COUNCIL REPORT

CITY OF MOUNTAIN VIEW

DATE: April 27, 2021

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Fiscal Year 2020-21 Third Quarter Budget Status Report, Fiscal Year 2021-22 Preliminary General Operating Fund Forecast Update, and American Rescue Plan Act Funding Update**

RECOMMENDATION

1. Acknowledge and file the Fiscal Year 2020-21 Third Quarter Budget Status Report and the Fiscal Year 2021-22 Preliminary General Operating Fund Forecast Update.

2. Consider staff's recommendations on the use of American Rescue Plan Act funding and approve or modify as appropriate.

INTRODUCTION

The City Council was presented with a First Quarter update of the Fiscal Year 2020-21 budget on November 10, 2020 and the Midyear Report on February 9, 2021. This report provides an update of the City's budgetary position at approximately the three-quarter point in the fiscal year as well as an updated preliminary General Operating Fund (GOF) forecast for the upcoming fiscal year. The Fiscal Year 2021-22 Recommended Budget will be presented to Council on June 8, 2021 along with an updated forecast.

The Third Quarter budget status of the Fiscal Year 2020-21 GOF estimates revenues at $141.5 million, $2.7 million (1.9 percent) lower than budgeted. Including estimated budget savings, operating expenditures are estimated at $141.2 million, $2.9 million (2.0 percent) below the Adopted Budget and $7.2 million (4.8 percent) below the Adjusted Budget. The GOF is currently estimated to end the fiscal year with a $316,000 operating balance. However, an estimated $4.8 million in Excess Educational Revenue Augmentation Fund (ERAF) revenue is expected to be received before year-end. This revenue, considered to be one-time in nature, will be recorded to the GOF in Fiscal Years 2020-21 and 2021-22 in order to smooth the impacts of lost revenue due to the COVID-19 pandemic. This revenue source may end beyond Fiscal Year 2021-22 based on information received from the County Auditor-Controller's Office. The result of this additional revenue on the GOF is a revised ending operating balance of $5.1 million for Fiscal Year 2020-21.

Various forms of Shelter-in-Place (SIP) restrictions from the global COVID-19 pandemic have continued much longer than anticipated in the Adopted Budget, which assumed SIP restrictions would be lifted by June 30, 2020, followed by a transition period for businesses to begin their recovery. While the estimated GOF operating balance for the current fiscal year is positive at this time, expenditure savings have been a primary reason for this. Although some revenues have been impacted more significantly than others, the impact overall does not appear to be as drastic as the SIP-through-October scenario that was shown in the Adopted Budget. The Adopted Budget projected impacts to revenues for two scenarios: SIP through August showing a potential negative balance of $2.5 million, and SIP through October showing a potential negative balance of $5.0 million.

Over the last few months, under the State's Blueprint for a Safer Economy, the County moved to a less restrictive tier while the administration of the local vaccination program expanded to include broader segments of the population. COVID-19 testing positivity and hospitalization rates have come down significantly in the past couple of months, indicating a more favorable trend. However, there still remains a significant amount of concern and uncertainty as to when restrictions will be completely lifted and the community will be able to return to normal.

Given the duration of the pandemic, the state of the economy remains tenuous. COVID-19 vaccinations started slowly in January 2021, including at a mass vaccination site at the City's Community Center, but have increased and expanded more rapidly since that time. Consequently, it is assumed that a large majority of the general public may be vaccinated by late summer or fall 2021. This estimate assumes the earliest recovery period will start this summer for certain categories, such as sales tax and other local taxes, but other revenue categories are not expected to recover until well into the following fiscal year.

In addition to the progress being made with vaccinations, the President of the United States recently signed into law the American Rescue Plan Act ("ARPA") (H.R. 1319), containing $1.9 trillion in funding consisting of payments to individuals and various levels of government, including state and local agencies as well as school districts. It is expected this will have a stimulating effect on the economy and provide relief for communities that have suffered from the pandemic over the past year. The ARPA includes over $65 billion for local governments nationwide. **The City is expected to receive approximately $14.8 million based on preliminary estimates to be paid in two tranches, the first 50 percent distributed in the next two months and the remaining**

50 percent one year later. The last section of this report contains staff's recommendations for potential uses of a portion of the first tranche of ARPA funds.

Development Services Fund revenues and expenditures are trending below budget, and the ending balance is necessary to continue funding operations for projects that have already paid fees during this slowdown in the economy. The revenues and expenditures of the Shoreline Golf Links/Michaels at Shoreline Restaurant are below budget. While the golf course is doing well, the restaurant continues to be significantly impacted by SIP restrictions. The Shoreline Regional Park Community (SRPC) revenues are trending higher than budget, primarily due to higher property tax revenue, and expenditures are trending below budget. Water Fund revenues are currently trending slightly higher than budget. Wastewater and Solid Waste Funds revenues are trending below budget. Expenditures for all three funds are currently trending below budget.

The preliminary Fiscal Year 2021-22 Forecast for the GOF projects revenues at $146.4 million, $2.3 million (1.6 percent) higher than the current fiscal year Adopted Budget. There is anticipated revenue growth from increasing property tax revenue (from changes in ownership, new development, and a lower 1.036 percent California Consumer Price Index (CCPI)), Consumer Price Index increases on the City's leases, and the final-year phase-in of the new Business License structure. However, it should be noted that 90 percent of the increased Business License Tax is transferred to the Transportation Reserve and Housing Fund, as directed in an adopted Council resolution.

