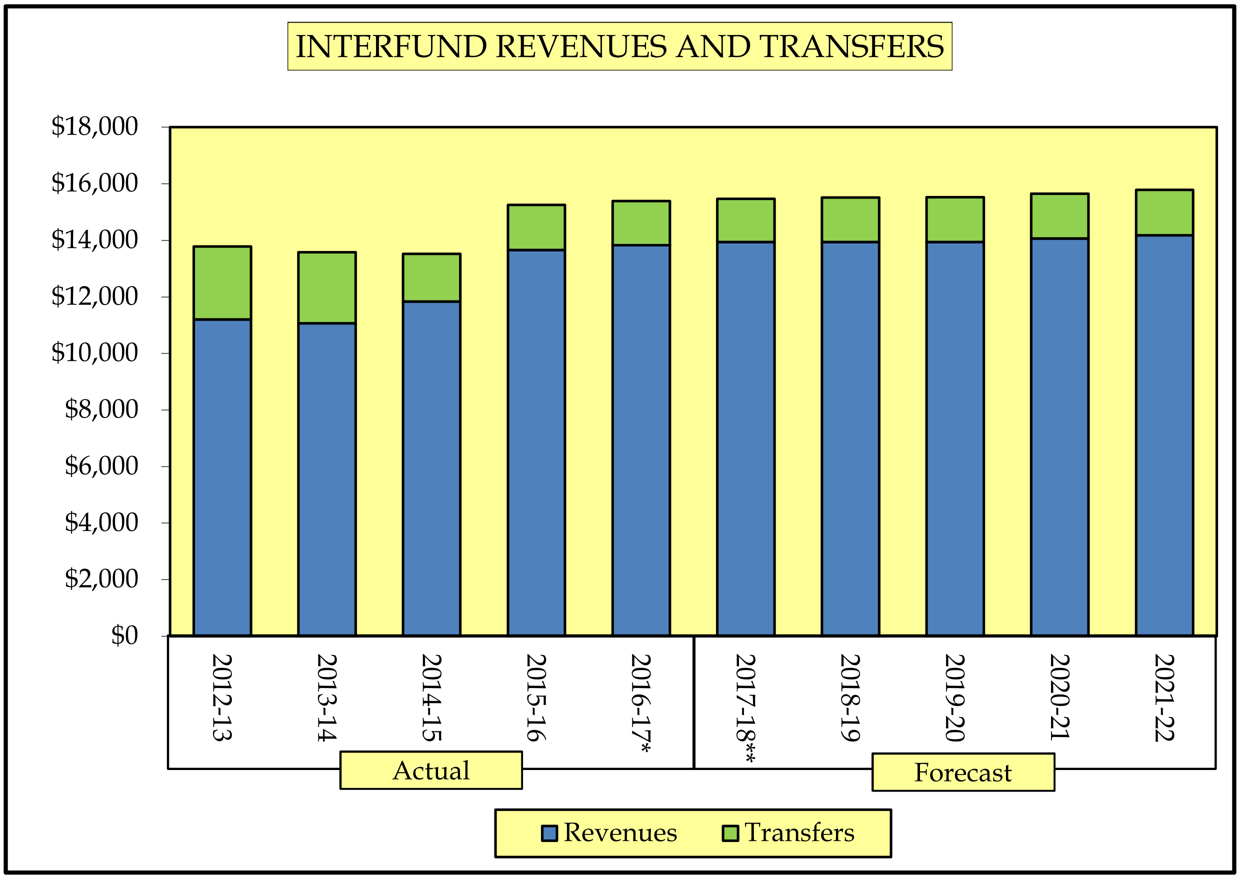
In April 2011, the City executed a long-term (52 years) ground lease with Google Inc. for the other portion of the Charleston East site which became effective in June 2011. Google remitted $30.0 million in prepaid rent to the City which is invested and generates annual investment earnings. The $30.0 million of prepaid rent was received from Google for the Charleston East site when the portfolio yield was above 2.5 percent and the average annual rate was projected at 3.5 percent for the 52 years. However, due to the recession, the FOMC reduced interest rates (and only began raising the benchmark rate beginning December 2015) and the actual investment yields have been significantly lower than the 3.5 percent originally projected. This low interest rate environment has lasted longer than anticipated; therefore, in order to preserve the principal amount of the prepaid rent, staff recommended that no funds be transferred Fiscal Years 2014-15 through 2016-17.

FORECAST

Interfund Revenues: For Fiscal Year 2017-18, Interfund Revenues include reimbursement from various funds which receive support from the GOF. The remaining Forecast period includes annual increases of less than 1.0 percent and is held level during the anticipated economic decline.

Interfund Transfers: For Fiscal Year 2017-18, Interfund Transfers include $1.3 million of reimbursement from the Gas Tax Fund, $125,000 of operating income from Shoreline Golf Links, and $108,000 of reimbursement from the Parking District. The transfer from the Lease Reserve is recommended to continue to be deferred for the remainder of the Forecast period until interest rates regain prior levels and revenues can be reevaluated.

The Forecast period includes level or slightly increasing transfers from the same funds.



Fiscal Year		Interfund Revenues	Interfund Transfers	Total Interfund Rev & Trans	% Change
2012-13		11,204	2,577	13,781	(2.5%)
2013-14		11,065	2,510	13,575	(1.5%)
2014-15		11,836	1,689	13,525	(0.4%)
2015-16		13,654	1,596	15,250	12.8%
2016-17	*	13,831	1,560	15,391	0.9%
2017-18	**	13,946	1,528	15,474	0.5%
2018-19		13,946	1,565	15,511	0.2%
2019-20		13,946	1,579	15,525	0.1%
2020-21		14,061	1,592	15,653	0.8%
2021-22		14,179	1,605	15,784	0.8%

* 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.

