CITY OF MOUNTAIN VIEW

MEMORANDUM

Finance and Administrative Services Department

DATE: May 1, 2018

TO: City Council

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VIA: Daniel H. Rich, City Manager

SUBJECT: General Operating Fund 10-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.

A 5-Year Financial Forecast is prepared annually and a longer range 10-year Financial Forecast is prepared periodically and presented to the City Council during the budget process. This report is a 10-Year Financial Forecast (Forecast) for the time period of Fiscal Years 2018-19 through 2027-28. The last 10-year 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 is intended to provide a foundation for the City Council's decision making for Fiscal Year 2018-19 budget deliberations. The Forecast is for the General Operating Fund (GOF), which provides funding 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

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 2018-19 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.

The City is fortunate to be experiencing strong revenue growth, with economists currently believing the regional fundamentals are strong and are not forecasting a downturn in the economy over the next 12 to 18 months, with certain caveats. Historically, recessions have generally occurred between 3 and 9 years, post-World War II, with the longest period of expansion lasting 10 years, from 1991 to 2001. It has been approximately 9 years since the end of the last recession (June 2009); however, the recovery has been long and slow and, therefore, it appears this expansion could surpass the expansion of the 1990s. A table of previous recessions is as follows:

Name	Period Range	Duration (months)	Time Since Previous Recession (years)
Recession of 1949	Nov. 1948-Oct. 1949	11	3.1
Recession of 1953	July 1953-May 1954	10	3.8
Recession of 1958	Aug. 1957-Apr. 1958	8	3.3
Recession of 1960-1961	Apr. 1960-Feb. 1961	10	2.0
Recession of 1969-1970	Dec. 1969-Nov. 1970	11	8.8
1973-1975 Recession	Nov. 1973-Mar. 1975	16	3.0
1980 Recession	Jan. 1980-July 1980	6	4.8
1981-1982 Recession	July 1981-Nov. 1982	16	1.0
Early 1990s Recession	July 1990-Mar. 1991	8	7.7
Early 2000s Recession	Mar. 2001-Nov. 2001	8	10.0
Great Recession	Dec. 2007-June 2009	18	6.1

Although it is uncertain when the next economic slowdown will occur, based on history, it is certain there will be another recession sooner or later; therefore, it is assumed there will be a recession during the Forecast period. While staff had previously included a slowdown in Fiscal Year 2018-19, based on more recent economic information, the City's Forecast now assumes that the next recession will occur in Fiscal Year 2020-21 and continue into Fiscal Year 2021-22.

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 $2.3 million annual budget savings, indicates revenues will exceed expenditures through Fiscal Year 2020-21 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 2021-22 through 2027-28.

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 first year 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.

Influencing Factors

There are factors which influence 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.

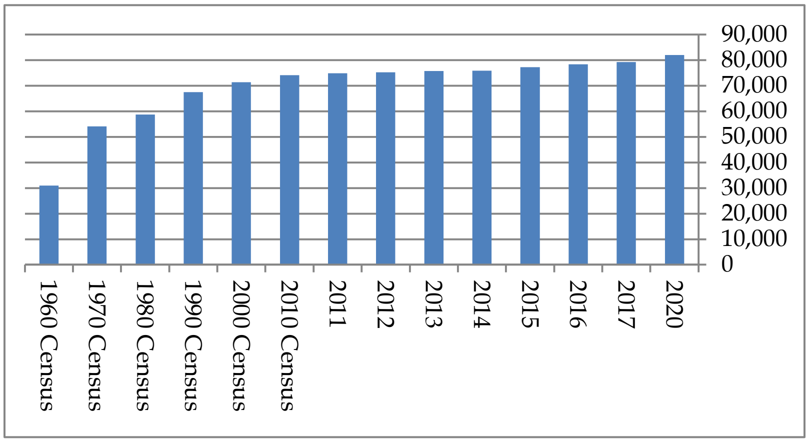
Population

The following chart shows historical population annually for the past seven 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 estimate as of January 1, 2017 is 79,278, 7.0 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 (as of 2013). After 2020, it is expected it will grow more rapidly, with the possibility of 15,000 additional housing units.

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	74,895
2012	75,188
2013	75,688
2014	75,907
2015	77,250
2016	78,396
2017	79,278
2020 Forecast	81,992

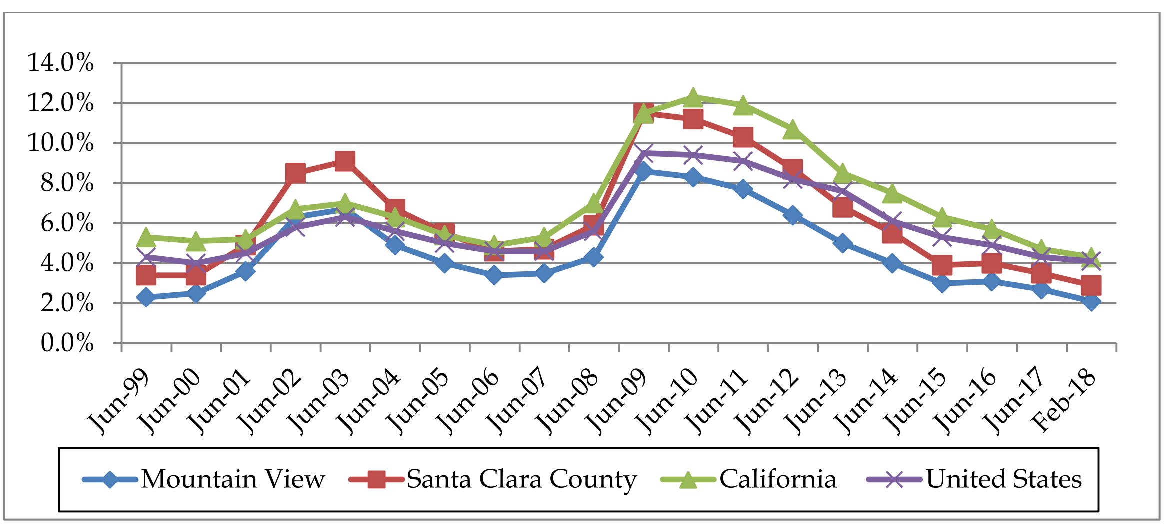


Sources: U.S. Census Bureau (1960-2010)
Association of Bay Area Governments most recent projection as of 2013 (2020)
California State Department of Finance estimates as of January 1 (all other years)

<u>Unemployment</u>

As detailed in the chart below, Mountain View's unemployment level has been below the County of Santa Clara (County), State, and nation, except during the recession of the early 2000s, which hit Silicon Valley the hardest. As of February 2018, the preliminary unemployment rate in the City is at 2.1 percent, lower than the prerecession rate and well below the County (2.9 percent), the State (4.3 percent), and the nation (4.1 percent).

Unemployment Rate—1999-2018



State of California

The Governor's Fiscal Year 2018-19 Proposed Budget Summary maintains a balanced budget for the foreseeable future under current projections and will also bring the "Rainy Day Fund" to the maximum level allowed under the State Constitution. The proposed budget includes funding increases for K-12 schools, community colleges, and infrastructure projects.

ANALYSIS

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 2018-19 revenues are projected, including recommendations, to increase $9.4 million (7.3 percent) compared to Fiscal Year 2017-18 adopted revenues and $3.0 million (2.2 percent) compared to the Fiscal Year 2017-18 estimated revenues.

The City is in a strong financial position with an annual surplus projected for the next few fiscal years, the result of increased revenues generated by continued economic growth. 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 generate additional ongoing revenues for the City. The revaluation of the long-term ground lease for the Charleston East site also contributed increased revenue beginning in February 2018.

During Fiscal Year 2016-17, the City negotiated three-year agreements with most employee groups, (the EAGLES group contract negotiations were completed early in Fiscal Year 2017-18). All contracts previously expired June 30, 2017 and the new agreements continue until June 30, 2020, with a reopener on salary in the third year. The Forecast includes cost-of-living adjustments (COLAs) and other pay and benefit changes as adopted in the new labor agreements. A modest COLA has been included in each of the remaining Forecast years, and all Forecast years include step and merit increases. In conjunction with the approval of labor agreements for employees, the City Council adopted an increase from $1.8 million to $2.3 million in projected budget savings, which is carried throughout the Forecast.

Fiscal Year 2018-19 projected expenditures, including recommendations, are $7.1 million (6.0 percent) higher compared to the Fiscal Year 2017-18 adopted expenditures. The increases in expenditures are primarily related to personnel costs as approximately 80.0 percent of the budget is for the cost of employees to provide services. New ongoing expenditures of $1.6 million are included to address some of the strains on staff resources. After allowing for transfers of $1.0 million to the General Fund Reserve, $2.0 million to a new Transportation Reserve, $4.0 million to the Capital Improvement Reserve, and a contribution of $2.0 million to the unfunded California Public Employees' Retirement System (CalPERS) liability, the operating balance is projected to be $3.6 million (after budget savings of $2.3 million) for Fiscal Year 2018-19, which represents 2.6 percent of GOF projected revenues.

Staff and Council have recognized the opportunity to take advantage of the City's improved financial position to reduce unfunded liabilities for CalPERS and OPEB. For Fiscal Years 2014-15 through 2016-17, the City Council approved allocations of $9.0 million toward the CalPERS liability and $6.5 million toward the OPEB liability. The current fiscal year Adopted Budget includes City Council approved allocations of $12.4 million towards the CalPERS liability, as part of the CalPERS Discount Rate Change Funding Strategy, and $4.0 million towards the OPEB liability.

The following chart shows the Fiscal Years 2014-15 through 2016-17 contributions, contributions adopted for Fiscal Year 2017-18, recommended for Fiscal Year 2018-19, and forecasted contributions for Fiscal Years 2019-20 and 2020-21 (dollars in millions):

	Fiscal Years 2014-15 through 2016-17		Fiscal Year 2017-18		Fiscal Year 2018-19		Fiscal Year 2019-20		Fiscal Year 2020-21		Total	
	PERS	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**	**PERS**	**OPEB**
GOF	$4.0 M	$4.0 M	$4.0 M	$2.0 M	$2.0 M	–	$2.0 M	–	$1.0 M	–	$13.0 M	$6.0 M
GNOF	$3.5 M	$2.5 M	$6.0 M	$2.0 M	$2.0 M	–	–	–	–	–	$11.5 M	$4.5 M
Other Funds	$1.54 M	–	$2.35 M	–	$1.06 M	–	$0.56 M	–	$0.28 M	–	$5.79 M	–
Total	$9.04 M	$6.5 M	$12.35 M	$4.0 M	$5.06 M	–	$2.56 M	–	$1.28 M	–	$30.29 M	$10.5 M

For CalPERS, the City's funded status as of June 30, 2016, the date of the most recent valuation, is 67.4 percent combined for both safety and miscellaneous. This compares to the 74.3 percent and 71.7 percent funded status as of June 30, 2014 and June 30, 2015, respectively. The unfunded liability is estimated to be $234.0 million as of June 30, 2017. For the CalPERS liability, the City Council adopted the strategy recommended by staff to contribute a significant lump-sum contribution of $10.0 million (General Fund), as well as proportionate contributions from other funds. This contribution will be included in the valuation of June 30, 2018. An additional $10.0 million General Fund payment is proposed from the future Google Parking Lease revenues. The total contribution from Fiscal Year 2018-19 is recommended to be $5.1 million, $2.0 million from the Fiscal Year 2016-17 carryover, $2.0 million from the General Operating Fund, and $1.1 million from other funds, proportionate to the General Fund contribution.

For Retirees' Health, the liability is has been recalculated as of July 1, 2017 and the actuarial accrued liability (AAL) increased $16.0 million to $139.9 million, using the 6.73 percent discount rate. With the updated valuation, staff is recommending a discount rate of 6.5 percent be used (to provide a small margin of adverse deviation). The City has made great strides toward funding the actuarial accrued liability with $6.5 million additional contributions from the General Fund between Fiscal Years 2014-15 and 2016-17 and an additional $4.0 million from the General Fund in Fiscal Year 2017-18. Other funds also make additional contributions toward full funding. See the Reserve Section of the Narrative Budget Report for more information on Retirees' Health funding.

The following table includes the recommended revenues and expenditures by category for Fiscal Year 2018-19 and projections for the subsequent Forecast years. As you can see, the budget is healthy through Fiscal Year 2020-21, but modest deficits are projected starting in Fiscal Year 2021-22 and grow through the remainder of the Forecast period.

GENERAL OPERATING FUND FORECAST (dollars in thousands)

	2017-18 ADOPTED	2017-18 ESTIMATED	2018-19 RECOMM'D	2019-20 FORECAST	2020-21 FORECAST	2021-22 FORECAST
REVENUES:						
Property Taxes	45,285	50,622	52,909	56,878	58,612	59,645
Sales Tax	21,194	20,413	20,026	19,966	19,178	17,996
Other Local Taxes[1]	15,589	15,861	15,989	18,762	18,136	16,463
Use of Money and Property	19,833	19,585	21,508	22,285	23,108	23,929
Other Revenues[2]	26,121	27,907	26,947	26,908	26,665	26,577
TOTAL REVENUES	128,022	134,388	137,379	144,799	145,699	144,610
EXPENDITURES:						
Salaries and All Pays	60,345	59,445	64,135	67,038	68,341	70,044
Retirement	16,649	16,668	19,356	22,505	25,230	27,502
Health Benefits	10,360	8,521	10,506	11,189	11,925	12,717
All Other Benefits	6,750	6,311	6,873	7,120	7,323	7,518
Salaries and Benefits	94,104	90,945	100,870	107,852	112,819	117,781
Supplies and Services	17,110	16,555	17,392	18,114	18,644	19,190
Capital Outlay/ Equipment Repl.	3,228	3,402	3,276	3,351	3,436	3,524
Interfund Expenditures and Transfers	5,545	5,074	5,540	6,098	7,456	7,478
Debt Service	-0-	-0-	-0-	-0-	-0-	-0-
Total Operating Exp	119,987	115,976	127,078	135,415	142,355	147,973
Budget Savings	(2,300)	Included	(2,300)	(2,300)	(2,300)	(2,300)
NET EXPENDITURES	117,687	115,976	124,778	133,115	140,055	145,673
Transfer to GF Reserve	-0-	-0-	(1,000)	-0-	-0-	-0-
Transfer to Trans Res	-0-	-0-	(2,000)	(2,000)	(1,000)	-0-
Transfer to Cap Imp Res	-0-	-0-	(4,000)	(4,000)	-0-	-0-
CalPERS Contribution	(4,000)	(4,000)	(2,000)	(2,000)	(1,000)	-0-
OPEB Contribution	(2,000)	(2,000)	-0-	-0-	-0-	-0-
Transfer to SPAR	(2,000)	(2,000)	-0-	-0-	-0-	-0-
OPERATING BALANCE/(DEFICIT)	2,335	10,412	3,601	3,684	3,644	(1,063)

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 Revenues, and Interfund Revenues & Transfers.
3 Balance is prior to the change in assets and liabilities, encumbrances, and rebudgets for grants and donations.