Most of these revenue increases are offset by lower projected revenues from Sales Tax, Transient Occupancy Tax, and Charges for Services due to continuing impacts of SIP restrictions. The projected revenues are not sufficient to meet currently projected expenditures, resulting in a preliminary projected operating shortfall of $4.0 million. Consequently, as mentioned above, staff is recommending the Excess ERAF revenue be recorded in the GOF in Fiscal Years 2020-21 and 2021-22 in order to smooth the impacts of lost revenue due to the COVID-19 pandemic. **This balance includes preliminary expenditure recommendations for Fiscal Year 2021-22 that will be considered as part of the upcoming budget process and estimates for potential changes to labor agreements that are currently being negotiated. Staff's final recommendations for next year's budget will be considered by Council on June 8, 2021.**

BACKGROUND AND ANALYSIS

I. FISCAL YEAR 2020-21 THIRD QUARTER BUDGET STATUS SUMMARY

The Third Quarter Budget Status Report represents staff's best estimate of the City's budgetary position at this point in time, approximately three-quarters through the fiscal year and making certain assumptions regarding revenues and expenditures for the remainder of the fiscal year. This section of the report includes a discussion of Fiscal Year 2020-21 revenue and expenditure estimates compared to budget for major funds.

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

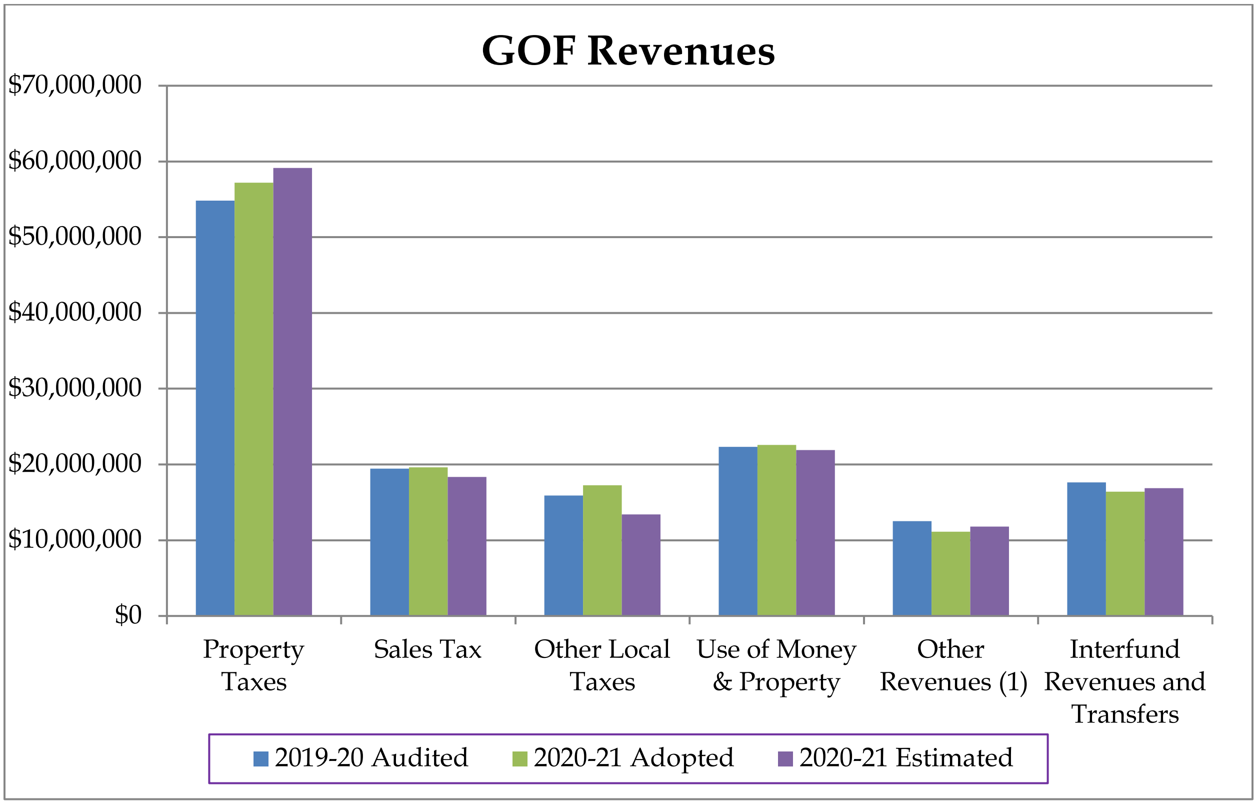
	2019-20 Audited	2020-21 Adopted Budget	2020-21 Adjusted	**2020-21 Estimated**	Variance of 2020-21 Estimated to 2020-21 Adjusted
Revenues	$ 142,667	$ 144,162	$ 144,852	**$ 141,487**	($3,365)
Expenditures[1]	(129,911)	(144,021)	(148,352)	**(141,171)**	7,181
Rebudgets[2]	(1,229)	-0-	4,112	**-0-**	(4,112)
Operating Balance	11,527	141	612	**316**	(296)
Excess ERAF	-0-	-0-	-0-	**4,864**	4,864
Transfer to GNOF[3]	(5,527)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	(2,000)	-0-	-0-	**-0-**	-0-
CalPERS Contribution	(4,000)	-0-	-0-	**-0-**	-0-
Ending Balance	$ -0-	$ 141	$ 612	**$ 5,180**	$4,568

(1) Adopted and Adjusted Budgets include $4.0 million in projected budget savings.
(2) Rebudgets include grant and donation carryovers from the prior fiscal year and changes in encumbrances and assets and liabilities for audited results.
(3) Includes $1.0 million in Fiscal Year 2019-20 for the Sustainability Capital Project.