ECONOMIC FACTORS

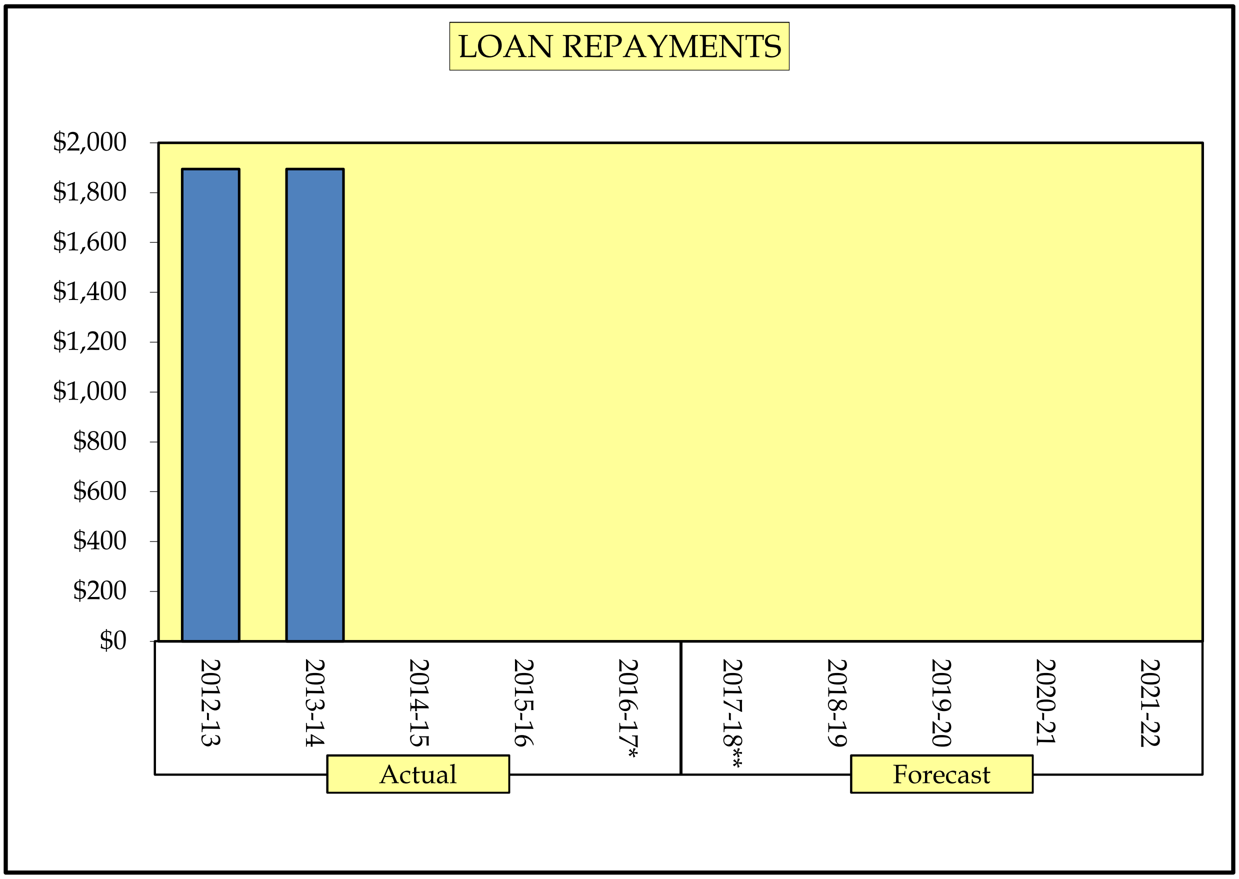
- Financial condition of the paying funds.

HISTORY

The General Fund made a series of loans to the Shoreline Regional Park Community (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. The final loan repayment was made in Fiscal Year 2015-16.

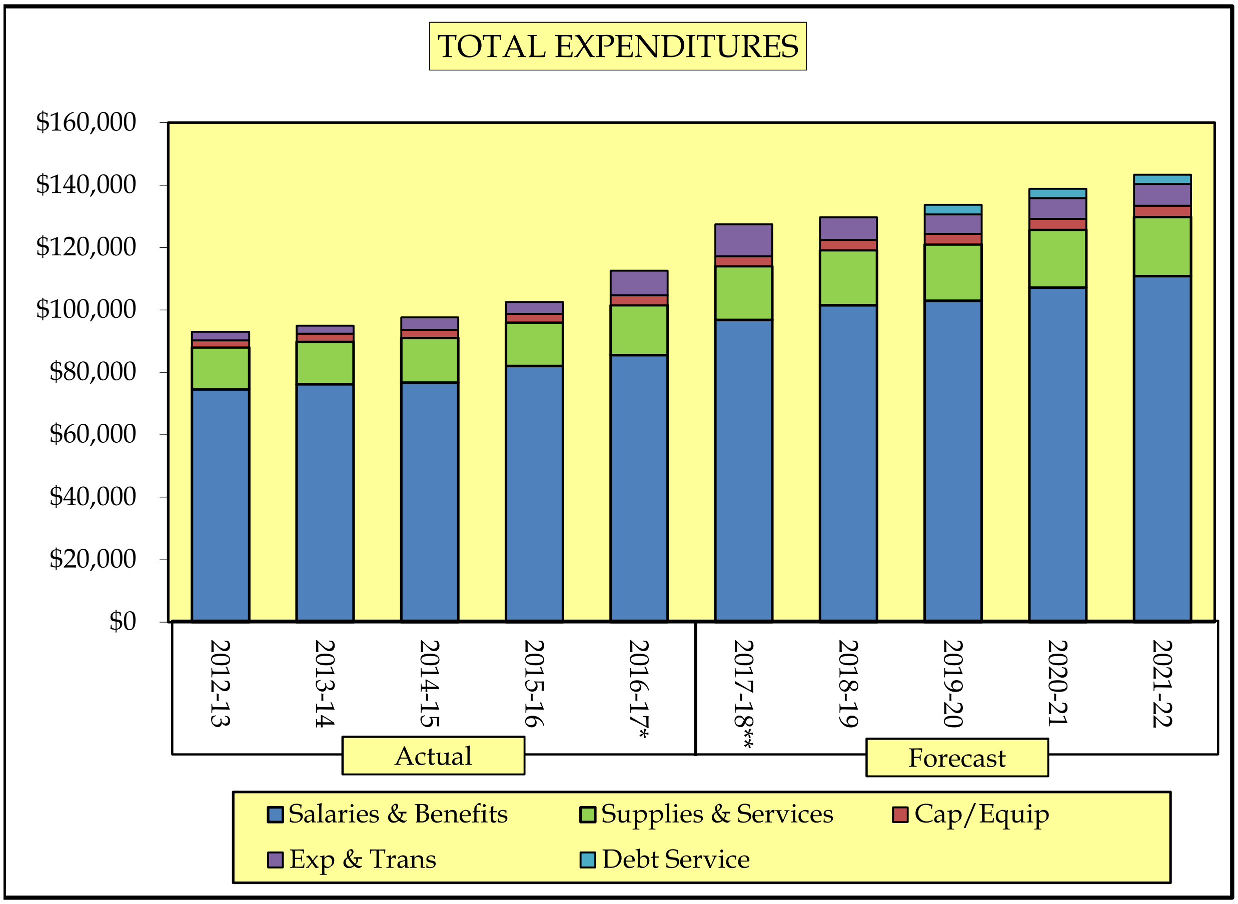
FORECAST

There are no longer any loan repayments included in the GOF.