GENERAL OPERATING FUND FORECAST (dollars in thousands)

	2022-23 FORECAST	2023-24 FORECAST	2024-25 FORECAST	2025-26 FORECAST	2026-27 FORECAST	2027-28 FORECAST
REVENUES:						
Property Taxes	61,587	63,714	66,623	69,480	72,278	74,932
Sales Tax	18,358	18,910	19,102	19,295	19,492	19,689
Other Local Taxes[1]	18,370	19,315	19,918	20,530	21,249	21,949
Use of Money and Property	24,794	25,689	26,619	26,942	26,659	27,802
Other Revenues[2]	27,058	27,468	27,788	28,113	28,445	28,784
TOTAL REVENUES	150,167	155,096	160,050	164,360	168,123	173,156
EXPENDITURES:						
Salaries and All Pays	71,686	73,307	74,933	76,569	78,221	79,891
Retirement	29,513	30,919	32,104	33,329	34,595	35,906
Health Benefits	13,571	14,491	15,486	16,559	17,718	18,972
All Other Benefits	7,714	7,913	8,116	8,323	8,535	8,753
Salaries and Benefits	122,484	126,630	130,639	134,780	139,069	143,522
Supplies and Services	19,752	20,332	20,928	21,543	22,176	22,828
Capital Outlay/ Equipment Repl.	3,615	3,708	3,805	3,904	4,006	4,111
Interfund Expenditures and Transfers	5,107	5,273	5,609	5,791	6,166	6,366
Debt Service	3,300	3,300	3,300	3,300	3,300	3,300
Total Operating Exp	154,258	159,243	164,281	169,318	174,717	180,127
Budget Savings	(2,300)	(2,300)	(2,300)	(2,300)	(2,300)	(2,300)
NET EXPENDITURES	151,958	156,943	161,981	167,018	172,417	177,827
Transfer to GF Reserve	-0-	-0-	-0-	-0-	-0-	-0-
Transfer to Trans Res	-0-	-0-	-0-	-0-	-0-	-0-
Transfer to Cap Imp Res	-0-	-0-	-0-	-0-	-0-	-0-
CalPERS Contribution	-0-	-0-	-0-	-0-	-0-	-0-
OPEB Contribution	-0-	-0-	-0-	-0-	-0-	-0-
Transfer to SPAR	-0-	-0-	-0-	-0-	-0-	-0-
OPERATING BALANCE/(DEFICIT)	(1,791)	(1,847)	(1,931)	(2,658)	(4,294)	(4,671)

<u>Revenue and Expenditure Background</u>

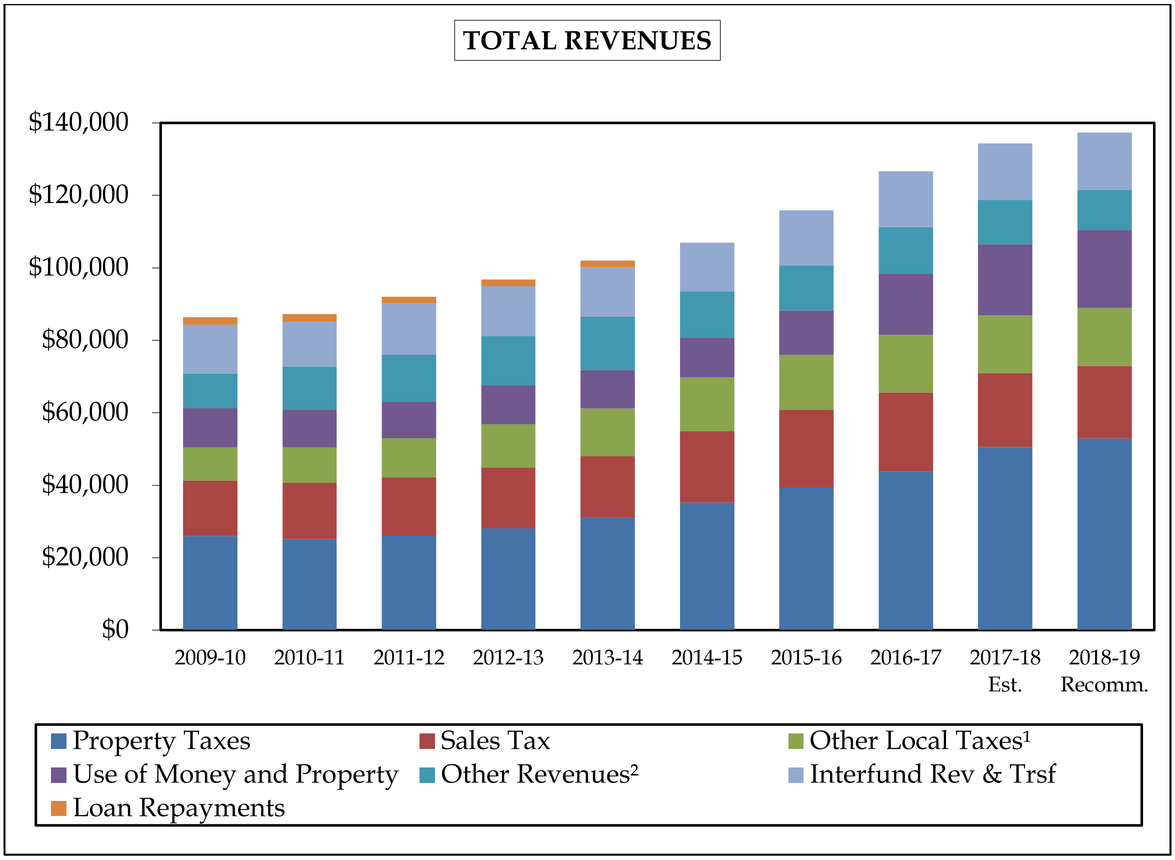
<u>Revenues</u>

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

For Fiscal Year 2018-19, all the main categories of GOF Revenues listed in the previous table, except Sales Tax, are projected to meet or exceed the Fiscal Year 2017-18 Adopted Budget. Significant factors, such as increasing property and lease values 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 Sales Tax category is lower due to slower growth of activity in sales tax transactions, due to the increase of online sales.

Growth in total revenues continues throughout the Forecast period, except the second year of the anticipated recession. The decline in revenues from the anticipated recession is being masked by the strong development activity that is currently occurring. There is a lag between the development occurring and being placed onto the property tax roll.

A history of total GOF Revenues is as follows (dollars in thousands):



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1 Other Local Taxes includes Transient Occupancy Tax, Business Licenses, and Utility Users Tax.
2 Other Revenues includes Licenses, Permits & Franchise Fees, Fines & Forfeitures, Intergovernmental, Charges for Services, and Miscellaneous Revenues.

Total Fiscal Year 2018-19 revenues are projected to increase $9.4 million (7.3 percent) compared to the Fiscal Year 2017-18 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: through a combination of operating efficiencies and expenditure reductions (totaling $7.4 million), modest 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 2018-19 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 during the last recession.

From the peak in Fiscal Year 2001-02 through Fiscal Year 2012-13, the GOF employee count was reduced by more than 70.0 positions (over 14.0 percent). Although there have been positions added in recent years, overall, the City continues to operate at a staff level less than the prerecessionary level. This is further exacerbated by the high level of demand for services in City departments. The Fiscal Year 2018-19 Adopted Budget includes additional regular and limited-period positions to address the most critical 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 2018-19 through Fiscal Year 2019-20, COLAs are included as agreed to in MOUs and for unrepresented employees. A modest COLA is included in each of the remaining Forecast years. 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 CalPERS rates for Fiscal Years 2018-19 through 2024-25 were provided by CalPERS and rates for Fiscal Year 2025-26 through 2027-28 are projected by staff based on the CalPERS rates trend. CalPERS rates are expected to increase 59.2 percent and 57.0 percent over the next 10 years for Miscellaneous and Safety, respectively.

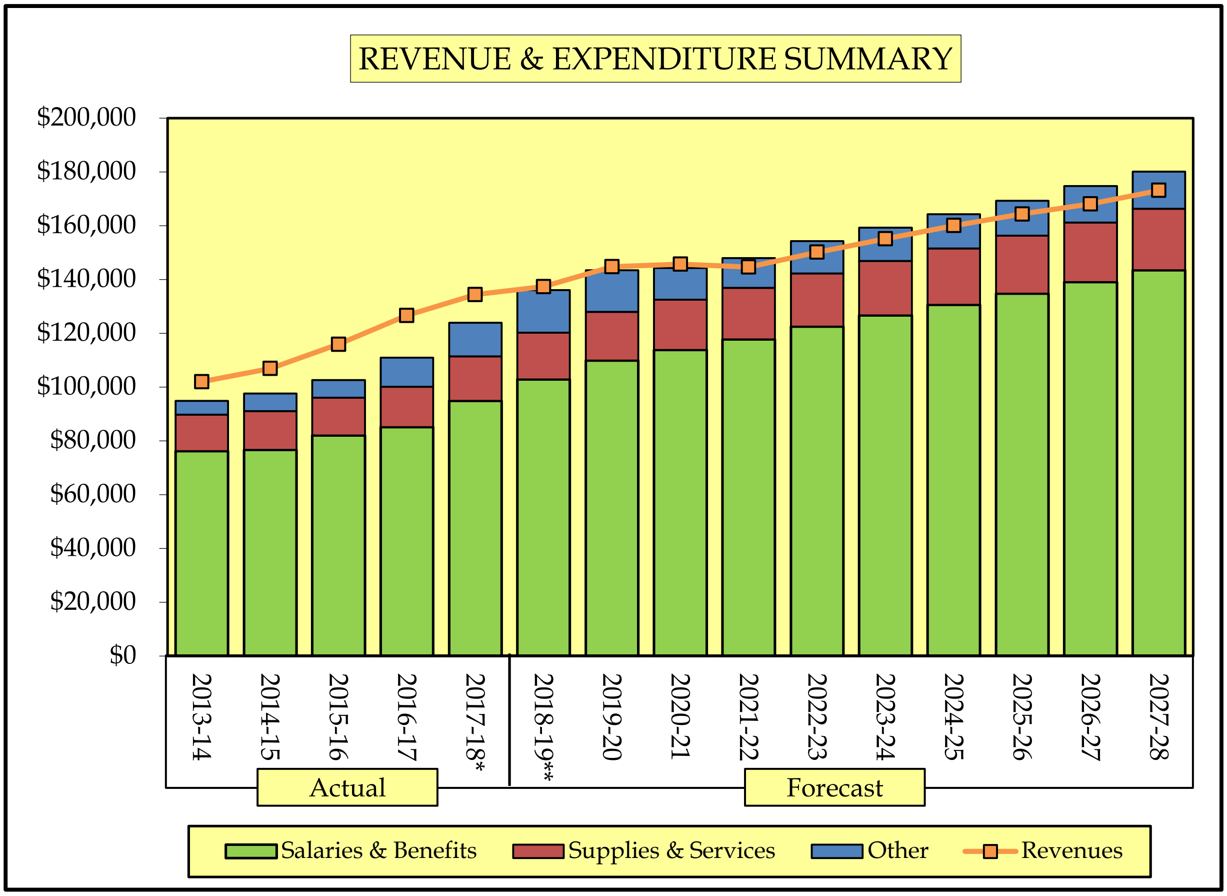
For Supplies and Services and the remaining categories, a base level of expenditures is calculated and then adjusted based on the multi-year assumptions related to each component of cost (e.g., City utilities, equipment maintenance, self-insurance funding, etc.).

Based on past experience, it is typical to underspend the budget due to vacant positions and savings in Supplies and Services accounts. Beginning in Fiscal Year 2009-10, a budget savings amount was assumed. It has ranged between $1.8 million and $2.8 million. In Fiscal Year 2017-18, it was increased to $2.3 million to reflect a current five-year average, and it remains at that level 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 overall strong 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 reserves and CalPERS) through Fiscal Year 2020-21. The remaining forecast period projects negative balances 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.

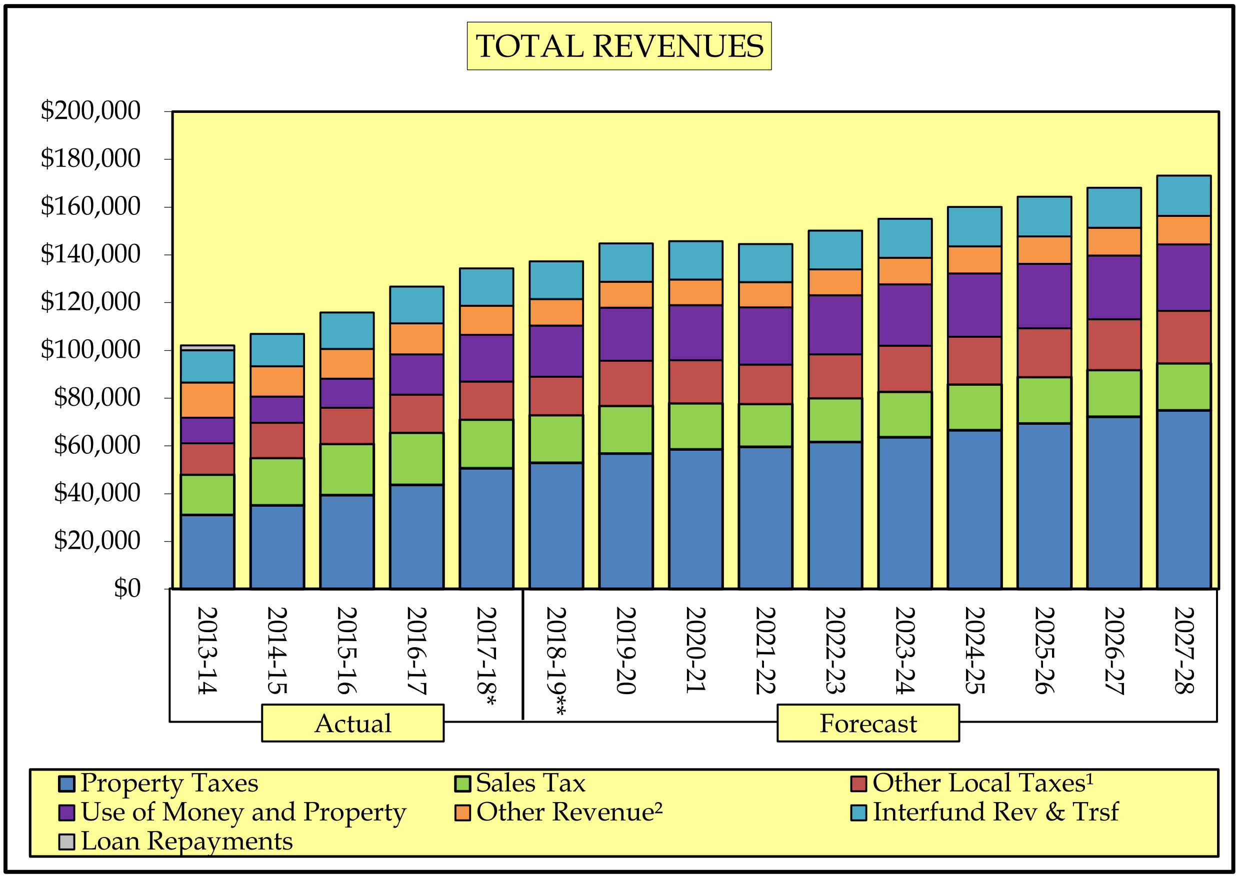
Following is a detailed and graphic presentation of the Forecast, summarizing the assumptions and resulting revenues and expenditures.



Fiscal Year		Revenues	Expenditures
2013-14		102,045	94,933
2014-15		106,940	97,677
2015-16		115,911	102,590
2016-17		126,689	110,936
2017-18	*	134,388	123,976
2018-19	**	137,379	136,078
2019-20		144,799	143,415
2020-21		145,699	144,355
2021-22		144,610	147,973
2022-23		150,167	154,258
2023-24		155,096	159,243
2024-25		160,050	164,281
2025-26		164,360	169,318
2026-27		168,123	174,717
2027-28		173,156	180,127

* Estimated
** Recommended
(dollars in thousands)

The Fiscal Year 2018-19 recommended expenditures and all forecast years do not include the projected operating budget savings.



Fiscal Year		Total Revenues	% Change
2013-14		102,045	5.4%
2014-15		106,940	4.8%
2015-16		115,911	8.4%
2016-17		126,689	9.3%
2017-18	*	134,388	6.1%
2018-19	**	137,379	2.2%
2019-20		144,799	5.4%
2020-21		145,699	0.6%
2021-22		144,610	(0.7%)
2022-23		150,167	3.8%
2023-24		155,096	3.3%
2024-25		160,050	3.2%
2025-26		164,360	2.7%
2026-27		168,123	2.3%
2027-28		173,156	3.0%

* Estimated
** Recommended
(dollars in thousands)

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

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

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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 has the authority to 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 self-reported annually to the County.

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 2017-18 exceeds $111.0 million ($115.0 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 values 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. For calendar 2017, the most recent information available, there were a total of 150 foreclosures in the County. Mountain View had one foreclosure, the least in the County.

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 in the City 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 January 2018 is lower than the same time frame in 2017 and much lower 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 lengthy and more complicated. The County processes Countywide AV roll reductions (primarily the result of resolved appeals) and corrections throughout the year and currently estimates a net $2.5 billion in reductions for Fiscal Year 2017-18. The General Fund's share of this estimated property tax revenue loss is approximately $246,000. As of January 2018, the County had approximately 5,300 active appeals, and the Forecast period includes additional losses in property tax revenue as a result of the resolution of these active appeals.

Tracking of property sales activity was initiated in 2007 and the most recent 10 years of history is detailed below. The highest number of sales transactions for all types of properties occurred in 2012, but the largest increase in AV resulting from changes in ownership (CIO) occurred in 2015. There has been growth in the median price of single-family homes (SFH) experiencing a CIO every year since 2010, with more significant increases in the SFH median price for sales since 2012.