General Operating Fund

Revenues

The chart below is a comparison of the Fiscal Year 2019-20 Audited and Fiscal Year 2020-21 Adopted and Estimated for GOF major revenue categories.



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

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

Property Tax revenue is estimated at $59.1 million, $1.9 million (3.4 percent) higher than budget. This is $732,000 (1.3 percent) better than the midyear estimate primarily due to higher unsecured and supplemental payments. Supplemental payments tend to fluctuate due to changes in ownership and new construction. The Fiscal Year 2020-21 Adopted Budget included projected growth based on a positive 2.0 percent CCPI applied to a majority of properties plus increased values related to changes in ownership and new development. The information provided by the Santa Clara County Assessor after the beginning of the current fiscal year indicates the total actual July 1, 2020 General Fund Assessed Value (AV) increased a net 8.7 percent compared to the July 1, 2019 AV, reflecting growth in secured AV and a decline in unsecured AV. However, the County continues to process appeals and refunds, and the estimated revenue takes into consideration anticipated additional refunds by the end of the current fiscal year.

Sales Tax revenue is currently estimated at $18.4 million, $1.2 million (6.3 percent) and $544,000 below budget and the midyear estimate, respectively. The estimate includes $1.2 million additional sales tax the City received for the second quarter of 2020, which was not accrued at 2019-20 fiscal year-end. After adjusting to exclude the unanticipated additional taxes, the adjusted current estimate is at $17.1 million, $2.5 million (12.7 percent) below budget. The scenarios provided in the Adopted Budget projected a sales tax revenue loss of $1.3 million and an additional $1.5 million loss with SIP restrictions continuing through August and October, respectively. Although the SIP restrictions were partially eased over the summer with restaurant dining allowed outdoors and retailers able to open with restrictions to the number of patrons allowed inside, the restrictions tightened again in December 2020 before easing again in March 2021 and result in the estimated revenue being between the SIP through August and October projections.

Other Local Taxes revenue is estimated at $13.4 million in total, $3.8 million (22.2 percent) below budget. This is $197,000 higher than the midyear estimate, primarily due to receipt of more Transient Occupancy Tax (TOT) than anticipated. This is primarily due to TOT revenue, which is estimated to be $3.3 million (64.3 percent) below budget. With the continued SIP restrictions, even with the easing over the summer, travel is significantly impacted, affecting hotel stays and related revenue. The scenarios provided in the Adopted Budget projected a TOT revenue loss of $1.1 million and an additional $558,000 with SIP restrictions continuing through August and October, respectively. Since some form of SIP restrictions is expected to continue for the remainder of Fiscal Year 2020-21, the impact is greater than projected. In addition, business travel has been further impacted by the decision of some local businesses and corporations to voluntarily extend telecommuting for their employees beyond the County's Work-from-Home order.

Based on the payments received to date, Utility Users Tax (UUT) revenue is estimated to be $217,000 (2.8 percent) below budget. UUT generated from telecommunications services has been steadily declining since Fiscal Year 2015-16. The pervasive use of cell phones has eliminated the necessity and cost of a landline for many people, and it is not uncommon for a cell phone to be utilized for both personal and professional uses. UUT generated from energy services is trending slightly higher than budget, primarily from an increase in PG&E and smaller energy providers, offset by lower-than-projected revenue from Silicon Valley Clean Energy (SVCE).

Business License revenue is estimated to be $351,000 (7.9 percent) below budget based on billings for the new Business License Tax structure.

Use of Money and Property revenue is comprised of Investment Earnings and Rents and Leases and is estimated at $21.9 million, $650,000 (2.9 percent) below budget and on track with the midyear estimate. Investment Earnings revenue is estimated $84,000 (2.9 percent) higher than budget. From December 2016 to December 2018, the Federal Open Market Committee (FOMC) increased the benchmark interest rate eight times from the benchmark target of 0.25 percent to 0.5 percent to a benchmark target of 2.25 percent to 2.5 percent, resulting in increased yields on investment securities available for the City to purchase. Since then, the FOMC reduced the benchmark interest rate five times, the most significant reduction being 150 basis points in March 2020 to a target benchmark of 0.0 percent to 0.25 percent. While the portfolio is still benefiting from the securities purchased in the prior fiscal years, as investments mature, they are replaced with lower-yielding investments. Rents and Leases revenue is estimated to be $734,000 (3.7 percent) below budget due to SIP restrictions and reduced or waived payments that resulted in reduced rental receipts.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is estimated at $5.6 million, $669,000 (10.7 percent) below budget. This is $73,000 lower than the midyear estimate, primarily due to less revenue received from franchise fees and fines. Licenses, Permits, and Franchise Fee revenue is estimated $200,000 (3.7 percent) below budget. Fines and Forfeiture revenue is estimated at $469,000 (58.4 percent) below budget, the largest being parking violations, vehicle fines, and false alarm fees.

Intergovernmental revenue is estimated at $845,000, $143,000 (20.4 percent) higher than budget and essentially the same as the midyear estimate. This is related to unbudgeted and higher-than-expected reimbursements from governmental agencies, such as SB 90 Mandated Cost Reimbursement claims and Rapid Enforcement Allied Computer Team (REACT).

Charges for Services revenue is generated by fees assessed for Recreation and other types of services and is estimated at $1.3 million, $1.0 million (44.3 percent) below budget. This is $376,000 higher than the midyear estimate based on the lightening of SIP restrictions and the higher than anticipated registration for the spring and summer recreational programs. Recreation classes and camps have been significantly impacted by SIP restrictions, and the Center for the Performing Arts (CPA) has been closed since March 2020. The Adopted Budget did not include such a significant impact on both Recreation and CPA revenues. In addition, Short-Term Rental (STR) registration revenue is estimated to be $145,000 lower than budget.