Fiscal Year		Loan Repayments	% Change
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%
2020-21		0	0.0%
2021-22		0	0.0%

* Estimated
** Recommended
(dollars in thousands)



Fiscal Year		Total Expenditures	% Change
2012-13		93,041	2.7%
2013-14		94,933	2.0%
2014-15		97,677	2.9%
2015-16		102,590	5.0%
2016-17	*	112,608	9.8%
2017-18	**	127,426	13.2%
2018-19		129,752	1.8%
2019-20		133,660	3.0%
2020-21		138,828	3.9%
2021-22		143,375	3.3%

* Estimated
** Recommended
(dollars in thousands)

The Fiscal Year 2017-18 recommended expenditures and all forecast years do not include the projected operating budget savings.

SALARIES AND BENEFITS

The Salaries and Benefits category makes up the largest component of GOF expenditures and represents all personnel-related costs.

CATEGORIES

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

HISTORY

The City is essentially a service organization, based on the efforts of our employees. 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 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, Confidential, and Front-Line positions. The outcome of negotiations with each group is a major factor in salary and benefit costs.

Since Fiscal Year 2000-01, there have been two downturns in the economy resulting in a net reduction of approximately 70.0 positions and other employee compensation cost containment. During Fiscal Year 2011-12, the City negotiated three-year contracts with all employee groups that expired June 30, 2015. From Fiscal Year 2009-10 to Fiscal Year 2013-14 a salary freeze was in effect for two to four years, depending on the employee group. Additional cost-containment measures that became effective for Fiscal Year 2012-13 for all or some of the employee groups included 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.

Pension costs have increased dramatically since 2000, when they were $2.9 million (4.7 percent of GOF expenditures), compared to $14.7 million (13.3 percent of GOF expenditures) adopted for Fiscal Year 2016-17. 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 2016-17, cost shares range from 10.5 percent to 17.366 percent, depending on the employee group.

In 2012, structural changes were adopted Statewide with the Public Employees' Pension Reform Act (PEPRA). For new employees hired on January 1, 2013 and thereafter, reduced benefit formulas and increased retirement ages became effective. However, the changes resulting from pension reform will likely not be realized for 10 years or more, until there are a majority of employees under the new formula.

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

- In March 2012, the CalPERS 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 CalPERS Board adopted recommendations of the Chief Actuary that changed the methodology for the amortization and smoothing of rates. Overall, the 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 reflected in the employer rates beginning in Fiscal Year 2015-16.

- On February 18, 2014, the CalPERS 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 is reflected in the employer rates beginning in Fiscal Year 2016-17.

- On November 18, 2015, the CalPERS Board adopted an approach to mitigate future rate volatility. The Funding Risk Mitigation Policy includes attributes of the flexible glide path methodology, a lowering of the discount rate, and expected investment volatility following a great investment return with reviews to allow the ongoing monitoring and assessing of the progress toward reducing risk and investment volatility in the funding of the pension system.

- On December 21, 2016, the CalPERS Board approved the lowering of the discount rate from 7.5 percent to 7.0 percent. The reduction is to be phased in over three years beginning in Fiscal Year 2018-19 for local governments with the full impact reached in Year 7 (Fiscal Year 2024-25) due to the five-year ramp-up and ramp-down methodology previously adopted. CalPERS has indicated the reduction will result in employer normal costs rate increases between 1.0 percent and 3.0 percent of payroll for most miscellaneous plans and increases of 2.0 percent to 5.0 percent for most safety plans. In addition, CalPERS is estimating an increase of 30.0 percent to 40.0 percent in unfunded accrued liability (UAL) annual payments.

These actions have been adopted to maintain the financial sustainability of the pension fund; however, these actions result in higher rates for the City. The City Council has approved additional contributions from the General Fund totaling $7.5 million from a combination of carryover funds and budgets since Fiscal Year 2014-15 through Fiscal Year 2016-17. The GOF represents approximately 80.0 percent of the total CalPERS contribution; therefore, additional contributions from the Other Funds, proportional to the GOF contribution, were also included in the Fiscal Years 2015-16 and 2016-17 Adopted Budgets.

FORECAST

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

Fiscal Years 2017-18 and 2018-19 include sustainable COLAs as placeholders in anticipation of labor negotiations currently in progress with the MVFF, POA, EAGLES, and SEIU represented labor groups and for all other groups. There are no COLAs for the remaining Forecast years as additional COLAs are not sustainable based on current projections. All Forecast years include step and merit increases.

Fiscal Year 2017-18 medical insurance rates are projected to increase 6.0 percent to 10.0 percent (depending on the health plan), for the second half of the fiscal year and dental rates are projected to increase 2.0 percent. The remaining Forecast years assume medical rates will increase 6.0 percent to 10.0 percent annually (depending on the health plan) and dental rates will continue to increase by 2.0 percent annually.