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
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
2017	$1,900,000	278	$1,175,000	387

Also impacting the growth in Property Taxes is the CCPI. Over the past 10 fiscal years (2008-09 to 2017-18), 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 2017-18 estimated Property Tax revenues of $50.6 million exceed both the Fiscal Year 2017-18 Adopted Budget of $45.3 million and the Fiscal Year 2016-17 Audited of $43.8 million.

FORECAST

The Fiscal Year 2018-19 projected secured property tax revenues is based on the July 1, 2017 tax roll adjusted for the following:

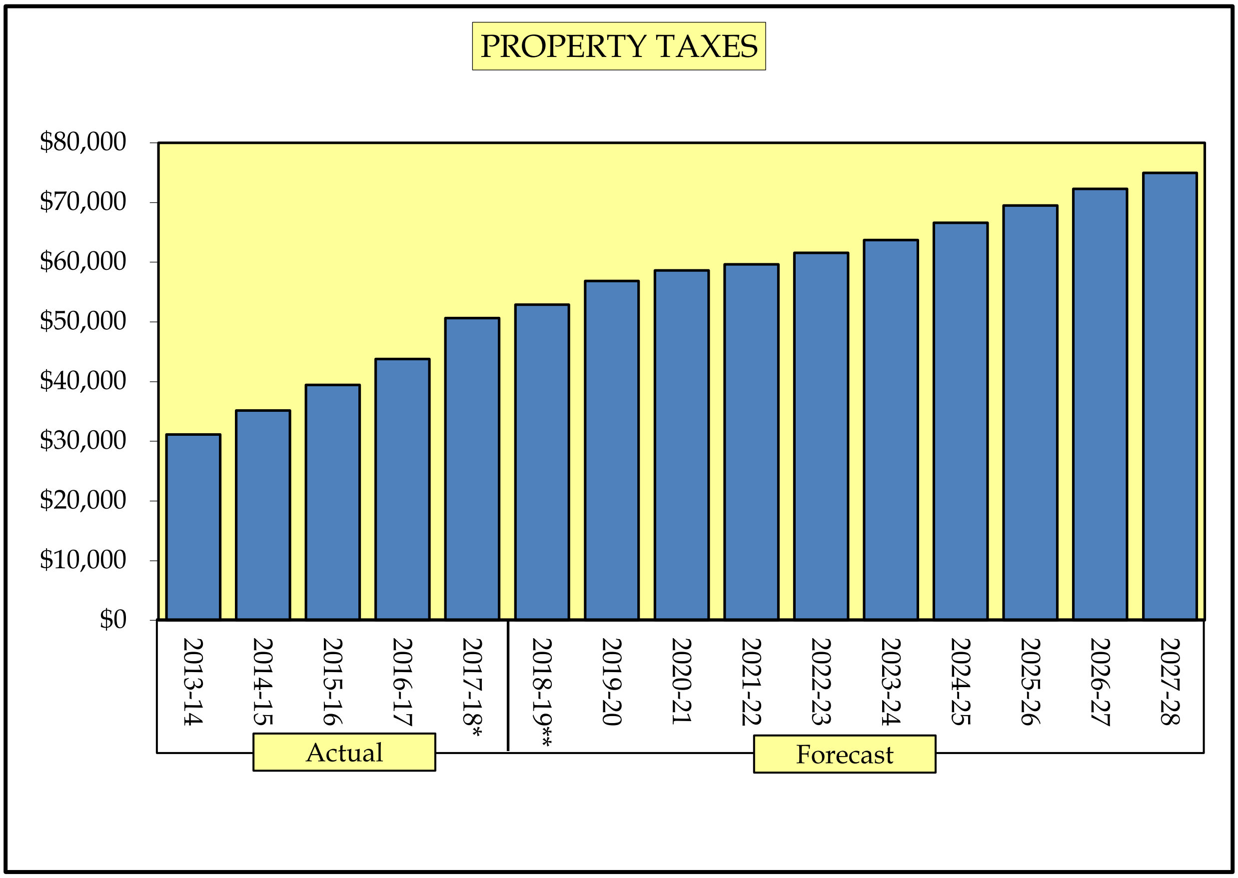
- A 2.0 percent CCPI increase to the AV of all eligible residential and commercial property;
- Projected AV loss from resolution of pending appeals;

- 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 5,300 active appeals. The County has provided summarized information about pending appeals and the Fiscal Year 2018-19 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 2.5 percent to 8.2 percent annually. These increases include an annual change in AV based on a 2.0 percent CCPI for Fiscal Years 2019-20 and 2020-21. The anticipated economic downturn is projected to impact the intervening two fiscal years resulting in CCPI increases of 1.0 percent and 1.5 percent and the remainder of the Forecast period reflects an annual 2.0 percent CCPI. 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 (Moffett Gateway), and various housing, hotel, and office developments), and anticipated growth from CIO and remodeling. The increased revenue from Ameswell (Moffett Gateway) has previously been identified as a potential revenue source for the Police/Fire Administration Building Remodel and Expansion project. The Forecast assumes appeals will continue to be filed annually and a portion will be resolved resulting in an AV loss.

Unsecured property tax revenue is projected to increase by 5.0 percent for Fiscal Year 2018-19, remain at essentially the same level for Fiscal Year 2019-20, decline for the two subsequent fiscal years as a result of the anticipated economic downturn, and grow steadily for the remainder of the Forecast period.



Fiscal Year		Property Taxes	% Change
2013-14		31,120	10.7%
2014-15		35,173	13.0%
2015-16		39,461	12.2%
2016-17		43,774	10.9%
2017-18	*	50,622	15.6%
2018-19	**	52,909	4.5%
2019-20		56,878	7.5%
2020-21		58,612	3.0%
2021-22		59,645	1.8%
2022-23		61,587	3.3%
2023-24		63,714	3.5%
2024-25		66,623	4.6%
2025-26		69,480	4.3%
2026-27		72,278	4.0%
2027-28		74,932	3.7%

* 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 California Department of Tax and Fee Administration (CDTFA) (previously known as State Board of Equalization or BOE) reporting changes, retail contributes a greater share, and the ratio for the most recent completed fiscal year is 1.0:3.8.

SOURCES

- Retail sales of tangible personal property to individuals and other businesses.
- Use tax on business consumption of personal property.
- State and County pooled sales tax allocated by the City's share of the Countywide tax on point of sale transactions.

ECONOMIC FACTORS

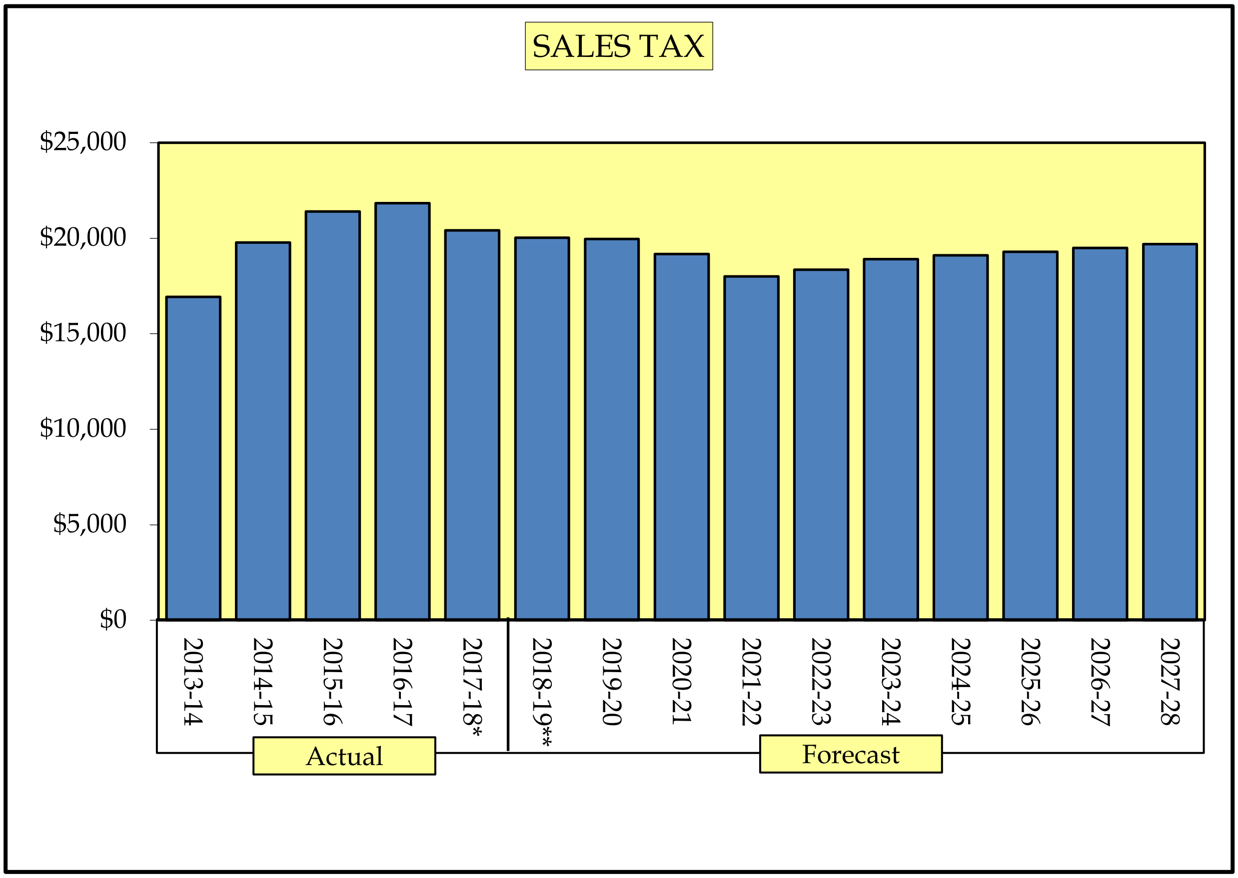
- Business expansion, reduction, or relocation.
- State of the economy.
- Purchasing patterns.
- CDTFA allocation decisions.
- Level of business-to-business sales.
- Technology changes.

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. Subsequently, sales tax revenue grew steadily through Fiscal Year 2015-16, but more recently has either seen little growth or a decline. Fiscal Year 2017-18 Sales Tax was adopted at 2.9 percent below the Fiscal Year 2016-17 Audited, but the decline is currently estimated to be 6.5 percent. Some of the factors causing this are a continuing shift to more online transactions and a smaller share of the County pool allocation.

FORECAST

Fiscal Year 2018-19 sales tax revenue is projected at $20.0 million, including the Village at San Antonio Center Phase II, which is anticipated to be completed in Fiscal Year 2018-19 with retail tenants in place and beginning to generate sales tax later in the fiscal year. This projection is 1.9 percent lower than the Fiscal Year 2017-18 estimated, primarily due to known changes in businesses and adjustments for one-time payments received in Fiscal Year 2017-18. Fiscal Year 2019-20 is essentially the same as the projection for Fiscal Year 2018-19. Fiscal Years 2020-21 and 2021-22 reflect 3.9 percent and 6.2 percent declines respectively, related to an anticipated downturn in the economy. A recovery begins in Fiscal Year 2022-23 with incremental growth through the rest of the Forecast period.



Fiscal Year		Sales Tax	% Change
2013-14		16,936	1.1%
2014-15		19,773	16.8%
2015-16		21,401	8.2%
2016-17		21,828	2.0%
2017-18	*	20,413	(6.5%)
2018-19	**	20,026	(1.9%)
2019-20		19,966	(0.3%)
2020-21		19,178	(3.9%)
2021-22		17,996	(6.2%)
2022-23		18,358	2.0%
2023-24		18,910	3.0%
2024-25		19,102	1.0%
2025-26		19,295	1.0%
2026-27		19,492	1.0%
2027-28		19,689	1.0%

* 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 active businesses licensed. The tax rate varies by type of business, generally $30 per year for most (73.0 percent), but can reach $250 for certain types of businesses.

- UUT is a 3.0 percent tax assessed on the consumption of all telecommunication (2.5 percent tax on purchases of Mobile Telephony Services (MTS)), 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 nonrecessionary times. The impacts of economic downturns or disruptions are immediately reflected 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 through the current fiscal year. Fiscal Year 2017-18 estimated revenue reflects a full year of the Hampton Inn and Residence Inn remodel/room addition projects completed in Fiscal Year 2016-17 net with the closure of a hotel for a future multi-housing project, and exceeds both the current fiscal year adopted and prior fiscal year audited.

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 2017-18 revenue is estimated to be essentially the same as the prior fiscal year audited.

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 both residential and commercial 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. 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 CDTFA 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. Payments from a major telecommunications provider have been declining over the past two fiscal years, offset by growth in UUT generated from energy usage. The City began receiving UUT payments from Silicon Valley Clean Energy (SVCE) in the beginning of Fiscal Year 2017-18, which has resulted in lower payments from PG&E. In total, Fiscal Year 2017-18 estimated UUT revenue is on target with the Adopted Budget.

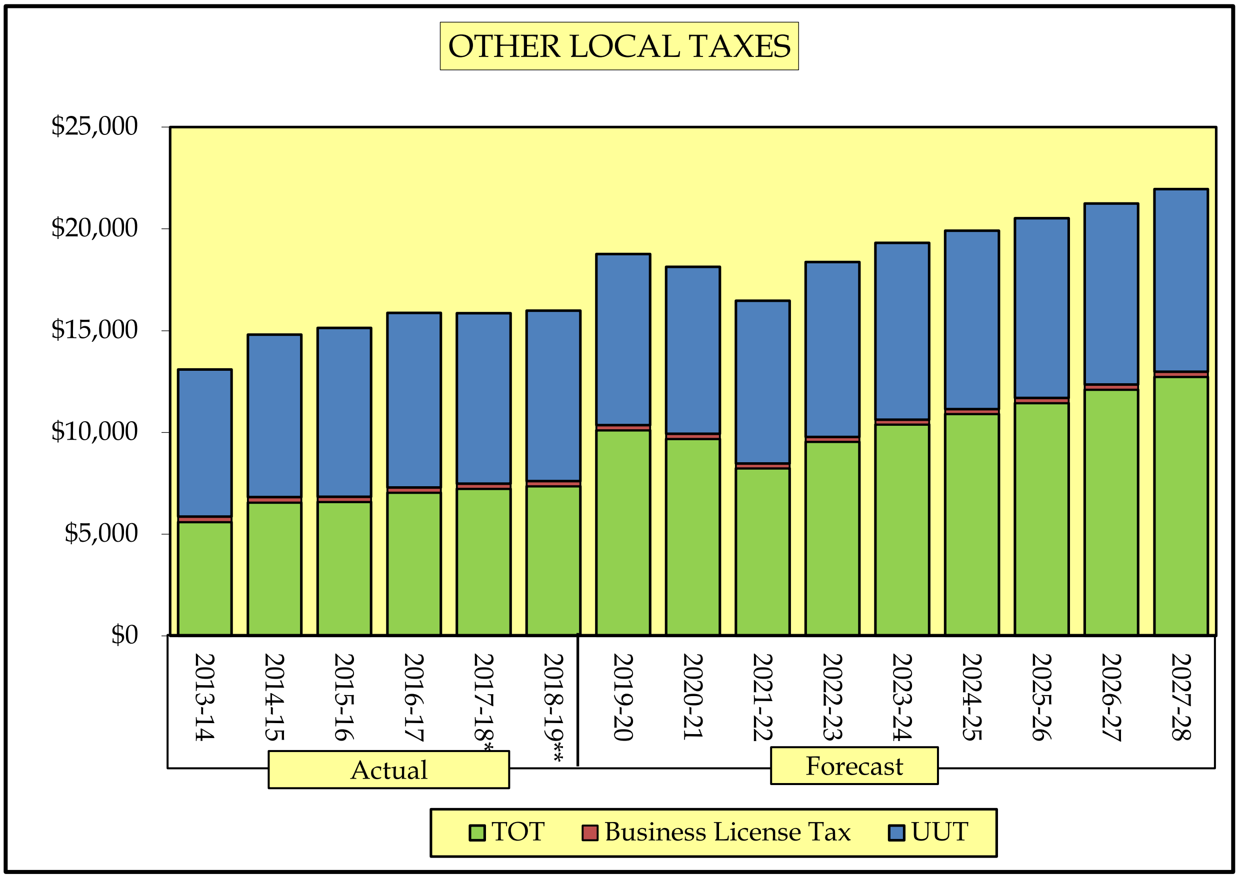
FORECAST

TOT: Fiscal Year 2018-19 revenue is projected at 1.8 percent higher than the Fiscal Year 2017-18 estimated, and includes the opening of the Hyatt Centric hotel (San Antonio

Phase II) later in the fiscal year. The following fiscal year includes the opening of the Shashi Hotel, the Holiday Inn Express, and the hotel planned as part of the Ameswell (Moffett Gateway) project. Fiscal Years 2020-21 and 2021-22 include a reduction in revenue resulting from the anticipated economic downturn. The remaining Forecast years reflect two years of economic recovery and steady growth thereafter. TOT from the hotel planned as part of the Hope Street project, begins in Fiscal Year 2026-27, as the first five years of TOT is rebated back to the developer to partially compensate for the cost of the public parking to be provided. The City Council is currently discussing the possibility of placing a revenue measure on the ballot increasing the TOT rate. However, as the City Council has not decided and voter approval is required to increase the TOT rate, no increase in revenue has been included in the Forecast.