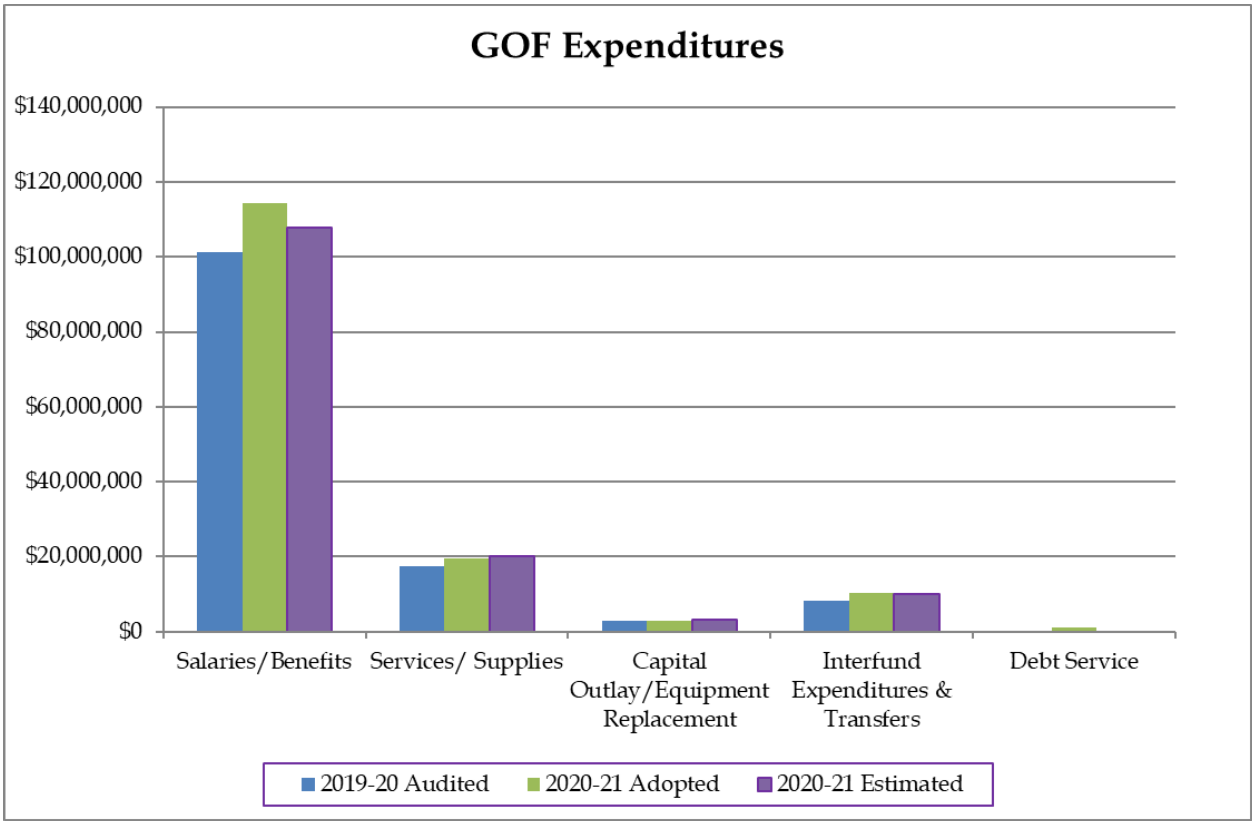
Miscellaneous Revenues are estimated at $4.1 million, $2.2 million (120.0 percent) and $1.6 million (60.8 percent) higher than the Adopted and Adjusted Budget, respectively. This is $283,000 higher than the midyear estimate due to more Fire mutual-aid reimbursements. Included in the estimate are reimbursements for Fire mutual-aid overtime, including administration, of which $885,000 has been received through February and $1.9 million that has not been received, but invoices have been approved, and funds are expected to be received during this fiscal year. Reimbursements in the amount of $157,000 have not been approved and are, therefore, not included in the estimated revenue. Notably, there were no reimbursements for Police patrol staff at Shoreline Amphitheatre events or CPA reimbursements from vendors. There are other smaller grants, donations, and expenditure reimbursements received that are not budgeted due to the uncertainty of receipt, and full fiscal year estimates are not calculated for these revenues as the amounts can vary greatly.

Interfund Revenues and Transfers are estimated at $16.9 million, $432,000 (2.6 percent) and $66,000 higher than budget and the midyear estimate, respectively. For Interfund Revenues, Capital Improvement Program (CIP) overhead is trending $452,000 higher than budget. For Interfund transfers, staff is currently estimating the transfer from the Shoreline Golf Links/Michaels at Shoreline Restaurant Fund at the amount budgeted of $200,000. This is $100,000 more than the estimate at midyear and is the primary reason revenues increased.

Expenditures

Budget savings are expected each fiscal year and are included in the Adopted Budget. Including the projected budget savings, total estimated expenditures indicate a $2.9 million (2.0 percent) and $7.2 million (4.8 percent) favorable variance compared to the Adopted and Adjusted Budgets, respectively.

The chart below is a comparison of the Fiscal Year 2019-20 Audited and Fiscal Year 2020-21 Adopted and Estimated for GOF expenditures.