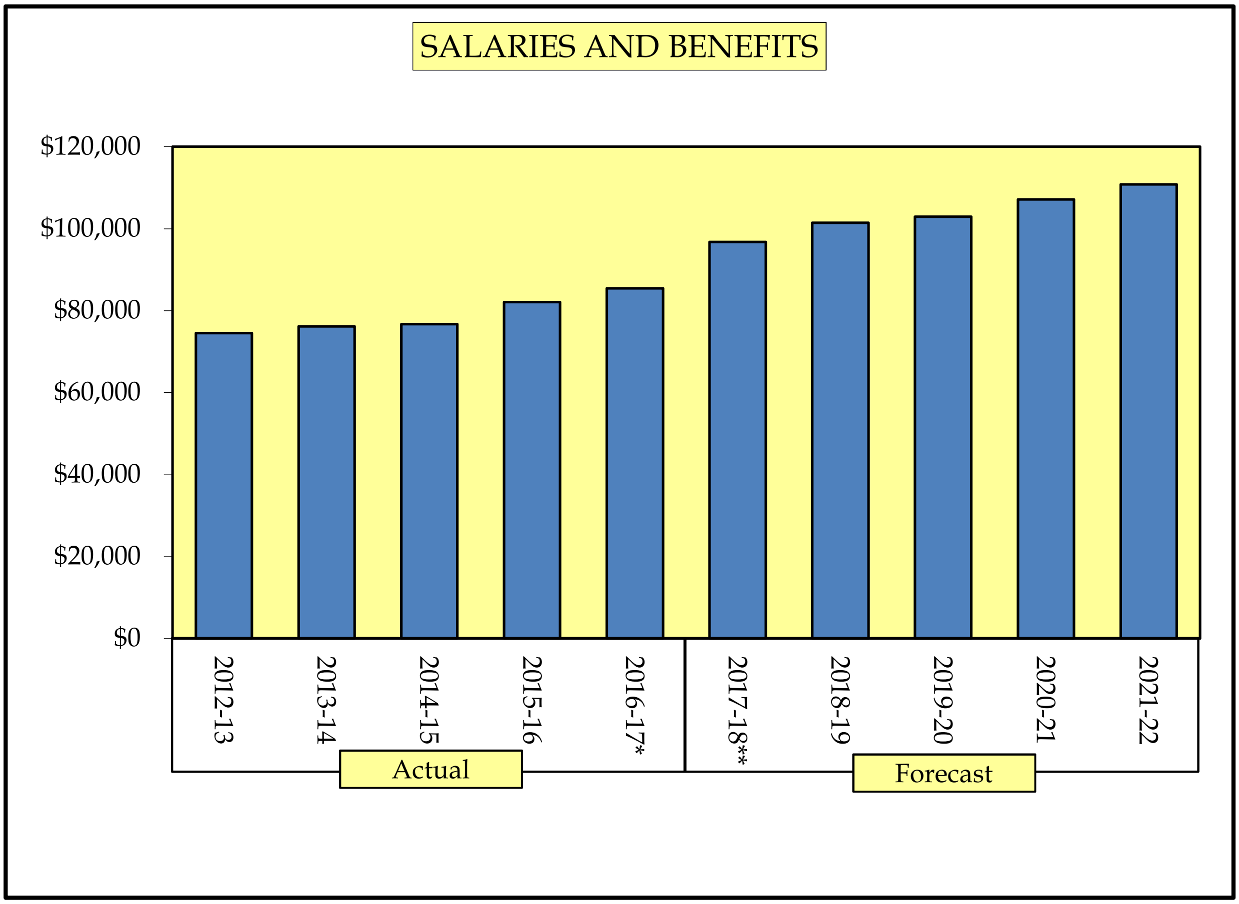
For Fiscal Year 2017-18, retirement benefit costs, overall, are projected to increase 10.8 percent compared to the Fiscal Year 2016-17 Adopted Budget. In Fiscal Years 2018-19 through 2021-22, the annual increases are projected at 15.4, 10.7, 13.7, and 10.1 percent, respectively, which includes an estimated increase for the change in discount rate by CalPERS. The impact of the discount rate change is reflected in the table of projected employer rates below.

As a result of the discount rate change, pension costs are projected to increase in Fiscal Year 2018-19 by $684,000 and to an annual increase of $4.6 million by the end of the Forecast period. The projected increase continues to rise until Fiscal Year 2024-25, after full implementation the annual increase is projected to be $8.6 million. Staff is recommending a strategy to pay down the unfunded CalPERS pension obligation. Staff is currently recommending additional contributions of $6.0 million from reserves and the Fiscal Year 2016-17 carryover, $4.0 million in Fiscal Year 2017-18, and $2.0 million in Fiscal Years 2018-19 to reduce this unfunded liability (see Attachment 1). Contributions from other funds for their share of this liability are also included. The chart in the Revenue and Expenditure Overview Section of the Forecast provides detailed amounts for each fiscal year.

Below are the projected employer rates provided in the June 30, 2015 CalPERS actuarial valuations (most recent valuation available), adjusted for the estimated impact due to the change in discount rate.

	FY 2016-17	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**
Miscellaneous	26.77	27.737	30.712	33.668	37.085	38.793
Safety[1]	38.643	41.107	45.382	49.623	54.695	57.016

[1] The CalPERS Safety rate is a blended rate that reflects the impact of the Fire cost share contributed as member contributions.



Fiscal Year		Salaries and Benefits	% Change
2012-13		74,561	2.8%
2013-14		76,198	2.2%
2014-15		76,707	0.7%
2015-16		82,073	7.0%
2016-17	*	85,497	4.2%
2017-18	**	96,795	13.2%
2018-19		101,482	4.8%
2019-20		102,918	1.4%
2020-21		107,135	4.1%
2021-22		110,831	3.4%

* Estimated
** Recommended
(dollars in thousands)

Fiscal Years 2015-16, 2016-17, and 2018-19 include an additional $2.0M CalPERS contribution and Fiscal Year 2017-18 includes an additional $4.0M CalPERS contribution.

SUPPLIES AND SERVICES

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

CATEGORIES

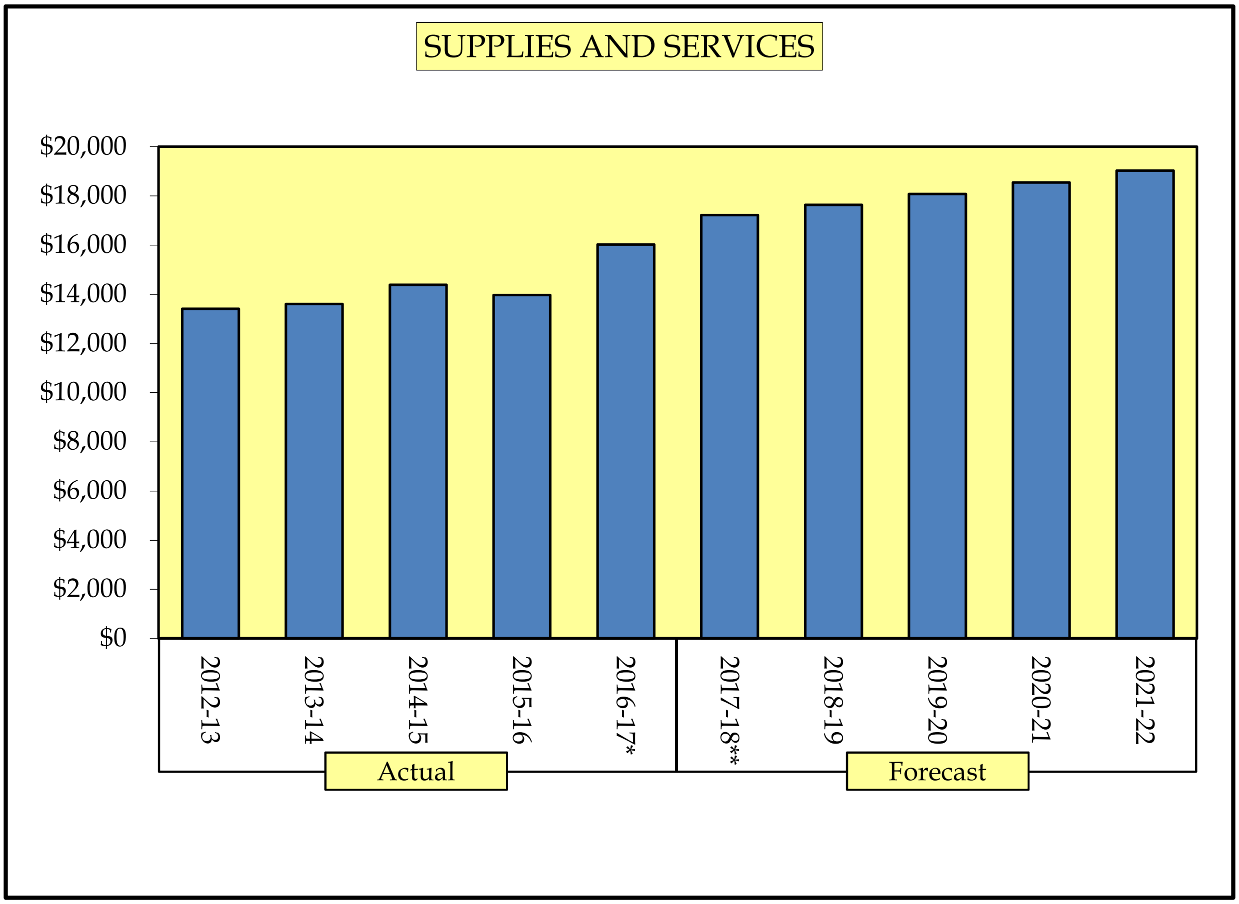
- Materials and Supplies.
- Maintenance and Operations.
- Utilities.
- Professional/Technical Services.
- Training, Conference, and Travel.
- Miscellaneous Expenditures.