Business License Tax: Fiscal Years 2018-19 and 2019-20 business license revenue is projected essentially the same as the Fiscal Year 2017-18 estimated. The anticipated two-year downturn includes 3.0 percent average annual declines followed by incremental recovery in the remaining Forecast years. The City Council is currently discussing the possibility of placing a revenue measure on the ballot restructuring the business license tax. However, as the City Council has not decided and voter approval is required to restructure the business license tax, no increase in revenue has been included in the Forecast.

UUT: Fiscal Years 2018-19 and 2019-20 total projected UUT revenue is essentially the same as the Fiscal Year 2017-18 estimated. UUT revenue for the following two Forecast years, decline as a result of the anticipated economic downturn. Fiscal Year 2022-23 reflects the UUT generated from development anticipated in the Shoreline Regional Park Community as identified in the North Bayshore Precise Plan Fiscal Impact Analysis. The remaining Forecast years have incremental annual growth.



Fiscal Year		Transient Occupancy Tax	Business License Tax	Utility Users Tax	Total Other Local Taxes	% Change
2013-14		5,595	268	7,226	13,089	8.9%
2014-15		6,559	258	7,988	14,805	13.1%
2015-16		6,591	245	8,301	15,137	2.2%
2016-17		7,043	251	8,572	15,866	4.8%
2017-18	*	7,229	252	8,380	15,861	(0.0%)
2018-19	**	7,359	252	8,378	15,989	0.8%
2019-20		10,103	252	8,407	18,762	17.3%
2020-21		9,680	245	8,211	18,136	(3.3%)
2021-22		8,228	237	7,998	16,463	(9.2%)
2022-23		9,538	240	8,592	18,370	11.6%
2023-24		10,382	242	8,691	19,315	5.1%
2024-25		10,901	244	8,773	19,918	3.1%
2025-26		11,446	247	8,837	20,530	3.1%
2026-27		12,097	249	8,903	21,249	3.5%
2027-28		12,729	252	8,968	21,949	3.3%

* Estimated
** Recommended
(dollars in thousands)

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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)
  - Various construction staging sites

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 aggressively managed short-term interest rates between late 2007 and 2008 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 significantly impacted the City's interest earnings. For the Fiscal Year 2017-18 Adopted Budget, the portfolio was projected to earn an average return of 1.48 percent, up from the low of the 1.14 percent average earned in Fiscal Year 2014-15, but lower than the high of the 5.7 percent average earned in Fiscal Year 2000-01. Fiscal Year 2017-18 investment earnings is estimated to be essentially the same as the prior fiscal year audited and to exceed budget by \$102,000. The Federal Open Market Committee (FOMC) increased the benchmark interest rate six times between December 2015 and March 2018 for a total 150-basis-point increase. It is anticipated the FOMC will continue to implement small incremental increases in the upcoming years if the economy continues to improve.

Rents and Leases: Over time, the City has strategically developed City-owned properties and negotiated lease agreements that 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 effective April 1, 2016, resulted in a 141.0 percent rent increase (\$3.3 million for a full year) and will continue to escalate 4.0 percent annually. The decennial revaluation of the Crittenden lease was effective January 1, 2017, resulted in a 104.8 percent rent increase (\$3.1 million for a full year) and will continue to escalate 4.0 percent annually.

The first decennial revaluation for the Charleston East (Lot 1) lease between the City and Google LLC (Google) was effective February 1, 2018. In anticipation of this decennial revaluation, the Fiscal Year 2017-18 Adopted Budget included a calculation of the projected increase based on a value per square foot resulting from the previous decennial revaluations of the other two land leases. However, during the Charleston East lease revaluation process, staff was reminded this lease includes a cap on the revalued rent that is not included in the other two land leases. The cap is 165.0 percent of the monthly rent payable during the initial year of the prior 10-year period. In this case, the rent for the period beginning February 1, 2018 is capped at 165.0 percent of the rent paid in February 2008. The total annualized revalued rent is $1.9 million, an increase of $387,000 (26.5 percent) compared to the prior year annualized rent. This is a decrease of $397,000 from what was included in the Adopted Budget.

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. The first annual contractual increase of 2.0 percent went into effect March 2018, resulting in a monthly payment of $204,000.

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 proportion of the Authority's contribution to the structures. The Compensation Agreement was effective July 1, 2014, resulting in annual lease revenue of $165,000 to the GOF, a loss of $78,000 annually. The CVS lease agreement provides for an 11.9 percent increase that was effective September 2017.

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. Lease of City-owned property during Fiscal Year 2017-18 for construction staging is anticipated to generate $80,500. In addition, there are various other rentals of City-owned property as listed previously in the Sources section which contribute revenue to the GOF.

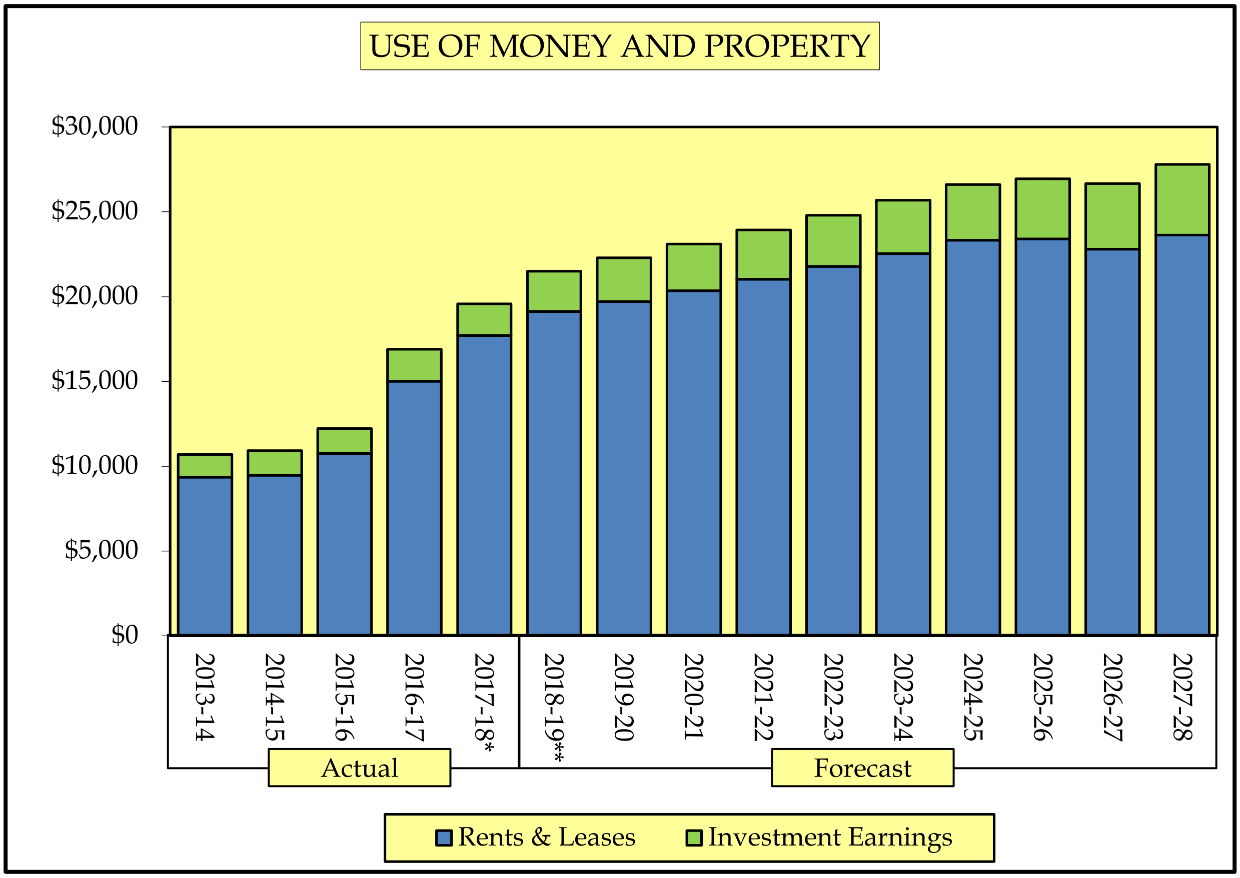
FORECAST

Investment Earnings: The Fiscal Year 2018-19 projection is based on the assumption that as instruments mature, the funds will be reinvested at rates slightly higher than those available in Fiscal Year 2017-18, resulting in a projected average portfolio yield of 1.88 percent for Fiscal Year 2018-19. This assumes the Local Agency Investment Fund (LAIF) pooled rate averages 1.3 percent. The City's average portfolio yield is anticipated to continue rising through the end of the Forecast period. During the projected economic downturn, reinvestment rates are expected to be higher than the rates on the instruments maturing.

Rents and Leases: Fiscal Year 2018-19 includes a full year of the revalued rent generated from the Charleston East ground lease and a full year of rent from the Ameswell (Moffett Field) project. As previously discussed with and approved by the City Council, it is recommended the Ameswell rent be transferred to the Budget Contingency Reserve to be utilized for funding of limited-period items until the proposed debt service related to the Police/Fire Administration Building remodel and expansion begins in Fiscal Year 2022-23. This strategy may be modified as the City Council has requested to discuss the funding for the Police/Fire Administration building remodel with the Five-Year Capital Improvement Program (CIP) for Fiscal Year 2018-19.

The Forecast for the three long-term ground leases includes annual increases and no assumptions for the revaluations that will occur 2025 through 2028. The Amphitheatre lease terminates December 31, 2025 and although the Amphitheatre lease could continue or the land could be repurposed to generate another revenue source, it is unknown at this time; therefore, no rent is projected for the last two fiscal years. For the remaining leases and rental agreements, the Forecast period includes annual contractual increases and assumes renewal options will be exercised or extended.

As previously discussed with the City Council, Google has paid the City $600,000 for extending the sublease of Parking Lots C and D from SFX through 2020. In addition, Google has agreed to lease the parking lots from the City for an additional five years (January 2021 to December 2025) and will be paying over $2.0 million annually, unless the lease is terminated early. As these payments are limited-period in nature, they will not flow through the GOF. As discussed with the City Council during the budget process last fiscal year, the $2.0 million annual payments would be recorded as one-time GF revenues and then contributed to CalPERS toward the City's unfunded pension liability, and the $600,000 and the annual rent in excess of the $2.0 million will be transferred to the Capital Improvement Reserve.



Fiscal Year		Rents & Leases	Investment Earnings	Total Use of Money and Property	% Change
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		15,020	1,876	16,896	38.3%
2017-18	*	17,704	1,881	19,585	15.9%
2018-19	**	19,120	2,388	21,508	9.8%
2019-20		19,712	2,573	22,285	3.6%
2020-21		20,349	2,759	23,108	3.7%
2021-22		21,030	2,899	23,929	3.6%
2022-23		21,776	3,018	24,794	3.6%
2023-24		22,543	3,146	25,689	3.6%
2024-25		23,322	3,297	26,619	3.6%
2025-26		23,407	3,535	26,942	1.2%
2026-27		22,792	3,867	26,659	(1.1%)
2027-28		23,632	4,170	27,802	4.3%

* 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 Library fines and 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. 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 2017-18 estimated Licenses and Permits revenue is 3.2 percent below the Fiscal Year 2017-18 Adopted and 13.9 percent below the Fiscal Year 2016-17 Audited, primarily due to reduced taxi business and taxicab permits resulting from increased competition from Transportation Network Companies (TNC) (e.g., Uber and Lyft).

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 and conservation by residential and commercial 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 smaller-size containers, the amount of construction debris discarded, 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. This revenue grew through Fiscal Year 2015-16, but has been declining since.

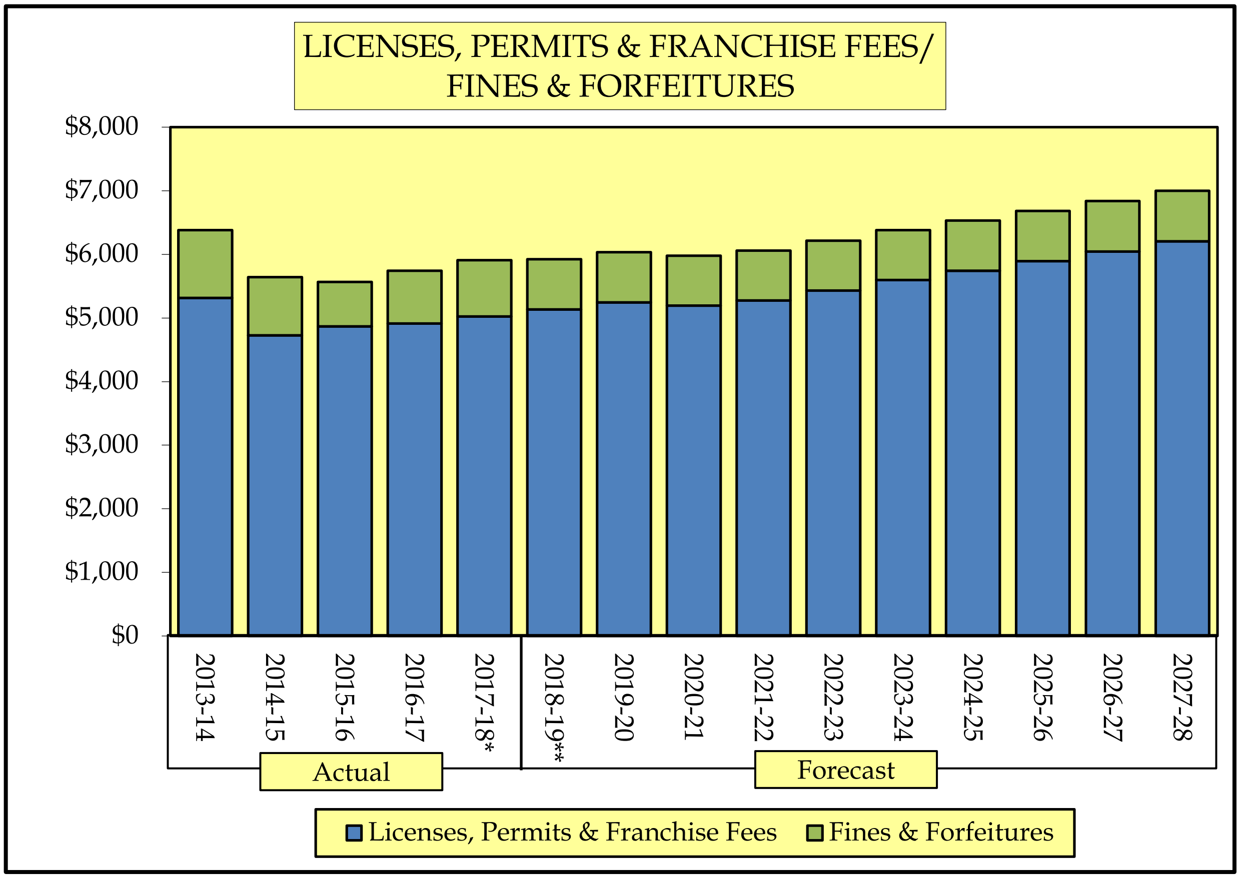
Fiscal Year 2017-18 estimated Franchise Fee revenues are 2.8 percent higher than the Fiscal Year 2016-17 Audited and essentially the same as the Fiscal Year 2017-18 Adopted.

<u>Fines and Forfeitures</u>: This revenue source includes false alarm response fees, bail/fine payments from the County, Library fines, and parking violation payments. Overall, the Fiscal Year 2017-18 estimated Fines and Forfeitures revenue sources are higher than budget and Fiscal Year 2016-17 Audited, primarily due to increased parking enforcement and false alarm fines.

FORECAST

<u>Licenses, Permits, and Franchise Fees</u>: Revenue is projected to grow in Fiscal Years 2018-19 and 2019-20, then decline the following two Forecast years reflecting the economic downturn, excluding Recology which is projected with a steady annual increase of 3.0 percent throughout the Forecast. Recovery begins in Fiscal Year 2022-23 with incremental growth through the remaining Forecast period.