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

Salaries and Benefits expenditures are estimated at $107.8 million, $6.5 million (5.7 percent) and $7.0 million (6.1 percent) below the Adopted and Adjusted Budgets, respectively. This is the result of vacant positions and personnel turnover during the fiscal year. There are also significantly higher savings in hourly wages of $1.0 million resulting from reduced Recreation programs, events, and facility rentals and from both the CPA and Library being closed. For regular (nonhourly) positions, there are currently 79 vacancies and 33 active recruitments to fill 48 current and anticipated vacancies. Beginning in March 2020, recruitment efforts were strategically planned to ensure essential staffing and, in some cases, to delay recruitment in functions that were modified by COVID-19 restrictions. While recruitments continue to be prioritized, regular recruitment activity has resumed. Although some savings are expected annually and included in the Adopted Budget, it is not possible to precisely predict the level and impact of vacancies.

Services and Supplies expenditures are estimated at $20.1 million, $3.0 million (13.1 percent) below the Adjusted Budget and $484,000 (2.5 percent) higher than the Adopted Budget. Savings are expected annually, and this is comparable to prior fiscal years.

Capital Outlay/Equipment Replacement expenditures are estimated at $3.2 million, $400,000 higher than the Adopted Budget, but equal to the Adjusted Budget, and include $2.4 million of annual funding for equipment replacement and $847,000 currently estimated for new capital purchases.

Interfund Expenditures and Transfers are estimated at $10.1 million, $206,000 (2.0 percent) lower than budget as a result of lower Business License Tax revenue, which reduces the transfers to the Transportation Reserve and General Housing Fund.

Debt Service is budgeted at $1.0 million for the Hope Street Parking Certificates of Participation. However, the project and debt issuance has been delayed and, therefore, there is no debt service payment estimated.

Expenditures by Department

All but one of the departments appear to be trending under budget for the current fiscal year. The Fire Department is currently trending $1.6 million over budget; however, this is primarily due to a timing issue with reimbursements, where overtime costs incurred from several mutual-aid incidents have not yet been reimbursed, and a higher level of overtime during the first eight months of the fiscal year. The past year was the worst fire season in the State's history, requiring a significant amount of assistance to combat multiple wildfires throughout the State. As mentioned earlier, the Fire Department is estimating outstanding reimbursements to be approximately $1.3 million for overtime costs and $510,000 for administration and miscellaneous reimbursement. Historically, these reimbursements have typically been received by fiscal year-end. The Fire Department will also be managing expenditures in order to stay within budget. The variances detailed below do not take into consideration encumbrances that may be incurred as of the end of the fiscal year.

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

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget	Percent Savings of Adjusted Budget
City Council	$ 385	$ 385	**$ 287**	$ 98	25.5
City Clerk	783	787	**698**	89	11.3
City Attorney	2,422	2,487	**2,297**	190	7.6
City Manager	6,397	6,666	**6,032**	634	9.5
Information Technology	5,873	6,031	**5,585**	446	7.4
Finance and Admin. Services	7,561	7,982	**6,866**	1,116	14.0
Community Development	1,847	2,076	**1,767**	309	14.9
Public Works	11,768	12,789	**11,797**	992	7.8
Community Services	18,273	18,766	**16,137**	2,629	14.0
Library Services	6,760	7,045	**5,843**	1,202	17.1
Fire	27,088	27,841	**29,451**	(1,610)	(5.8)
Police	44,840	45,473	**41,593**	3,880	8.5
Nondepartmental[(1)]	14,024	14,024	**12,818**	1,206	8.6
Projected Budget Savings	(4,000)	(4,000)	**Included**	(4,000)	100.0
Total Operating Expenditures	$144,021	$148,352	**$141,171**	$7,181	4.8

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

In summary, revenues are currently estimated at $141.5 million, $3.4 million (2.3 percent) below budget, including $1.9 million in reimbursements not yet received for Fire Strike Team deployment. Including projected budget savings, operating expenditures for the current fiscal year are estimated at $141.2 million, $2.9 million (2.0 percent) below the Adopted Budget and $7.2 million (4.8 percent) below the Adjusted Budget. Expenditures are currently estimated to be $316,000 less than operating revenues. Staff is recommending the Excess ERAF revenue be included in Fiscal Years 2020-21 and 2021-22 in order to smooth the impacts of lost revenue due to the COVID-19 pandemic.

Development Services

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

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

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 15,100	$17,997	**$13,898**	($4,099)
Expenditures	(16,695)	(23,057)	**(17,876)**	5,181
Operating Balance (Deficit)	(1,595)	(5,060)	**(3,978)**	1,082
Land Use Documents	800	800	**1,217**	417
Transfer to Comp Absences	(85)	(85)	**(85)**	-0-
Capital Projects	(823)	(1,123)	**(1,123)**	-0-
Excess (Deficiency) of Revenues	(1,703)	(5,468)	**(3,969)**	1,499
Beginning Balance	24,624	24,624	**24,624**	-0-
Land Use Document Reserve	(9,481)	(9,180)	**(9,597)**	(417)
Ending Balance	$ 13,440	$ 9,976	**$11,058**	$1,082

The level of development activity is approximately as budgeted for the current fiscal year with the exception of Plan Checking, which is under budget; operating revenues of $13.9 million are estimated to be $4.1 million (22.8 percent) below budget with Plan Check revenue estimated $4.6 million (70.2 percent) below budget. Estimated operating expenditures of $17.9 million are estimated to be $5.2 million (22.5 percent) below the Adjusted Budget, reflecting salary and benefit savings from vacancies plus savings in supplies and contractual services.