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 recessionary times.

FORECAST

Fiscal Year 2017-18 (including recommended discretionary and nondiscretionary increases) is increasing $1.0 million (6.4 percent) compared to the Fiscal Year 2016-17 Adopted. Over half of the increase is related to City utilities (including PG&E and clean energy), and Microsoft licensing. The remainder of the Forecast period includes average annual increases of 2.5 percent to 3.8 percent.



Fiscal Year		Supplies and Services	% Change
2012-13		13,414	3.9%
2013-14		13,608	1.4%
2014-15		14,386	5.7%
2015-16		13,969	(2.9%)
2016-17	*	16,032	14.8%
2017-18	**	17,218	7.4%
2018-19		17,641	2.5%
2019-20		18,076	2.5%
2020-21		18,547	2.6%
2021-22		19,032	2.6%

* Estimated
** 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 GOF, 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

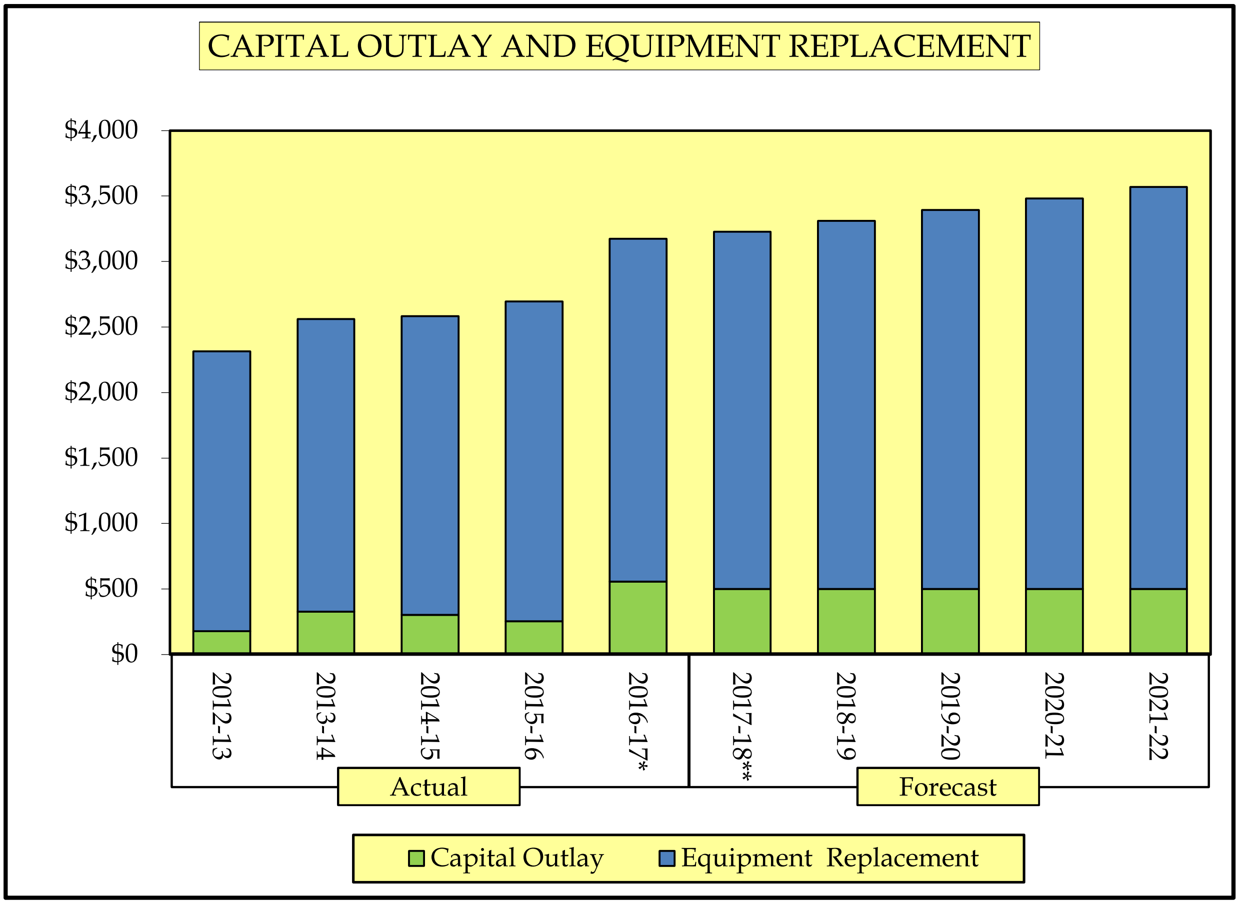
Capital Outlay: Since Fiscal Year 1993-94, annual expenditures have grown as a result of an increased level of technology and related equipment, an increase in the number and quality of safety vehicles, and the addition of hybrid vehicles to the fleet. This category is also influenced by the economic condition impacting the GOF and has 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 2016-17, capital outlay was funded at $405,000.

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 General Fund carryover. Beginning in Fiscal Year 2009-10, the full share of funding is budgeted in the GOF. The Fiscal Year 2016-17 contribution to Equipment Replacement was adopted at $2.6 million.