<u>Fines and Forfeitures</u>: Fiscal Year 2018-19 is projected to be 10.7 percent below Fiscal Year 2017-18 estimated primarily due to parking violations revenue which tends to fluctuate. This revenue is essentially the same level throughout the Forecast period.



Fiscal Year		Licenses, Permits & Franchise Fees	Fines & Forfeitures	Total Licenses, Permits & Franchise Fees/ Fines & Forf	% Change
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		4,913	830	5,743	3.2%
2017-18	*	5,023	885	5,908	2.9%
2018-19	**	5,134	791	5,925	0.3%
2019-20		5,244	791	6,035	1.9%
2020-21		5,193	787	5,980	(0.9%)
2021-22		5,274	784	6,058	1.3%
2022-23		5,432	786	6,218	2.6%
2023-24		5,596	788	6,384	2.7%
2024-25		5,742	790	6,532	2.3%
2025-26		5,892	792	6,684	2.3%
2026-27		6,047	794	6,841	2.3%
2027-28		6,206	796	7,002	2.4%

* 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

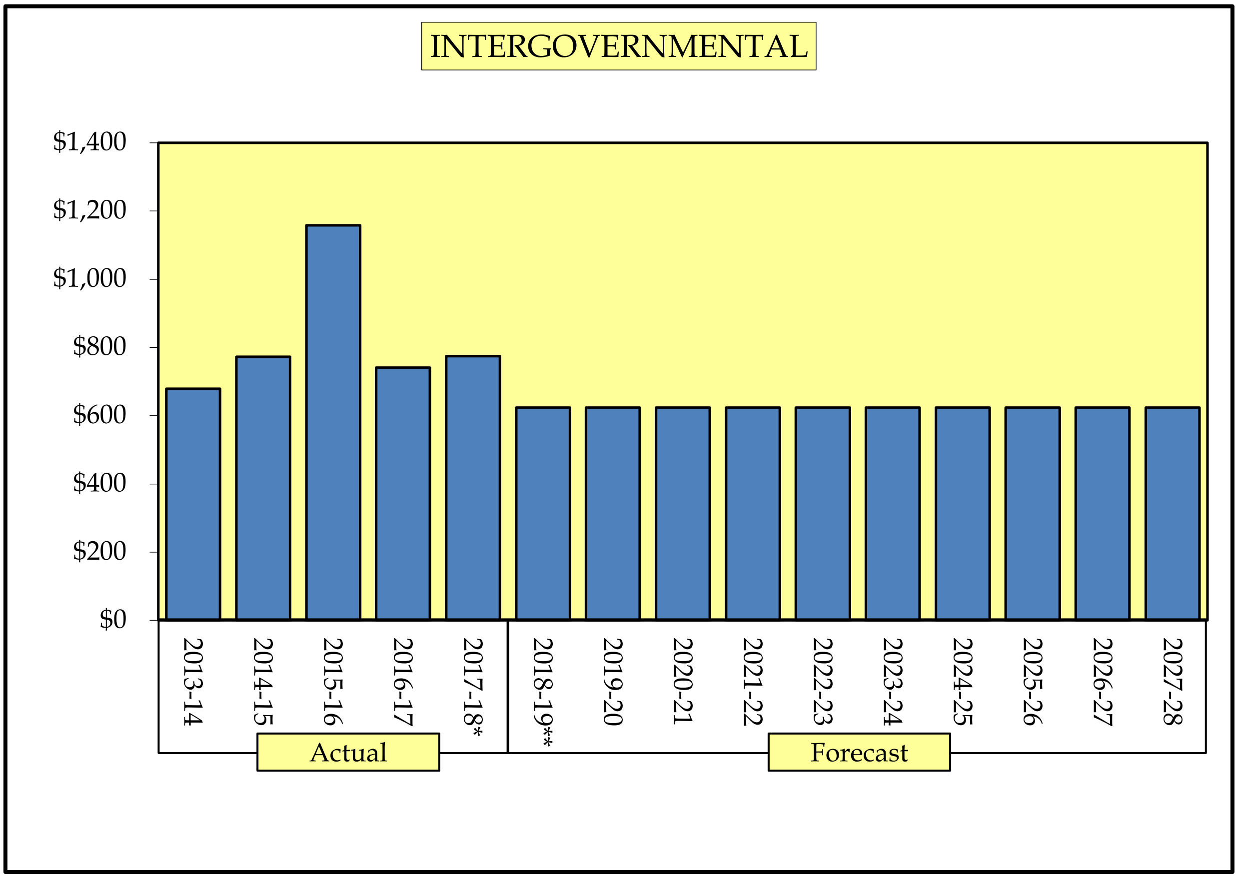
- Actions by the State Legislature.
- State and Federal regulations, legislation, and funded programs.

HISTORY

For more than a 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 2017-18 estimated revenue exceeds the Fiscal Year 2017-18 Adopted Budget due to grants, SB 90 Reimbursements, and Public Safety Realignment (AB 109) funding received that were not budgeted, and is 4.7 percent higher than the Fiscal Year 2016-17 Audited, resulting from a reimbursement from the Santa Clara County Specialized Enforcement Team Task Force.

FORECAST

Fiscal Year 2018-19 is projected 8.9 percent higher than Fiscal Year 2017-18 Adopted as it includes higher projections for Motor Vehicle In-Lieu, and reimbursements for Central Expressway Maintenance and REACT which is more in-line with actual payments received for the current fiscal year. The remaining Forecast years are at essentially the same level.



Fiscal Year		Intergovernmental	% Change
2013-14		679	2.1%
2014-15		773	13.8%
2015-16		1,158	49.8%
2016-17		741	(36.0%)
2017-18	*	775	4.6%
2018-19	**	624	(19.5%)
2019-20		624	0.0%
2020-21		624	0.0%
2021-22		624	0.0%
2022-23		624	0.0%
2023-24		624	0.0%
2024-25		624	0.0%
2025-26		624	0.0%
2026-27		624	0.0%
2027-28		624	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.
- 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 actions, 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 attendance did not achieve the minimum requirement authorized in the Policy, and new revenue sources, such as sponsorships, were approved.

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.

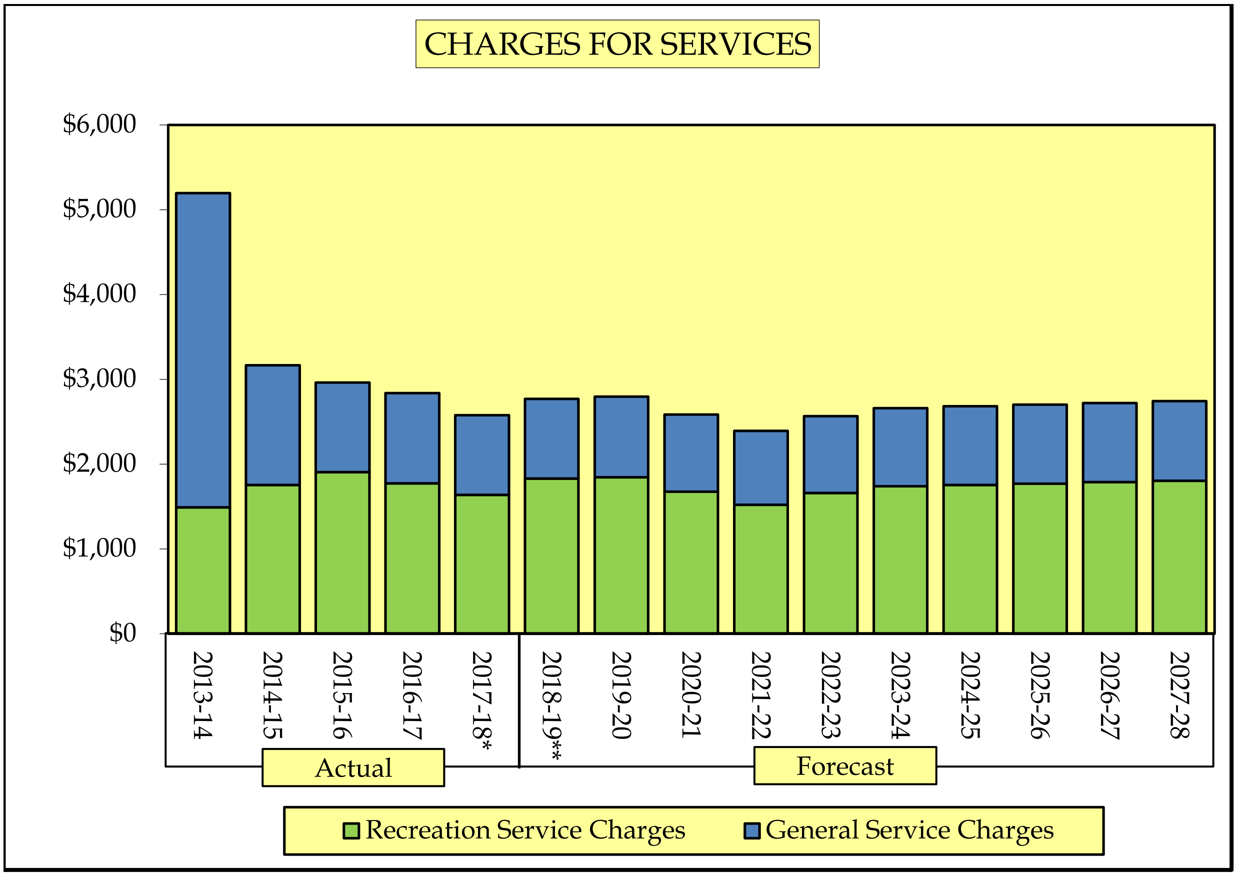
Staff continually reviews programming and pricing, adjusts as appropriate, and Recreation-related Service Charge revenue has continued to improve. Effective with the Fiscal Year 2015-16 Adopted Budget, some Charges for Services revenue was determined to be rental income and was moved to the appropriate revenue category.

On December 13, 2016, Council approved revision of the Recreation Financial Assistance Program (FAP) to a two-tier system which was implemented in September 2017. In addition, the City Council authorized staff to make future amendments to the FAP as part of the City's annual budget process and update the relevant information in the Master Fee Schedule.

Total Service Charge revenue for Fiscal Year 2017-18 is estimated lower than Fiscal Year 2016-17 Audited, primarily due to lower registration fee revenue from Recreation camps and youth classes and the elimination of the Rental Housing Dispute Resolution Program fee.

FORECAST

Total Service Charge revenue for Fiscal Years 2018-19 and 2019-20 is projected to be slightly higher than Fiscal Year 2017-18 estimated. The subsequent two fiscal years reflect the impact of the projected economic downturn, followed by recovery, and slight increases for the remaining Forecast period.



Fiscal Year		Recreation Service Charges	General Service Charges	Total Charges for Services	% Change
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		1,776	1,064	2,840	(4.1%)
2017-18	*	1,637	941	2,578	(9.2%)
2018-19	**	1,830	942	2,772	7.5%
2019-20		1,847	949	2,796	0.9%
2020-21		1,677	907	2,584	(7.6%)
2021-22		1,523	870	2,393	(7.4%)
2022-23		1,662	904	2,566	7.2%
2023-24		1,739	922	2,661	3.7%
2024-25		1,755	927	2,682	0.8%
2025-26		1,772	930	2,702	0.7%
2026-27		1,789	934	2,723	0.8%
2027-28		1,805	939	2,744	0.8%

* 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 2017-18 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).

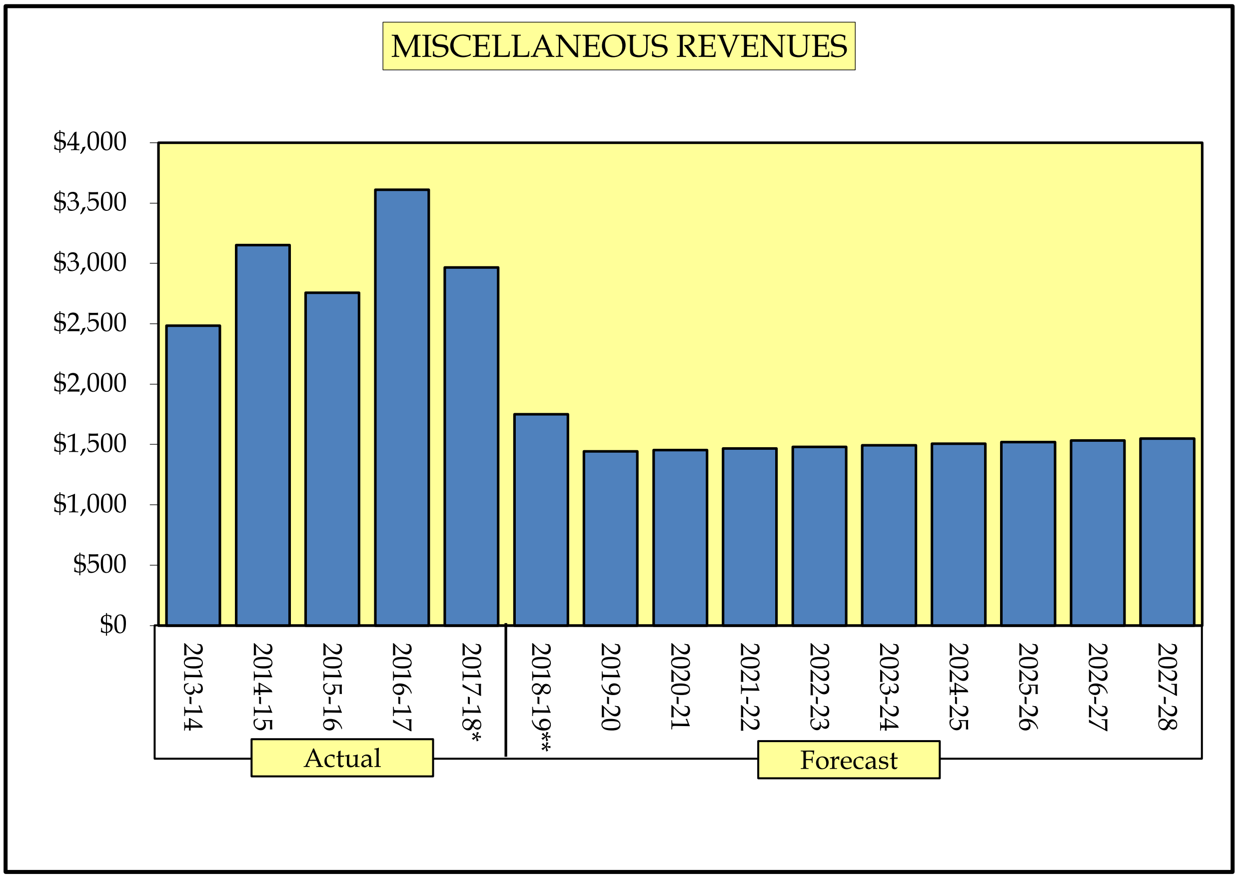
- Contractual first responder for Rural Metro.

- 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 $2.3 million annually.

FORECAST

Fiscal Year 2018-19 Miscellaneous Revenues is projected to be higher than the Fiscal Year 2017-18 Adopted Budget and, as discussed earlier, lower than the Fiscal Year 2017-18 estimated as a result of grants, donations, and reimbursements not budgeted. Fiscal Year 2019-20 is projected with a decline as the City's agreement with Santa Clara County to provide first responder support to Rural Metro expires June, 30 2019. The remaining Forecast years increase less than 1.0 percent annually.



Fiscal Year		Miscellaneous Revenues	% Change
2013-14		2,483	1.0%
2014-15		3,152	26.9%
2015-16		2,757	(12.5%)
2016-17		3,611	31.0%
2017-18	*	2,966	(17.9%)
2018-19	**	1,749	(41.0%)
2019-20		1,443	(17.5%)
2020-21		1,454	0.8%
2021-22		1,466	0.8%
2022-23		1,479	0.9%
2023-24		1,492	0.9%
2024-25		1,506	0.9%
2025-26		1,520	0.9%
2026-27		1,534	0.9%
2027-28		1,550	1.0%

* Estimated
** Recommended
(dollars in thousands)

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INTERFUND REVENUES AND TRANSFERS

Interfund Revenues result from internal charges for staff time, building space, and maintenance services provided to other funds and capital projects by the 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 from 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, most recently during Fiscal Year 2014-15 and the results incorporated for Fiscal Year 2015-16. Fiscal Year 2017-18 estimated is higher than budget as the Community Stabilization and Fair Rent Act (CSFRA) budget adopted in October 2017 included reimbursement of administrative overhead to the GOF which was not included in the GOF Adopted Budget.