Operating expenditures are estimated to exceed operating revenue by $4.0 million. This is primarily due to projects paid for in prior fiscal years requiring plan check and other services in the current fiscal year. Revenue from the Land Use Document Fee is currently estimated to be $417,000 (52.1 percent) higher than budget. There is also a transfer of $85,000 to fund Compensated Absences and $1.1 million for Capital Projects, of which $300,000 was approved midyear and is funded from the Land Use Document Reserve. The ending balance is estimated at $11.1 million and will be necessary to continue funding operations during a period of slower development activity. In addition, fees are paid in advance of the services provided, including long-term existing development projects.

Shoreline Golf Links/Michaels at Shoreline Restaurant

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

On October 23, 2018, the City Council approved amending the operating agreement with Touchstone to include management of Michaels at Shoreline Restaurant. The amended operating agreement began January 1, 2019 and, after making some improvements to the facility, Touchstone began operations January 24, 2019.

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

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$4,228	$4,228	**$2,904**	($1,324)
Expenditures	(4,013)	(4,029)	**(2,705)**	1,324
Operating Balance	215	199	**199**	-0-
Transfer to GOF	(200)	(200)	**(200)**	-0-
Excess (Deficiency) of Revenues	15	(1)	**(1)**	-0-
Beginning Balance	80	80	**80**	-0-
Ending Balance	$ 95	$ 79	**$ 79**	$ -0-

Paid rounds of golf played in Fiscal Year 2019-20 totaled 55,824, a 2.3 percent decrease from the prior fiscal year, primarily due to impacts of SIP restrictions, and 28.8 percent lower than the record high in Fiscal Year 2014-15. Based on financial information about three-quarters through the fiscal year, activity at the golf course is estimated to generate $2.7 million in revenues, $293,000 (12.4 percent) higher than budget. Golf has become a popular activity as it is one of few activities allowed with SIP restrictions. Unfortunately, the same is not true for the restaurant, which is estimated to generate $241,000 in revenues, $1.6 million (87.0 percent) below budgeted revenues of $1.9 million. The restaurant has not been able to hold banquets or have indoor dining due to SIP restrictions. Outdoor seating was available with the easing of restrictions during the summer, then operations were reduced to take-out only when restrictions increased in December 2020.

One of the primary impacts of the SIP orders has been the prevention of golfers from getting food and drink together after a round of golf. With the State only allowing up to three households to gather, many golfers choose to not stop at Michaels after their round, which is a primary business generator for the restaurant during the day. Fortunately, with Santa Clara County reaching better tiers in the State's Blueprint for a Safer Economy, the restaurant was able to reopen outdoor dining in February and partial indoor dining in March. This has helped revenues, but banquets were prohibited through the third quarter, and the restaurant will be under renovations in the fourth quarter. This will greatly impact revenues because the main kitchen and banquet kitchen will be closed.

The Fiscal Year 2020-21 budget assumed SIP restrictions would cease June 30 with a ramp-up period to normal operations.

In total, golf expenditures for the current fiscal year are estimated at $2.1 million, $184,000 (8.0 percent) below budget. Restaurant expenditures are estimated at $588,000, $1.1 million (66.0 percent) below budget. Golf expenditures are trending lower than budget, reflecting savings in operations. Water costs are trending slightly higher due to additional water needs associated with the renovations of the driving range as well as additional rounds of golf played. Restaurant expenditures are trending lower than budget as there is minimal staffing for reduced operations; however, expenditures are trending higher than revenue as there are also fixed costs associated with restaurant operations.

The fund is trending to finish the fiscal year with an operational balance of $199,000; the golf course is trending with a positive balance of $546,000 while the restaurant is essentially trending at a loss of $347,000. For Fiscal Year 2019-20, the General Non-Operating Fund transferred $500,000 to this fund to cover operating losses due to the impact of SIP restrictions the last quarter of the fiscal year. Not all the funds were needed, and the fund ended the fiscal year with a balance of $80,000. For the current fiscal year, an operating transfer to the General Operating Fund of $200,000 was included. With the prior fiscal year balance of $80,000 and estimated operating balance for the current fiscal year of $199,000, staff is estimating the budgeted transfer to the General Operating Fund of $200,000 is achievable. Staff will closely monitor the fund and will update this transfer, if needed, in the course of closing the fiscal year.

Shoreline Regional Park Community (Shoreline Community)

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

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

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 48,820	$48,820	**$52,605**	$3,785
Expenditures	(32,656)	(33,018)	**(31,450)**	1,568
Operating Balance	16,164	15,802	**21,155**	5,353
Development Impact Fees[(1)]	-0-	-0-	**416**	416
Bond Proceeds Interest	-0-	-0-	**231**	231
Transfer to Comp Absences	(50)	(50)	**(50)**	-0-
Capital Projects	(4,152)	(4,354)	**(4,354)**	-0-
Excess (Deficiency) of Revenues	11,962	11,398	**17,398**	6,000
Beginning Balance	37,054	37,054	**37,054**	-0-
Reserve	(5,300)	(5,300)	**(5,300)**	-0-
Reserve for Bond Proceeds	(2,044)	(2,044)	**(2,275)**	(231)
Landfill Reserve	(9,000)	(9,000)	**(9,000)**	-0-
Sea Level Rise Reserve	(9,000)	(9,000)	**(9,000)**	-0-
Dev. Impact Fee Reserve	(2,547)	(2,547)	**(2,963)**	(416)
Ending Balance	$ 21,125	$20,561	**$25,914**	$5,353

(1) Includes interest earned on the balance.