FORECAST

Capital Outlay: For Fiscal Year 2017-18, recommended capital outlay items total $493,900, and annual funding of $500,000 is included as the base level of funding for the Forecast period.

Equipment Replacement: The GOF contribution for Fiscal Year 2017-18 is increasing 4.2 percent to $2.7 million and the remainder of the Forecast period includes annual increases of 3.0 percent, continuing full funding of the GOF's share of equipment replacement.



Fiscal Year		Capital Outlay	Equipment Replacement	Total Capital Outlay & Equip. Replcmnt.	% Change
2012-13		178	2,137	2,315	1.4%
2013-14		327	2,235	2,562	10.7%
2014-15		303	2,279	2,582	0.8%
2015-16		254	2,442	2,696	4.4%
2016-17	*	557	2,618	3,175	17.8%
2017-18	**	500	2,728	3,228	1.7%
2018-19		500	2,810	3,310	2.5%
2019-20		500	2,894	3,394	2.5%
2020-21		500	2,981	3,481	2.6%
2021-22		500	3,070	3,570	2.6%

* Estimated
** Recommended
(dollars in thousands)

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INTERFUND EXPENDITURES AND TRANSFERS

This category includes Self-Insurance funding and Interfund Transfers. Self-Insurance represents the GOF's share of insurance costs accounted for in the Internal Service Funds such as General Liability, Retirees' Health, and Vision Care. Special Funds and the Enterprise Funds also contribute to self-insurance. Interfund Transfers includes any transfers from the GOF to another fund (with the exception of the Equipment Replacement Transfer).

CATEGORIES

- General Liability.
- Vision Care.
- Retirees' Health Program.
- Strategic Property Acquisition.
- Housing.

HISTORY

General Liability: In Fiscal Year 1993-94, the City joined a liability insurance pool (ACCEL) with other select medium-sized 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.

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 for by the Employee Benefits Fund. The annual cost of this program is allocated to all operating funds.

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* (OPEB)—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. The Retirees Health program encompasses annual funding of the normal cost (NC), annual self-insurance funding of the unfunded actuarial accrued liability (UAAL) and periodically includes additional funding transfers from the GOF. An actuarial report was completed and beginning in Fiscal Year 2006-07, the calculated 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 UAAL. The combined NC and the amortization of the UAAL represents the annual required contribution (ARC). The City has committed to contributing the ARC on an annual basis. The actuarial valuation is required to be updated every two years and was most recently updated as of July 1, 2015.

In February 2008, Council approved an agreement authorizing the City's participation in the CalPERS-administered California Employers' Retiree Benefit Trust (CERBT) Fund, and in February 2009, the City began depositing funds into the CERBT. The balance in the CERBT as of June 30, 2017 is estimated to be $107.9 million. All funds except the GOF have contributed their full share of the actuarial accrued liability, and continue to fund their full share as valuations are updated. The City Council has approved additional General Fund contributions totaling $6.5 million from the Fiscal Years 2014-15 through 2016-17. As part of the agreement for Public Safety to move to the CalPERS Health Care system, Public Safety employees are contributing an ongoing 1.2 percent of salary towards the OPEB liability.

<u>Housing</u>: As a result of the dissolution of the former Revitalization Authority (RDA), the GOF now receives its share of the former RDA property taxes. For the past two fiscal years, 20.0 percent of the GOF share has been appropriated for low- and moderate-income housing as limited-period funding in the General Non-Operating Fund. As directed by Council at the Fiscal Year 2016-17 Narrative Budget Study Session, the Adopted Budget includes an annual transfer of these property taxes, in the amount of $51,000, to the Housing Fund. In addition, the balance of prior fiscal year funds is transferred from General Non-Operating Fund to the Housing Fund in the Fiscal Year 2016-17 Adopted Budget.

<u>General Non-Operating Fund (GNOF)</u>: As directed by the City Council at the Fiscal Year 2016-17 budget public hearing, the Adopted Budget includes a transfer of $500,000 to the GNOF to fund a one-time employee bonus, recruitment strategies and employee engagement activities, and a new limited-term Communications Training Supervisor position.

<u>Strategic Property Acquisition Reserve (SPAR)</u>: The City has successfully leveraged City-owned property for ongoing revenues, and setting aside available resources in the

SPAR could assist in obtaining future strategic properties. The Fiscal Year 2016-17 Adopted Budget includes a transfer of $2.0 million to the SPAR in order to increase the available funding for future property investment.

FORECAST

General Liability: The Fiscal Years 2017-18 through 2021-22 projections are based on maintaining the minimum policy level for reserve balances. The City currently has a $1.0 million SIR, but this could be increased to $2.0 million in the near future. For Fiscal Year 2017-18, the GOF is contributing $1.1 million for the cost of claims and administering the program, a 10.0 percent increase over Fiscal Year 2016-17 Adopted. The remainder of the Forecast period includes 3.0 percent annual increases.

Vision Care: The GOF's contribution is to fund vision coverage for employees and retirees with Health Net coverage and safety glasses for employees and is the same level as Fiscal Year 2016-17 Adopted.

Retirees' Health Insurance Program: Fiscal Year 2017-18 includes $2.3 million for the UAAL amortization. The remaining Forecast years use projections based on information provided for in the July 1, 2015 valuation for the UAAL amortization. Included in Fiscal Year 2017-18 is an additional $2.0 million to be transferred from the GOF to raise the funding status of this liability. The chart in the Revenue and Expenditure Overview Section of this Forecast provides detailed amounts for each fiscal year.

As stated previously, between July 1, 2013 and July 1, 2015, the Actuarial Accrued Liability (AAL) increased from $101.9 million to $123.8 million. The actuarial as of July 1, 2015 provides a forecasted AAL of $137.4 million for Fiscal Year 2017-18. The valuation will be updated as of July 1, 2017, past updates have increased the AAL as assumptions are reconciled with actual experience. GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions* will be effective with the fiscal year ending June 30, 2018. The difference between the pay-as-you-go premiums and the ARC will be deposited into the CERBT on an annual basis.