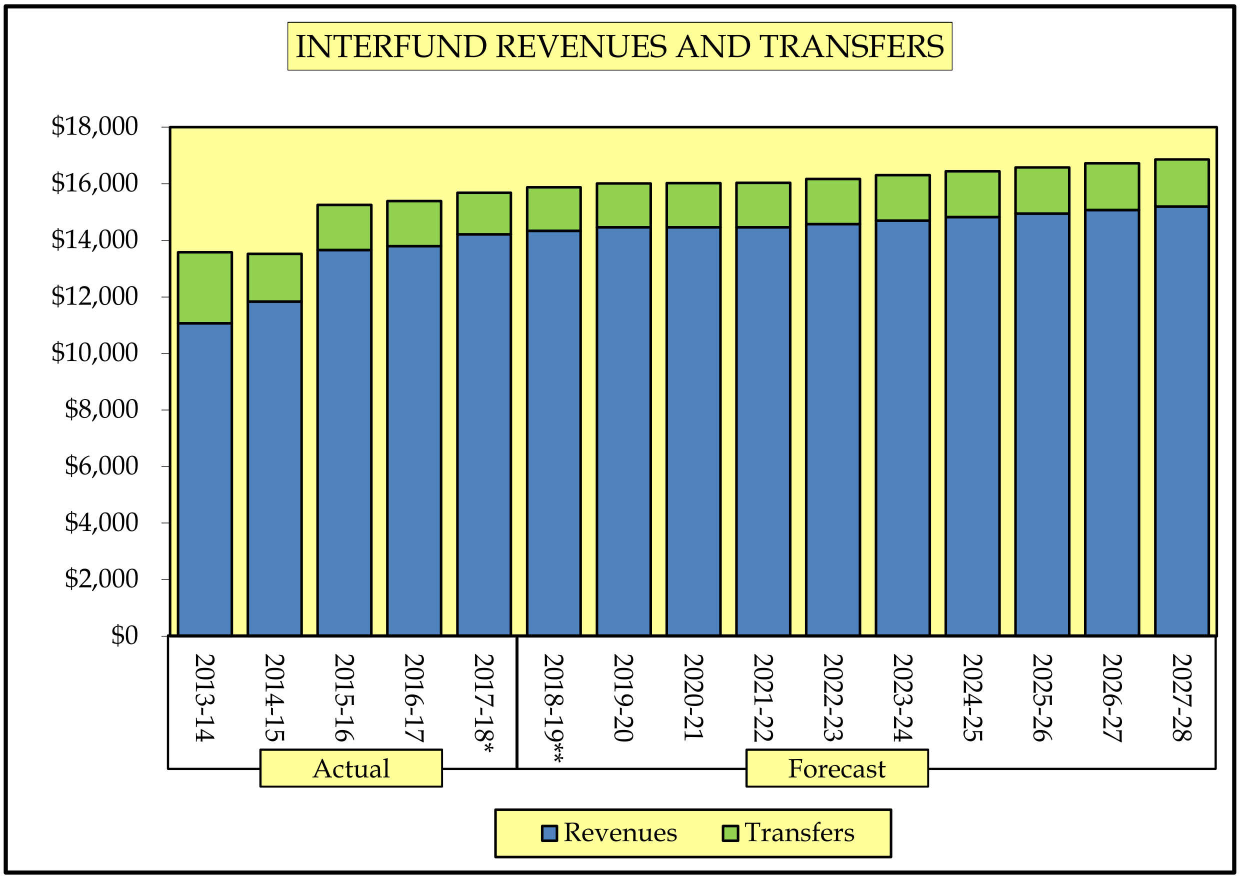
Interfund Transfers: These vary from year to year and are both, ongoing and one-time/ limited-period in nature. Fiscal Year 2017-18 estimated includes the annual transfers from the Gas Tax and Parking District funds, and transfers from the GF Reserve approved by City Council during the current fiscal year.

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, beginning in Fiscal Year 2014-15, Council agreed to defer transfers until interest rates regain prior levels and revenues can be reevaluated.

FORECAST

Interfund Revenues: Fiscal Years 2018-19 and 2019-20 Interfund Revenues include reimbursement from various funds which receive support from the GOF. Revenue is held level during the period of anticipated economic decline and the remaining Forecast period includes annual increases of less than 1.0 percent.

Interfund Transfers: For Fiscal Year 2018-19, 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. As discussed previously, the transfer from the Lease Reserve continues to be deferred. The remaining Forecast period includes level or slightly increasing transfers from the same funds.



Fiscal Year		Interfund Revenues	Interfund Transfers	Total Interfund Rev & Trans	% Change
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		13,795	1,595	15,390	0.9%
2017-18	*	14,218	1,462	15,680	1.9%
2018-19	**	14,337	1,540	15,877	1.3%
2019-20		14,456	1,554	16,010	0.8%
2020-21		14,456	1,567	16,023	0.1%
2021-22		14,456	1,580	16,036	0.1%
2022-23		14,577	1,594	16,171	0.8%
2023-24		14,700	1,607	16,307	0.8%
2024-25		14,823	1,621	16,444	0.8%
2025-26		14,948	1,635	16,583	0.8%
2026-27		15,074	1,649	16,723	0.8%
2027-28		15,201	1,663	16,864	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

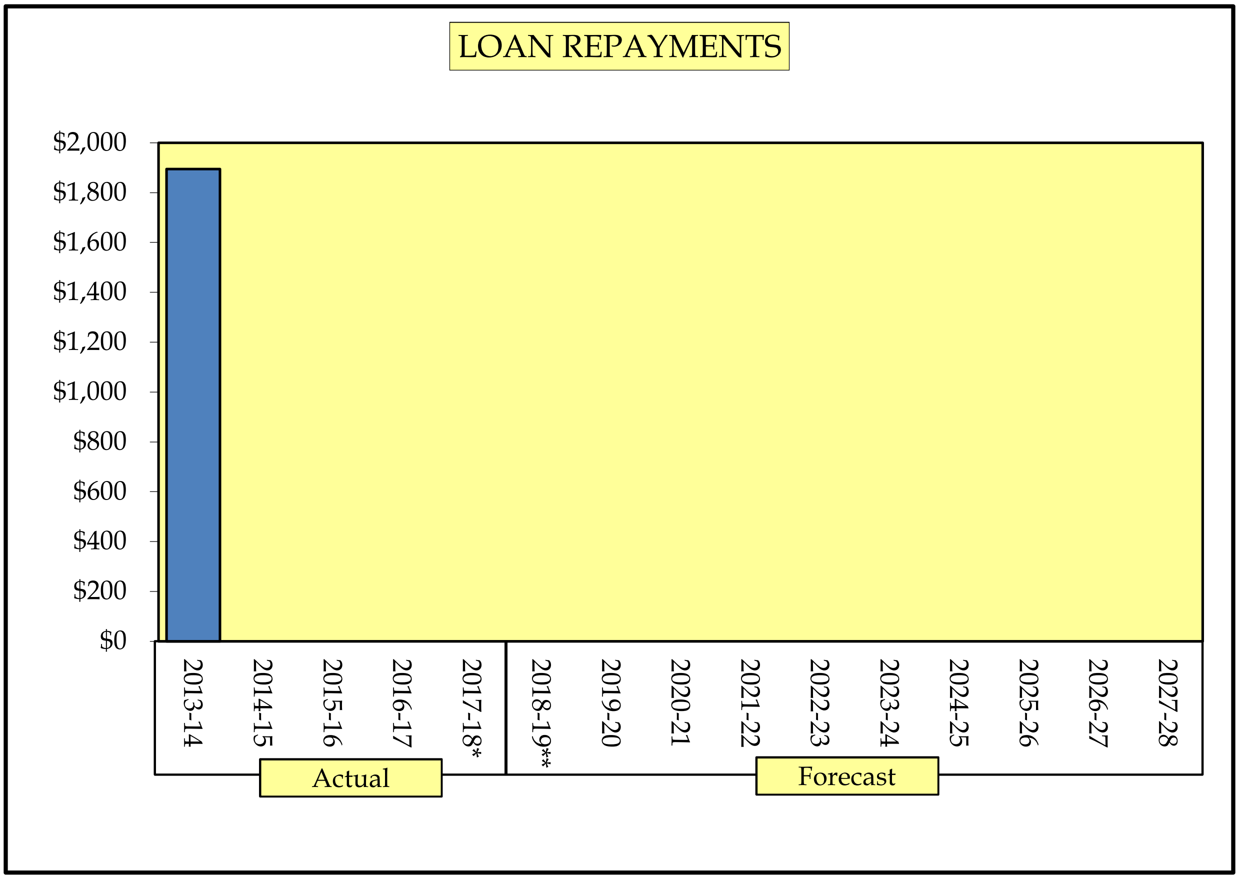
- Financial condition of the paying funds.

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. As this revenue stream was long-term in nature, it had been included as operating revenues. However, as there were only two years of payments remaining, effective with the Fiscal Year 2014-15 Adopted Budget, 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
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%
2022-23		0	0.0%
2023-24		0	0.0%
2024-25		0	0.0%
2025-26		0	0.0%
2026-27		0	0.0%
2027-28		0	0.0%

* Estimated
** Recommended
(dollars in thousands)

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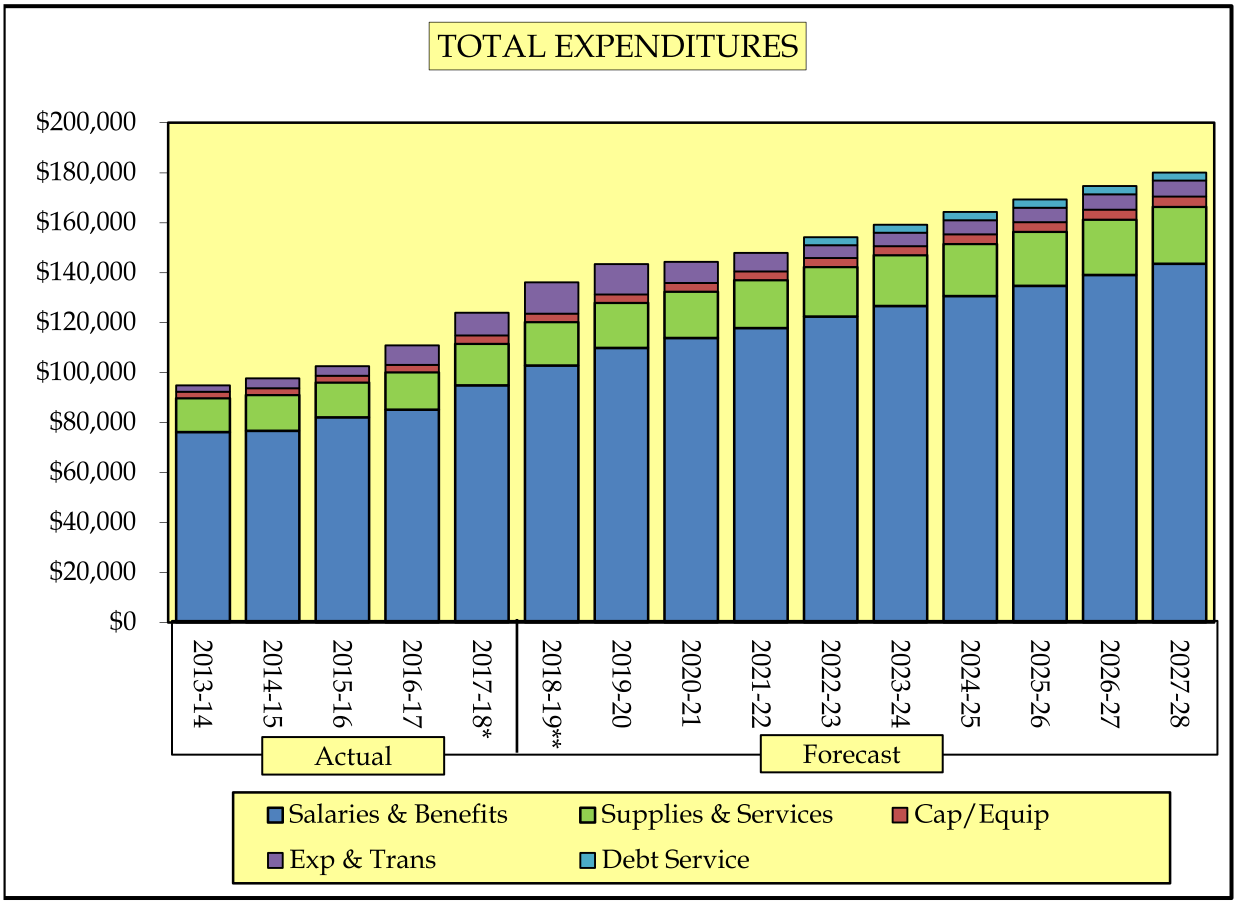


Fiscal Year		Total Expenditures	% Change
2013-14		94,933	2.0%
2014-15		97,677	2.9%
2015-16		102,590	5.0%
2016-17		110,936	8.1%
2017-18	*	123,976	11.8%
2018-19	**	136,078	9.8%
2019-20		143,415	5.4%
2020-21		144,355	0.7%
2021-22		147,973	2.5%
2022-23		154,258	4.2%
2023-24		159,243	3.2%
2024-25		164,281	3.2%
2025-26		169,318	3.1%
2026-27		174,717	3.2%
2027-28		180,127	3.1%

* Estimated
** Recommended
(dollars in thousands)

The Fiscal Year 2018-19 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. 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. During Fiscal Year

2011-12, the City negotiated three-year contracts with all employee groups that expired June 30, 2015, then two-year contracts were negotiated with all employee groups that expired June 30, 2017 and most recently three-year contracts were negotiated with all employee groups that will expire June 30, 2020. 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 pension costs were $2.9 million (4.7 percent of GOF expenditures), compared to $16.6 million (13.9 percent of GOF expenditures) adopted for Fiscal Year 2017-18. 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 2017-18, 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 15 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 lowering 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 initially indicated the reduction would 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 estimated increases of 30.0 percent to 40.0 percent in unfunded accrued liability (UAL) annual payments. Rates provided in the June 30, 2016 actuarial valuation shows the impact to the rates are not as drastic as CalPERS originally indicated: 1.9 percent and 3.1 percent for Miscellaneous and Safety normal cost, respectively, and 11.5 percent and 14.2 percent for Miscellaneous and Safety UAL, respectively.

- On February 14, 2018, the CalPERS Board adopted changes to the Amortization Policy to shorten the amortization period from 30 years to 20 years for new gains and losses and remove the ramp-up and ramp-down effects attributable to assumption, noninvestment, and investment gains and losses. The policy changes are effective June 30, 2019.

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 (including the CalPERS Discount Rate Change Funding Strategy proposed by staff to pay down the unfunded CalPERS liability) from the General Fund totaling $17.5 million from a combination of carryover funds and budgets since Fiscal Year 2014-15 through Fiscal Year 2017-18. 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 Fiscal Years 2015-16 through 2017-18.

FORECAST

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

As mentioned previously, the City negotiated three-year contracts (with a reopener on salary for the third year) with all employee groups which will expire June 30, 2020. The Forecast includes COLAs and other benefits as negotiated for the second and third years of the contracts, Fiscal Years 2018-19 and 2019-20. Each of the remaining Forecast years includes a modest COLA and all Forecast years include step and merit increases.