Operating revenues, primarily property taxes, for the current fiscal year are estimated at $52.6 million, $3.8 million (7.8 percent) higher than budget. Property Tax revenue is trending higher than budget as, subsequent to adoption of the budget, the County provided the July 1, 2020 tax roll information for the Shoreline Community, indicating a net 11.1 percent increase compared to the July 1, 2019 tax roll. The City estimated a 7.7 percent increase for Fiscal Year 2020-21, which corresponds to an approximate $1.5 million difference compared to the tax roll actual increase. The City also collected about $1.9 million more supplemental taxes than budgeted. Supplemental taxes tend to fluctuate due to changes in ownership and new construction during the fiscal year. Over the past five years, they have been as low as $111,000 and as high as $2.9 million.

Operating expenditures for the current fiscal year are estimated at $31.5 million, $1.6 million (4.7 percent) below budget. Included in operating expenditures are $11.7 million for the combined annual interagency payments to the school districts and the County and $6.3 million for debt service.

It is estimated that operating revenues will exceed operating expenditures by $21.2 million, which will fund the transfer of $50,000 to the Compensated Absences Fund and $4.4 million for Capital Projects. There are no capital projects funded by the North Bayshore Development Impact Fees (NBSDIF) in the current fiscal year. The NBSDIF revenue is designated for transportation improvements in the Shoreline Community, and, because the timing of each development process and the payment of fees are uncertain, revenue is not budgeted. A portion of the NBSDIF revenue is for water and wastewater infrastructure improvement projects and is accounted for in those funds. After reserving $23.3 million for the General Reserve, the Landfill Reserve, and the Sea Level Rise Reserve, $2.3 million for bond proceeds (mainly from interest earnings), and $3.0 million for the Development Impact Fee Reserve, the fund is estimated with a $25.9 million ending balance.

A study to update the impacts of Sea Level Rise is currently under way and is expected to be completed by fiscal year-end. It is anticipated additional reserves will be needed to provide for increased mitigation over that which was recommended by the initial study.

Enterprise Utility Funds

The City's three enterprise utility funds (Water, Wastewater, and Solid Waste) are fully funded by the rates charged to customers; there is no General Fund support to the utility funds. Utility rates charged by governmental entities for water, sewer, and trash and recycling services are considered property-related fees and are subject to the procedural requirements of Proposition 218, Article XIII, of the California Constitution. The City has complied with Proposition 218 and has reviewed the revenues and expenditures for each of the utility funds. A Proposition 218 notice of recommended rates for Fiscal Year 2021-22 will be mailed on or before May 7 to meet the 45-day noticing requirement prior to the public hearing.

Water Fund

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

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

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 36,662	$36,662	**$37,163**	$ 501
Expenditures	(34,696)	(37,543)	**(33,726)**	3,817
Operating Balance	1,966	(881)	**3,437**	4,318
Capital Project Refunds	640	640	**640**	-0-
Capacity/Development Impact Fees	-0-	-0-	**2,471**	2,471
Capital Projects from Fees	(600)	(600)	**(600)**	-0-
Capital Projects	(3,056)	(3,056)	**(3,056)**	-0-
Excess (Deficiency) of Revenues	(1,050)	(3,897)	**2,892**	6,789
Beginning Balance	28,883	28,883	**28,883**	-0-
Capacity/Dev. Impact Fees Reserves	(2,731)	(2,731)	**(5,202)**	(2,471)
Water Transfer Reserve	(5,000)	(5,000)	**(5,000)**	-0-
Reserves	(11,567)	(11,567)	**(11,567)**	-0-
Ending Balance	$ 8,535	$ 5,688	**$10,006**	$4,318

A 1.0 percent increase for the average cost of water and meter rates effective January 1, 2021, and a 50-cent-per-unit increase (the third-year phase-in of increasing the rate to recover the cost of the program) for the recycled water rate were adopted for Fiscal Year 2020-21. Operating revenues are estimated at $37.2 million, $501,000 (1.4 percent) higher than budget. Water usage year-over-year through February is trending approximately 3.0 percent higher than the prior fiscal year. After years of revenues being severely impacted by reduced water usage as a result of conservation due to the drought, the financial condition of the fund is benefiting from the increased water usage. However, the usage is still approximately 18.0 percent below the 2013 drought baseline. Recycled water sales are trending approximately as budgeted through February.

Operating expenditures are estimated at $33.7 million, $3.8 million (10.2 percent) below budget, primarily as a result of a prior-year accrual for the minimum water purchase payment of $2.5 million to the SFPUC and savings in operations. The City has a required minimum water purchase, and the Fiscal Year 2019-20 budget included full funding of the minimum purchase requirement; however, because the minimum payment was not billed until July 2020, the balance was carried forward in the Adjusted Budget.

During Fiscal Year 2016-17, staff evaluated options to minimize or eliminate future penalties as a result of the City's minimum water purchase requirement with the SFPUC. The City of East Palo Alto was approaching their individual water supply guarantee (ISG) with the SFPUC, which precluded approval of large development projects in East Palo Alto. The City of Mountain View is not anticipated to reach its ISG through 2040. Therefore, staff worked with the City of East Palo Alto to transfer 1.0 million gallons of the City's ISG to East Palo Alto in return for $5.0 million. The agreement was approved in 2017, and this $5.0 million is reserved to use toward future minimum water purchase penalties when insufficient water services charges are collected. A penalty of $2.0 million is currently estimated for Fiscal Year 2020-21.

The estimated operating balance is $3.4 million, which is sufficient to fund the current fiscal year's $3.1 million for Capital Projects.