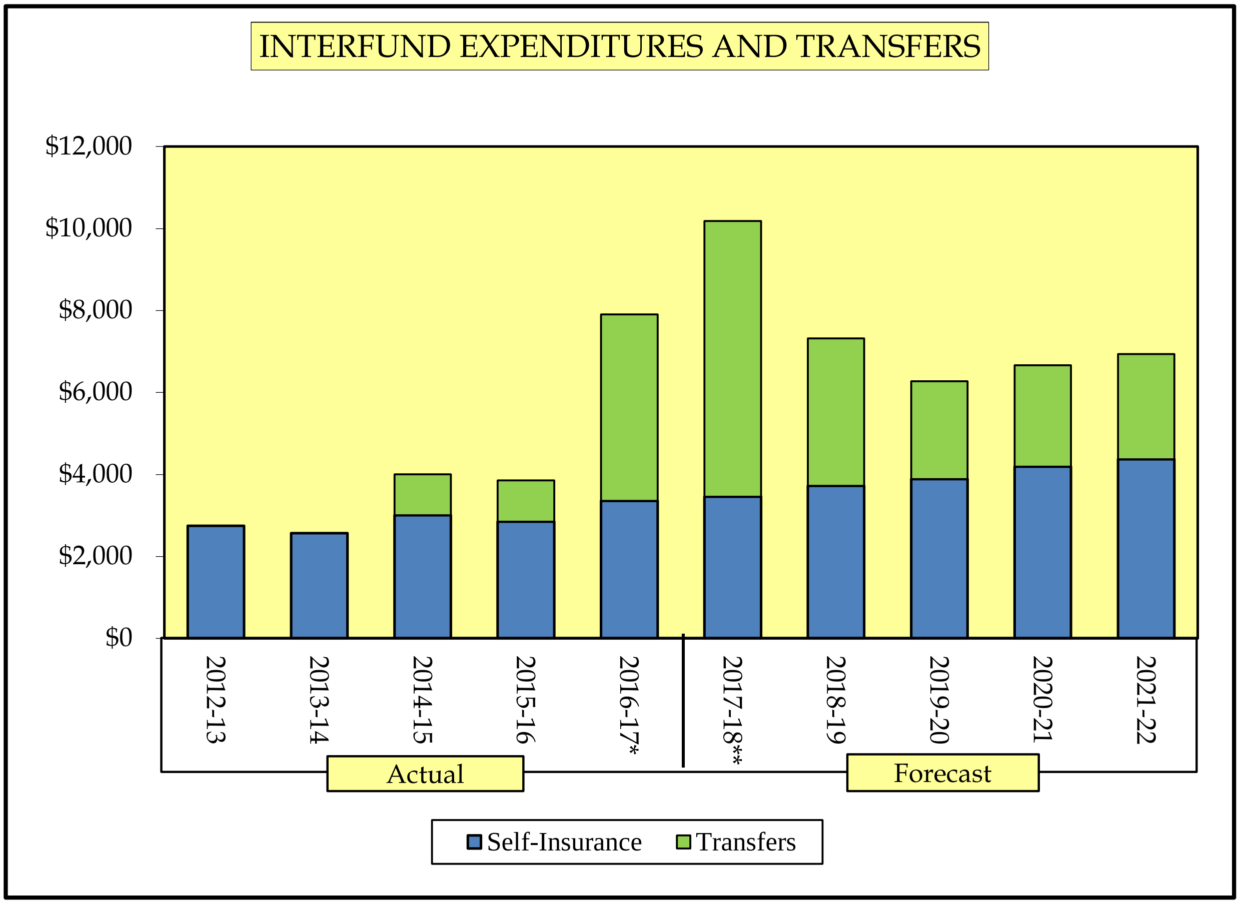
Housing: As a result of the dissolution of the former Revitalization Authority (RDA), the GOF now receives its share of the former RDA property taxes. An annual transfer of these property taxes, in the amount of $51,000, to the Housing Fund is included for the duration of the Forecast period.

Strategic Property Acquisition Reserve (SPAR): The City has successfully leveraged City-owned property for ongoing revenues, and setting aside available resources in the

SPAR could assist in obtaining future strategic properties. A transfer of $2.0 million to the SPAR is included for Fiscal Year 2017-18 in order to increase the available funding for future property investment.

Budget Contingency: Revenue from the Ameswell (Moffett Gateway) property is projected to begin in Fiscal Year 2017-18 and the full projected annual revenue, after a few years of operations, is estimated at over $4.0 million. This revenue is recommended to be earmarked for debt service related to the Police/Fire Administration Building Remodel and Expansion (see next Debt Service section). Staff proposes the revenue received in the fiscal years prior to the beginning of debt service be used for a limited-period need. Fiscal Years 2017-18 and 2018-19 include transfers in the amount of $755,400 and $1.3 million, respectively, to the Budget Contingency Reserve.

Capital Improvement Reserve: By the end of Fiscal Year 2017-18, the decennial revaluation process will have been completed for the three City-owned land leases between the City and Google. Based on the actual revaluation of two sites and an estimated revaluation of the third site, annualized rent payments are estimated to increase approximately $7.7 million. It is probable that during the timespan before the next decennial adjustment in April 2026, there will be at least one economic downturn. If a downturn occurs when a revaluation occurs, the lease revenues to the City could decline. Staff reviewed the changes in AV for the past 13 years and identified a potential 15.0 percent loss in secured AV in the event of an economic downturn. Therefore, in Fiscal Year 2017-18, the potential decline in revenues, calculated at $1.9 million, is recommended to not be dedicated to ongoing operations and instead transferred to the Capital Improvement Reserve to fund projects in Fiscal Year 2018-19 or later.



Fiscal Year		Self Insurance	Transfers	Total SI & Transfers	% Change
2012-13		2,751	0	2,751	(4.3%)
2013-14		2,565	0	2,565	(6.8%)
2014-15		3,002	1,000	4,002	56.0%
2015-16		2,852	1,000	3,852	(3.7%)
2016-17	*	3,353	4,551	7,904	105.2%
2017-18	**	3,457	6,728	10,185	28.9%
2018-19		3,723	3,596	7,319	(28.1%)
2019-20		3,885	2,387	6,272	(14.3%)
2020-21		4,189	2,476	6,665	6.3%
2021-22		4,374	2,568	6,942	4.2%

* Estimated
** Recommended
(dollars in thousands)

Fiscal Years 2014-15 and 2015-16 include an additional $1.0M and Fiscal Years 2016-17 and 2017-18 include an additional $2.0M OPEB contribution above the full funding of the amortization of the UAAL. Fiscal Years 2016-17 and 2017-18 include a $2.0M transfer to the Strategic Property Acquisition Reserve. Fiscal Years 2017-18 and 2018-19 include transfers of Ameswell development revenue, $755,400 and $1.3 million respectively, to the Budget Contingency Reserve.

DEBT SERVICE

The Debt Service category represents the GOF's debt payment obligations.