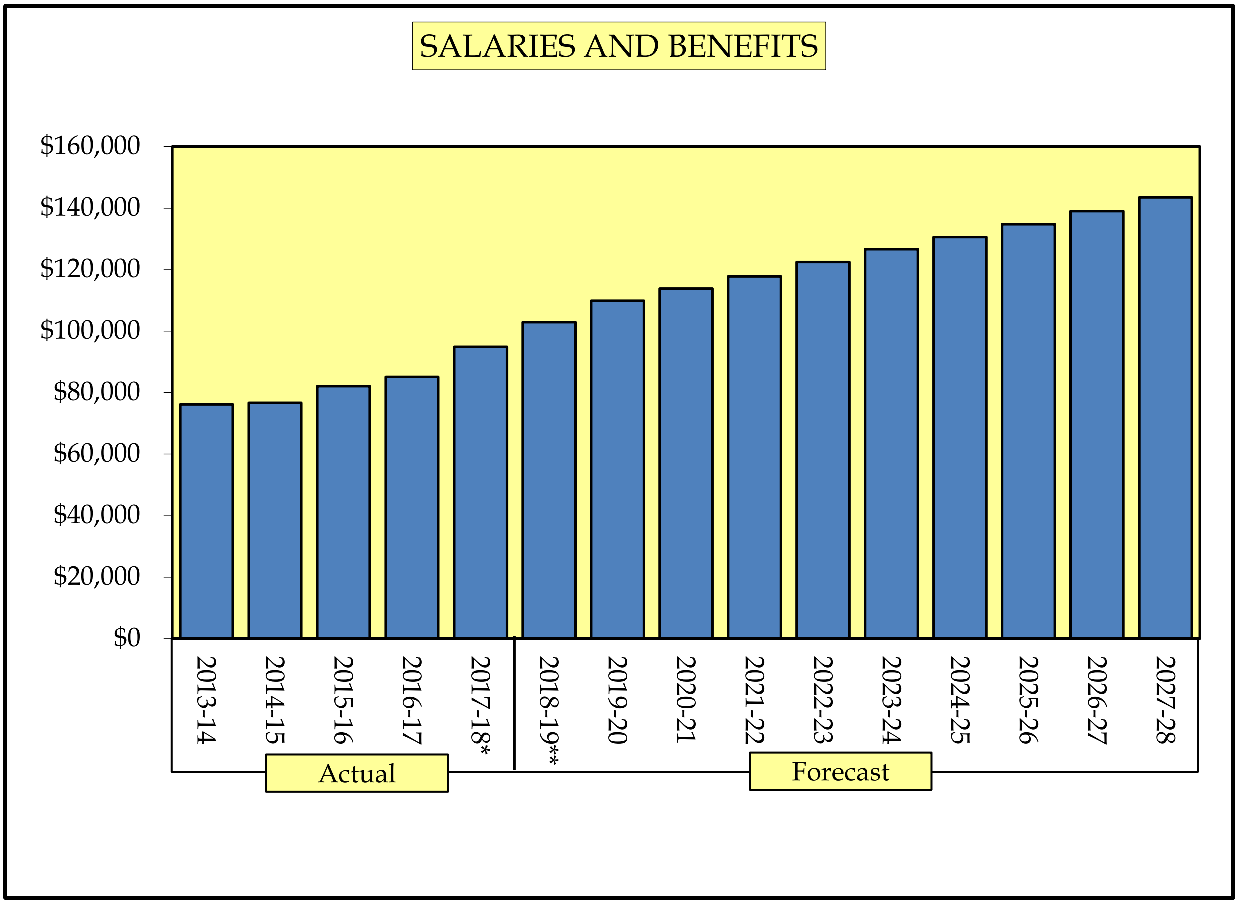
Fiscal Year 2018-19 medical insurance rates are projected to increase 5.0 percent to 10.0 percent (depending on the health plan), for the second half of the fiscal year and dental rates are projected to increase 2.0 percent. The remaining Forecast years assume medical rates will increase 5.0 percent 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 2018-19, retirement benefit costs, overall, are projected to increase 16.3 percent compared to the Fiscal Year 2017-18 Adopted Budget. In Fiscal Years 2019-20 retirement costs are projected to increase another 16.3 percent and gradually decline to a 3.8 percent increase in each of the last four years of the Forecast period. Costs are impacted by salary increases (COLAs, steps, and merits) and CalPERS rates which include the impact of the discount rate change. Annual increases range from $3.1 million to $1.2 million by the end of the Forecast period. The Forecast continues to include available funding to pay down the unfunded CalPERS pension obligation with additional contributions of $2.0 million from the Fiscal Year 2017-18 carryover, $2.0 million in Fiscal Year 2018-19, $2.0 million in Fiscal Year 2019-20, and $1.0 million in Fiscal Year 2020-21 to reduce this unfunded liability. Contributions from other funds for their share of this liability are also included, proportionate to the GF contributions. The chart in the Revenue and Expenditure Overview Section of the Forecast provides detailed amounts for each fiscal year.

Beginning with the June 30, 2015 CalPERS valuation report (rates for Fiscal Year 2017-18), CalPERS provides a rate for the normal cost component and a flat dollar payment for the UAL. Staff then converts the flat dollar UAL payment into a rate based on estimated payroll provided in the CalPERS actuarial in order to distribute the cost to all funds through payroll. Below are the projected employer rates provided in the June 30, 2016 CalPERS actuarial valuations (the valuation for Fiscal Year 2018-19 rates and estimates through Fiscal Year 2024-25), and staff projections for Fiscal Years 2025-26 through 2027-28.

	FY 2018-19	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**
Miscellaneous	30.741	33.960	36.735	38.936	40.688	41.617	42.234	42.865	43.509	44.166
Safety[1]	44.879	49.371	53.508	56.663	59.272	60.668	61.598	62.549	63.523	64.521

[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
2013-14		76,198	2.2%
2014-15		76,707	0.7%
2015-16		82,073	7.0%
2016-17		85,156	3.8%
2017-18	*	94,945	11.5%
2018-19	**	102,870	8.3%
2019-20		109,852	6.8%
2020-21		113,819	3.6%
2021-22		117,781	3.5%
2022-23		122,484	4.0%
2023-24		126,630	3.4%
2024-25		130,639	3.2%
2025-26		134,780	3.2%
2026-27		139,069	3.2%
2027-28		143,522	3.2%

* Estimated
** Recommended
(dollars in thousands)

Fiscal Years 2015-16, 2016-17, 2018-19, and 2019-20 include an additional $2.0M CalPERS contribution, Fiscal Year 2017-18 includes an additional $4.0M CalPERS contribution, and Fiscal Year 2020-21 includes an additional $1.0M 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

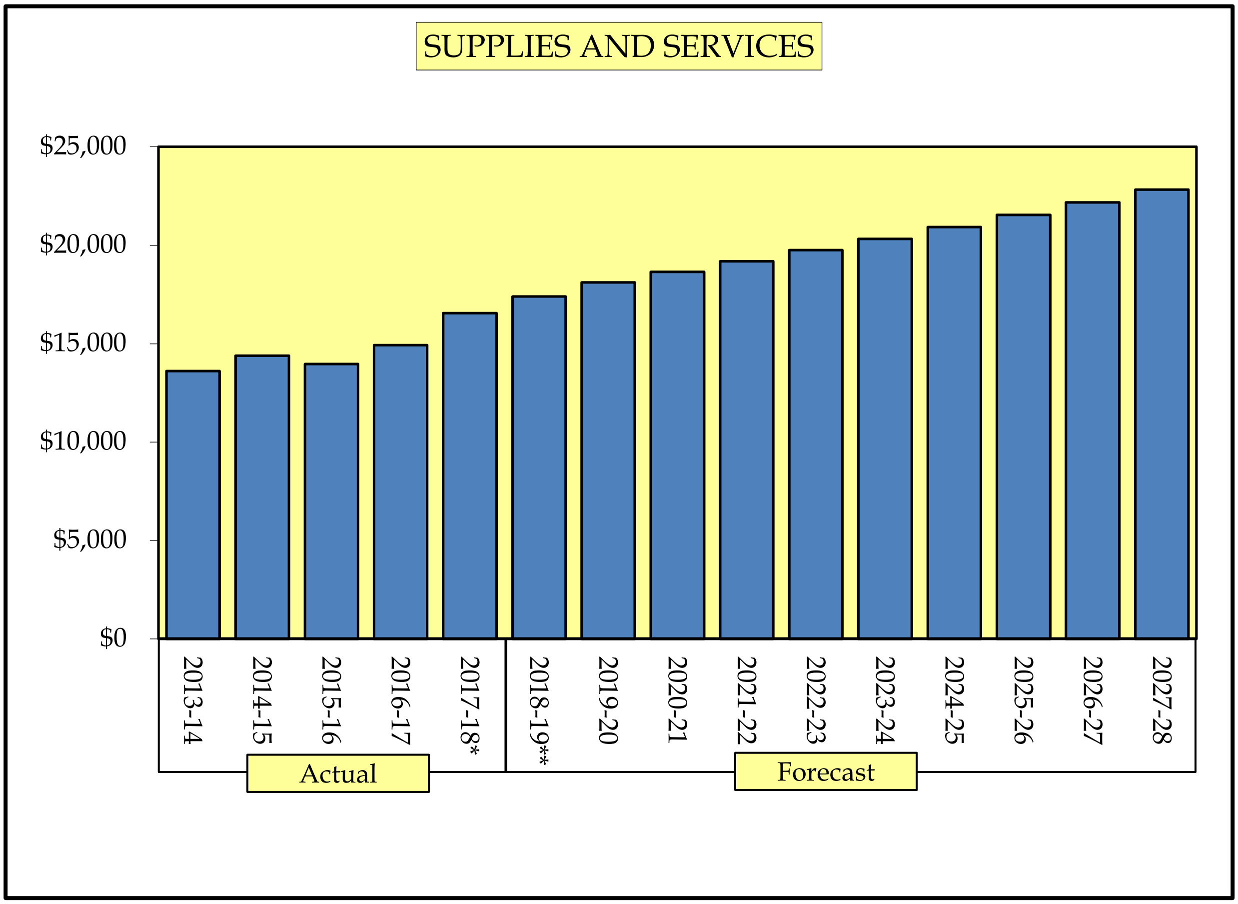
- Materials and Supplies.
- Maintenance and Operations.
- Utilities.
- Professional/Technical Services.
- Training, Conference, and Travel.
- Miscellaneous Expenditures.

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 2018-19 (including recommended discretionary and nondiscretionary increases) is increasing $282,000 (1.6 percent) compared to the Fiscal Year 2017-18 Adopted. The increase is related to Recreation contract classes (offset by revenue), gas and electricity, janitorial and HVAC services, software maintenance, fire protective equipment and training, labor relations, employee engagement and environmental sustainability, offset by reductions in the Rental Housing Program and Parks trash and recycling services. The remainder of the Forecast period includes average annual changes of 3.0 percent.



Fiscal Year		Supplies and Services	% Change
2013-14		13,608	1.4%
2014-15		14,386	5.7%
2015-16		13,969	(2.9%)
2016-17		14,926	6.9%
2017-18	*	16,555	10.9%
2018-19	**	17,392	5.1%
2019-20		18,114	4.2%
2020-21		18,644	2.9%
2021-22		19,190	2.9%
2022-23		19,752	2.9%
2023-24		20,332	2.9%
2024-25		20,928	2.9%
2025-26		21,543	2.9%
2026-27		22,176	2.9%
2027-28		22,828	2.9%

* 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 other funds as appropriate, 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

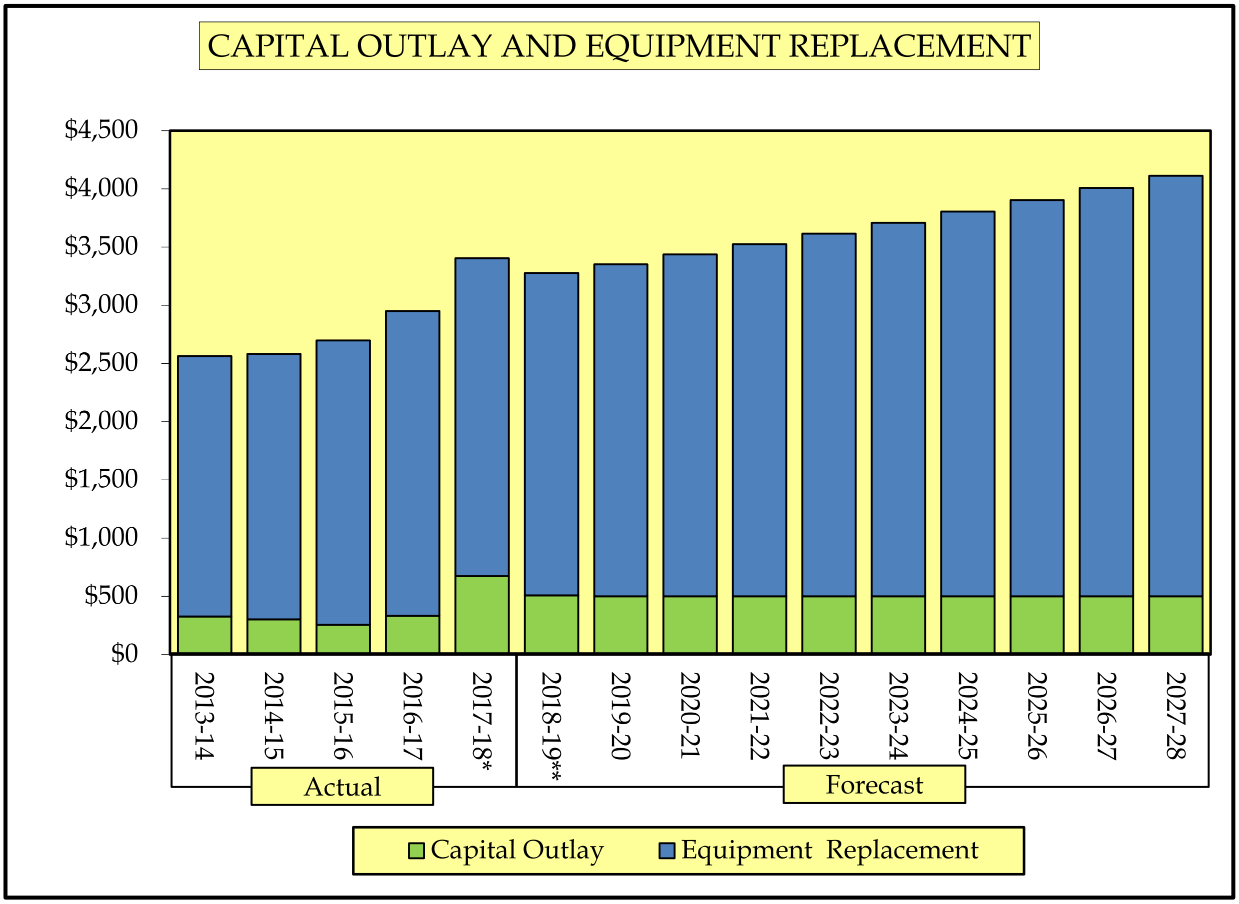
Capital Outlay: Since Fiscal Year 1993-94, annual expenditures have grown as a result of an increased level of technology and related equipment, an increase in the number and quality of safety vehicles, and the addition of hybrid vehicles to the fleet. This category is also influenced by the economic 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 $405,000. For Fiscal Year 2017-18, Capital Outlay was funded at $500,000.

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 2017-18 contribution to Equipment Replacement was adopted at $2.7 million.

FORECAST

Capital Outlay: For Fiscal Year 2018-19, recommended capital outlay items total $507,900, and annual funding of $500,000 is included as the base level of funding for the remaining Forecast period.

Equipment Replacement: The GOF contribution for Fiscal Year 2018-19 is increasing 1.5 percent to $2.8 million and the remaining 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
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		331	2,619	2,950	9.4%
2017-18	*	674	2,728	3,402	15.3%
2018-19	**	508	2,768	3,276	(3.7%)
2019-20		500	2,851	3,351	2.3%
2020-21		500	2,936	3,436	2.5%
2021-22		500	3,024	3,524	2.6%
2022-23		500	3,115	3,615	2.6%
2023-24		500	3,208	3,708	2.6%
2024-25		500	3,305	3,805	2.6%
2025-26		500	3,404	3,904	2.6%
2026-27		500	3,506	4,006	2.6%
2027-28		500	3,611	4,111	2.6%

* Estimated
** Recommended
(dollars in thousands)

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.
- Housing.
- Limited-Period Needs.
- Capital Improvements.
- Strategic Property Acquisition.

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 the City's Health Net medical coverage and safety employees and retirees who are covered by the CalPERS health insurance program (PEMHCA), 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 other funds as appropriate.

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

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, 2017.

In February 2008, Council approved an agreement authorizing the City's participation in the CalPERS-administered CERBT Fund, and in February 2009, the City began depositing funds into the CERBT. The balance in the CERBT is estimated to be $122.8 million by the end of the current fiscal year. All funds except the GOF had previously contributed their full share of the actuarial accrued liability. However, changes such as the option to choose the Defined Contribution plan, has added volatility to calculating the actuarial accrued liability for each fund. Staff will continue to work towards all other funds contributing their full share as valuations are updated. The City Council has approved additional General Fund contributions totaling $10.5 million from Fiscal Years 2014-15 through 2017-18. 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.

GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*, is effective with the fiscal year ending June 30, 2018. The new OPEB standard parallels the pension standard issued with GASB Statement No. 68, *Financial Reporting for Pension Plans*, which essentially requires the City to report the unfunded liability on the face of the City's financial statements and enhances the note disclosures and required supplementary information (RSI) the City's OPEB liability.