CATEGORIES

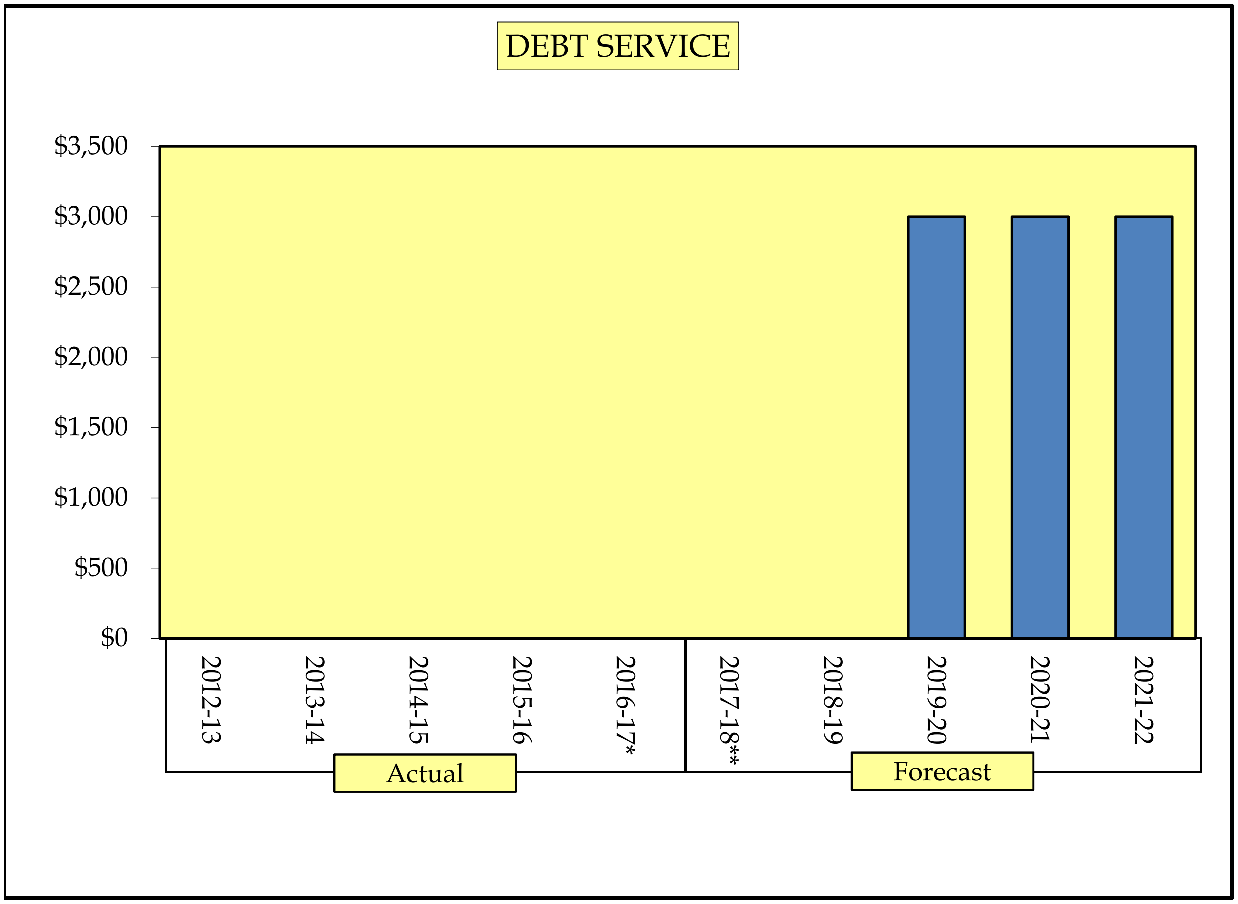
- Police/Fire Building.

HISTORY

The GOF 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. This debt was fully retired in Fiscal Year 2015-16.

FORECAST

The Forecast assumes revenue generated from the Ameswell (Moffett Gateway) development is earmarked for the Police/Fire Administration Building Remodel and Expansion. It is assumed debt will be issued for the project and annual debt service payments of approximately $3.0 million have been included as a placeholder beginning in Fiscal Year 2019-20.



Fiscal Year		Debt Service	% Change
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		0	0.0%
2019-20		3,000	100.0%
2020-21		3,000	0.0%
2021-22		3,000	0.0%

* Estimated
** Recommended
(dollars in thousands)

GENERAL OPERATING FUND HISTORY
(dollars in thousands)

	2007-08 AUDITED	2008-09 AUDITED	2009-10 AUDITED	2010-11 AUDITED	2011-12 AUDITED	2012-13 AUDITED	2013-14 AUDITED	2014-15 AUDITED	2015-16 AUDITED
REVENUES:									
Property Taxes	23,681	25,647	26,017	25,142	26,216	28,122	31,120	35,173	39,461
Sales Tax	17,273	16,264	15,242	15,502	15,940	16,744	16,936	19,773	21,401
Other Local Taxes[1]	10,338	9,242	9,144	9,870	10,774	12,015	13,089	14,805	15,137
Use of Money and Property	11,165	11,480	10,881	10,290	10,138	10,783	10,690	10,928	12,219
Other Revenues[2]	23,623	23,270	23,072	24,361	27,079	27,253	28,316	26,261	27,693
Loan Repayments	2,060	2,060	2,060	2,075	1,894	1,894	1,894	-0-	-0-
TOTAL REVENUES	88,140	87,963	86,416	87,240	92,041	96,811	102,045	106,940	115,911
EXPENDITURES:									
Salaries and Benefits	63,374	68,091	69,549	69,007	72,537	74,561	76,198	76,707	80,073
Supplies and Services	13,567	13,155	11,933	12,226	12,910	13,414	13,608	14,386	13,969
Capital Outlay/ Equipment Replacement	1,777	1,504	2,213	2,253	2,282	2,315	2,562	2,582	2,696
Interfund Expenditures and Transfers	2,082	809	2,441	2,674	2,876	2,751	2,565	3,002	2,852
Debt Service	1,016	1,020	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL EXPENDITURES	81,816	84,579	86,136	86,160	90,605	93,041	94,933	96,677	99,590
CalPERS Contribution	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(2,000)
OPEB Contribution	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(1,000)	(1,000)
OPERATING BALANCE[3]	6,324	3,384	280	1,080	1,436	3,770	7,112	9,263	13,321

1 Other Local Taxes consists of Transient Occupancy Tax, Business Licenses, and Utility Users Tax.

2 Other Revenues consists of Licenses, Permits and Fees; Fines and Forfeitures; Intergovernmental; Charges for Services; Miscellaneous Revenue; and Interfund Revenues and Transfers.

3 Balance prior to changes in assets and liabilities, encumbrances, and rebudgets for grants and donations, net transferred to General Non-Operating Fund and General Fund Reserve.

HA/3/FIN/530-04-27-17GOFFY-E

Attachment