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. For Fiscal Years 2014-15 and 2015-16, 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, beginning Fiscal Year 2016-17, the budget includes an annual transfer of these property taxes, in the amount of $51,000, to the General Housing Fund. In addition, the Fiscal Year 2016-17 Adopted Budget included a transfer from the General Non-Operating Fund to the General Housing Fund for the balance of prior fiscal year funds.

General Non-Operating Fund (GNOF): As directed by the City Council at the Fiscal Year 2016-17 budget public hearing, the Adopted Budget included 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.

GF Budget Contingency Reserve: The full projected annual revenue from the Ameswell (Moffett Gateway) property after a few years of operations is estimated at over $4.0 million. The majority of this revenue is currently recommended to be earmarked for debt service to fund the Police/Fire Administration Building Remodel and Expansion (see Debt Service section).

During the Fiscal Year 2017-18 budget process, a strategy was adopted for the revenue received in the fiscal years prior to the beginning of debt service be used for a limited-period need and transferred to this reserve. The Fiscal Years 2017-18 Adopted Budget included a transfer of $755,400 to the Budget Contingency Reserve. However, the project has been delayed and to date, the building permit has not been issued and no revenue has been received. The Council has requested reviewing the funding of the Police/Fire Administration Building capital improvement project that could modify this strategy, and will discuss this as part of the CIP Study Session on May 1, 2018.

GF Capital Improvement Reserve: During Fiscal Year 2017-18, the decennial revaluation process has been completed for the three City-owned land leases between the City and Google. Based on the revaluations of the three sites, annualized rent payments are increasing approximately $6.8 million. Since it is probable that during the time span before the next decennial adjustment in April 2026, there will be at least one economic downturn and 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, to reduce the dependency on these revenues, staff recommended, and the City Council adopted, a strategy to set aside 10.0 percent of this potential decline in lease revenues to fund future capital projects. In Fiscal Year 2017-18, a potential 10.0 percent decline in revenues, calculated at $1.2 million, was transferred to the Capital Improvement Reserve to fund projects in Fiscal Year 2018-19 or later.

GF 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. The Fiscal Years 2016-17 and 2017-18 Adopted Budgets included transfers of $2.0 million each to the SPAR in order to increase the available funding for future property investment.

FORECAST

General Liability: The Fiscal Years 2018-19 through 2027-28 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 2018-19, the GOF is contributing $1.0 million for the cost of claims and administering the program, an 11.3 percent decrease from Fiscal Year 2017-18 Adopted. The remaining Forecast period includes 3.0 percent annual increases.

Vision Care: The GOF's contribution is the same level as Fiscal Year 2017-18 Adopted.

Retirees' Health Insurance Program: Fiscal Year 2018-19 includes $1.8 million for the UAAL amortization. The remaining Forecast years use projections based on information provided in the July 1, 2017 valuation for the UAAL amortization.

The City has made great strides toward funding the AAL of $151.3 million (projected for Fiscal Year 2018-19), with estimated assets of $122.8 million as of June 30, 2018, or 81.2 percent funded, at a discount rate of 6.5 percent. Staff is recommending the discount rate be reduced from 6.73 percent to 6.50 percent to provide a margin for adverse deviation or uncertainty. It is also anticipated the CERBT will consider a reduction in the discount rate in June and staff recommends that if the discount rate is reduced by CERBT, the City's discount rate be reduced to 6.25 percent for Fiscal Year 2019-20. Staff presented this information to the Council Finance Committee (CFC) on March 27, 2018 and the CFC approved staff's recommendation.

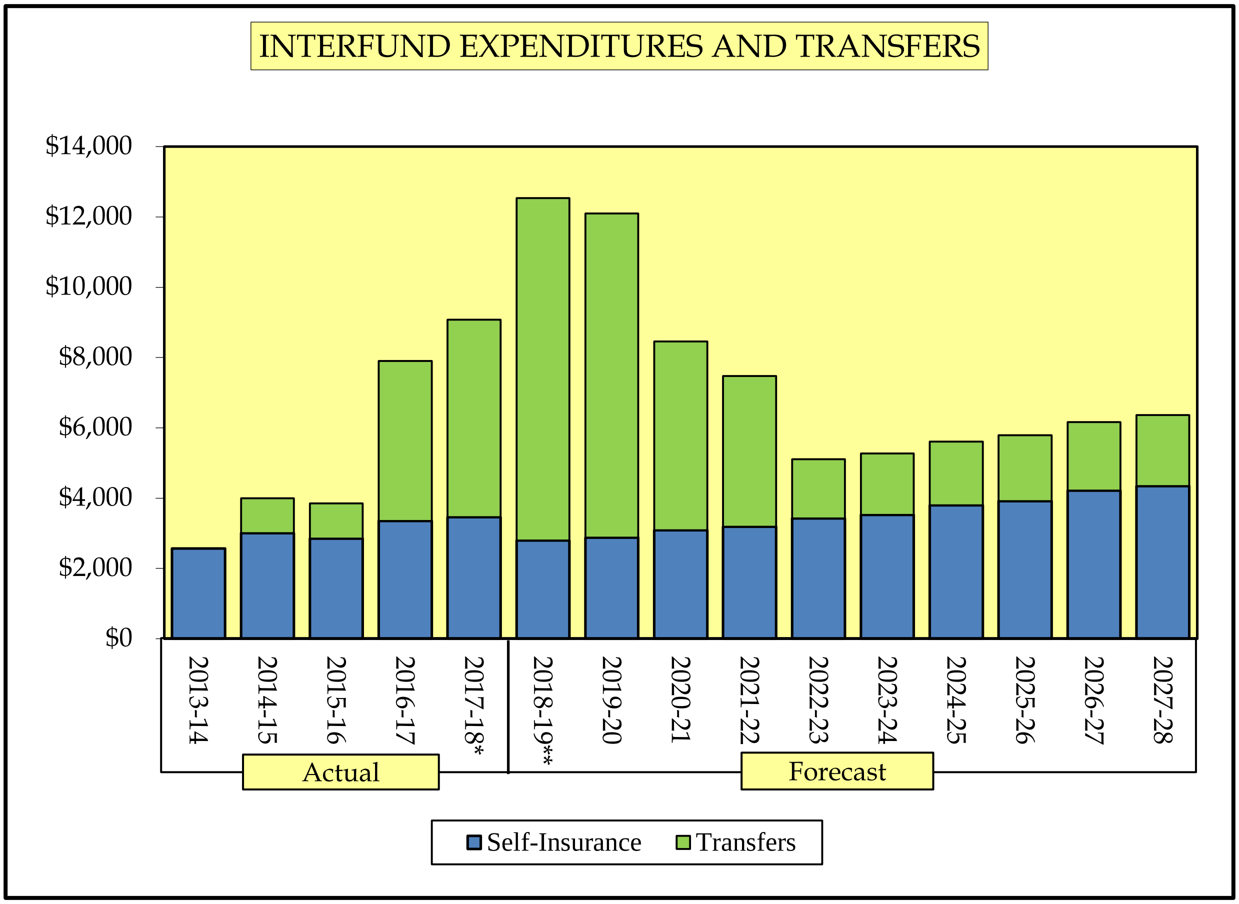
Housing: As a result of the dissolution of the former Revitalization Authority (RDA), the GOF now receives its share of the former RDA property taxes. An annual transfer of these property taxes, in the amount of $51,000, to the Housing Fund is included for the remaining Forecast period.

General Fund Reserve: For Fiscal Year 2018-19, staff is recommending a transfer of $1.0 million from the General Fund to bring this reserve above the 20.0 percent minimum level (see the Reserve Section).

GF Budget Contingency Reserve: As discussed above, revenue from the Ameswell development is estimated to begin in Fiscal Year 2017-18 and by the end of the forecast period is projected at $4.0 million annually. This revenue is recommended to be earmarked for debt service payments related to the Police/Fire Administration Building Remodel and Expansion (see Debt Service section). It is anticipated the debt will be issued in Fiscal Year 2022-23 and, in the interim, Fiscal Years 2018-19 through 2021-22 include transfers ranging from $1.3 million to $2.8 million to the Budget Contingency Reserve. However, the Council has requested reviewing the funding of the Police/Fire Administration Building Remodel and Expansion project that could modify this strategy, and will discuss this as part of the CIP Study Session on May 1, 2018.

GF Transportation Reserve: A number of priority transportation projects have been identified and a new Transportation Reserve is recommended with $2.0 million initial funding from the Fiscal Year 2017-18 GF carryover, $2.0 million from the GOF for both Fiscal Years 2018-19 and 2019-20, and $1.0 million for Fiscal Year 2020-21. Based on the current Forecast, this would provide $7.0 million of funding over the four-year period (see the Reserve Section).

GF Capital Improvement Reserve: As mentioned in the History section above, in order to reduce the dependency on the long-term lease revenues and also accommodate increased costs resulting from labor negotiations, $1.4 million is recommended to be transferred to the Capital Improvement Reserve for Fiscal Year 2018-19. For the remaining Forecast period, this amount is increased by the annual rent escalation factors referenced in the lease agreements. In addition, $4.0 million allocations for both Fiscal Years 2018-19 and 2019-20 are recommended for debt service to fund the Police/Fire Administration Building Remodel and Expansion if Council desires to fund the project sooner than revenues from the Ameswell development will be received (see the Reserve Section).



Fiscal Year		Self Insurance	Transfers	Total SI & Transfers	% Change
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	5,617	9,074	14.8%
2018-19	**	2,792	9,748	12,540	38.2%
2019-20		2,876	9,222	12,098	(3.5%)
2020-21		3,090	5,366	8,456	(30.1%)
2021-22		3,183	4,295	7,478	(11.6%)
2022-23		3,424	1,683	5,107	(31.7%)
2023-24		3,527	1,746	5,273	3.3%
2024-25		3,798	1,811	5,609	6.4%
2025-26		3,912	1,879	5,791	3.2%
2026-27		4,216	1,950	6,166	6.5%
2027-28		4,342	2,024	6,366	3.2%

* Estimated
** Recommended
(dollars in thousands)

DEBT SERVICE

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

CATEGORIES

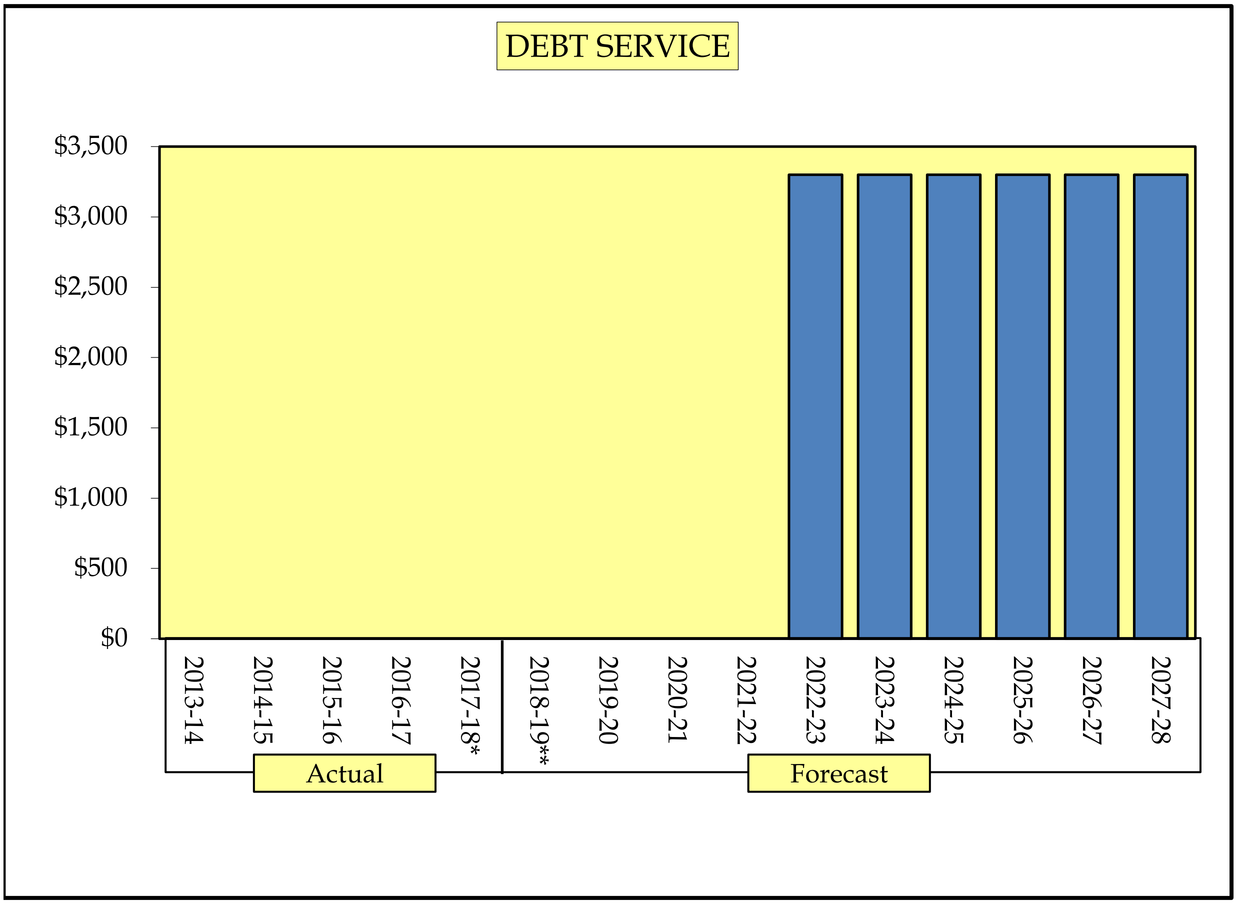
- Police/Fire Building.

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 $3.3 million have been included as a placeholder beginning in Fiscal Year 2022-23. However, the Council has requested reviewing the funding of the Police/Fire Administration Building Remodel and Expansion project that could modify the timing of the issuance of debt and will discuss this as part of the CIP Study Session on May 1, 2018.



Fiscal Year		Debt Service	% Change
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		0	0.0%
2020-21		0	0.0%
2021-22		0	0.0%
2022-23		3,300	100.0%
2023-24		3,300	0.0%
2024-25		3,300	0.0%
2025-26		3,300	0.0%
2026-27		3,300	0.0%
2027-28		3,300	0.0%

* Estimated
** Recommended
(dollars in thousands)

EXHIBIT A

GENERAL OPERATING FUND HISTORY (dollars in thousands)

	2008-09 AUDITED	2009-10 AUDITED	2010-11 AUDITED	2011-12 AUDITED	2012-13 AUDITED	2013-14 AUDITED	2014-15 AUDITED	2015-16 AUDITED	2016-17 AUDITED
REVENUES:									
Property Taxes	25,647	26,017	25,142	26,216	28,122	31,120	35,173	39,461	43,774
Sales Tax	16,264	15,242	15,502	15,940	16,744	16,936	19,773	21,401	21,828
Other Local Taxes[1]	9,242	9,144	9,870	10,774	12,015	13,089	14,805	15,137	15,866
Use of Money and Property	11,480	10,881	10,290	10,138	10,783	10,690	10,928	12,219	16,896
Other Revenues[2]	23,270	23,072	24,361	27,079	27,253	28,316	26,261	27,693	28,325
Loan Repayments	2,060	2,060	2,075	1,894	1,894	1,894	-0-	-0-	-0-
TOTAL REVENUES	87,963	86,416	87,240	92,041	96,811	102,045	106,940	115,911	126,689
EXPENDITURES:									
Salaries and Benefits	68,091	69,549	69,007	72,537	74,561	76,198	76,707	80,073	83,156
Supplies and Services	13,155	11,933	12,226	12,910	13,414	13,608	14,386	13,969	14,926
Capital Outlay/ Equipment Replacement	1,504	2,213	2,253	2,282	2,315	2,562	2,582	2,696	2,950
Interfund Expenditures and Transfers	809	2,441	2,674	2,876	2,751	2,565	3,002	2,852	3,404
Debt Service	1,020	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL EXPENDITURES	84,579	86,136	86,160	90,605	93,041	94,933	96,677	99,590	104,436
Transfer to GNOF	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(500)
CalPERS Contrib.	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(2,000)	(2,000)
OPEB Contrib.	-0-	-0-	-0-	-0-	-0-	-0-	(1,000)	(1,000)	(2,000)
Transfer to SPAR	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(2,000)
OPERATING BALANCE[3]	3,384	280	1,080	1,436	3,770	7,112	9,263	13,321	15,753

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

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