Restructured capacity fees were adopted by the City Council effective July 1, 2015. The updated fee structure accounts for increased water and sewer infrastructure costs based on additional demands resulting from new development or changes to the type of development. Capacity fees are not included in the Adopted Budget as the fees are uncertain; funds are available for capital projects after the fees are actually received. The Capacity fees received through February 2021 total $2.2 million, and interest is estimated at $154,000. Various development impact fees have been adopted by the City Council, and for Fiscal Year 2020-21, no revenue has been received through February 2021, but interest is estimated at $110,000. Any fees received and interest earned will be designated for specific projects and will be identified in the Five-Year CIP. Capacity and Development Impact Fees received in prior fiscal years are sufficient to fund the $600,000 in additional capital projects for Fiscal Year 2020-21. The Water Fund is estimated to have an ending balance of $10.0 million and $21.8 million in reserves.

For Fiscal Year 2021-22, the SFPUC has proposed no rate increase, and the SCVWD has proposed a Ground Water rate increase of between 8.5 percent and 9.6 percent and a surcharge increase for Treated Water from $100 to $115 per acre-foot, which corresponds to between a 9.0 percent and 10.0 percent rate increase. Due to the SCVWD rate increases and City cost increases, potable water and meter rates are recommended with a 1.0 percent increase for Fiscal Year 2021-22. This results in a monthly increase of $1.26 for the average single-family residence. The Recycled Water rate is also recommended with a 1.0 percent rate increase. There are significant capital improvement projects over the next two fiscal years that will use approximately $6.0 million of the $10.0 million estimated available balance.

Wastewater Fund

The Wastewater Enterprise Fund is a utility fund that accounts for the costs and revenues associated with the collection, transportation, and treatment of wastewater generated by all residents and businesses in the City. Other associated functions included in this fund are the Hazardous Materials Permit Program and the Industrial Liquid Waste Management Program. Expenditures in this fund include the construction and maintenance of sanitary sewer lines, stormwater lines, and pump stations; the City's costs associated with the operation of the Palo Alto Regional Water Quality Control Plant (Treatment Plant), in which the City is a partner; and personnel costs for the operation and maintenance of the system.

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

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
Revenues	$ 25,460	$25,460	**$23,266**	($2,194)
Expenditures	(21,648)	(22,588)	**(20,305)**	2,283
Operating Balance	3,812	2,872	**2,961**	89
Loan Proceeds and Interest	-0-	-0-	**14**	14
Capacity/Development Impact Fees	-0-	-0-	**2,618**	2,618
Capital Projects from Loan	(640)	(640)	**(640)**	-0-
Capital Projects	(1,969)	(1,969)	**(1,969)**	-0-
Excess (Deficiency) of Revenues	1,203	263	**2,984**	2,721
Beginning Balance	30,272	30,272	**30,272**	-0-
Capacity/Dev. Impact Fees Reserves	(4,339)	(4,339)	**(6,957)**	(2,618)
Treatment Plant Reserve	(10,105)	(10,105)	**(10,683)**	(578)
Reserve for Loan Proceeds	2	2	**(12)**	(14)
Reserves	(7,499)	(7,499)	**(7,499)**	-0-
Ending Balance	$ 9,534	$ 8,594	**$ 8,105**	($ 489)

A 4.0 percent overall rate increase was adopted for Fiscal Year 2020-21, including a 2.0 percent rate increase for operations effective January 1, 2021 and a 2.0 percent rate increase for future Treatment Plant capital costs effective July 1, 2020. As previously outlined, future capital expenditures are forecasted for the Treatment Plant as the facility began operations in 1972 and is in need of major renovations. A cumulative rate increase of 20.0 percent is projected, and the City Council approved a gradual phase-in of 2.0 percent annually for 10 years to fund these long-term capital costs, of which Fiscal Year 2020-21 is the seventh year.

Operating revenues are estimated at $23.3 million, $2.2 million (8.6 percent) below budget due to a $1.1 million one-time correction and lower service charge revenue. Estimated operating expenditures of $20.3 million are trending $2.3 million (10.1 percent) below budget. This is primarily due to savings in operations offset slightly by $185,000 owed for prior-year Treatment Plant expenses.

Each fall, an annual reconciliation of the prior fiscal year's actual treatment costs (based on volume) is performed by the Treatment Plant, and an adjustment is provided to each member agency. The City's share of audited expenditures of the Treatment Plant for last fiscal year was $185,000 more than budgeted, resulting in an additional amount due and paid in the current fiscal year. The additional Treatment Plant charge is applied against the Treatment Plant Reserve. The estimated operating balance of $3.0 million includes $2.3 million collected for future Treatment Plant Capital Costs, as stated above, and will partially fund $2.0 million for Capital Projects with the remainder needed from fund balance.

Restructured capacity fees were adopted by the City Council effective July 1, 2015. Capacity fees are not included in the Adopted Budget as the fees are uncertain; funds are available for capital projects after the fees are actually received. The Capacity fees received through February 2021 total $2.2 million and interest is estimated at $148,000. Various Development Impact fees have been adopted by the City Council, and for Fiscal Year 2020-21, $218,000 has been received through February 2021, and interest is estimated at $28,000. Any fees and interest earned will be designated for specific projects and will be identified in the Five-Year CIP. There are no additional capital projects funded by these fees for Fiscal Year 2020-21.

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

The fund is estimated with an ending balance of $8.1 million and $25.2 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, $2.7 million in Treatment Plant credits for prior fiscal years, and the Capacity and Development fees balance.

For Fiscal Year 2021-22, the Treatment Plant's budget is proposed to increase 7.0 percent and Treatment Plant costs make up approximately 60.0 percent of the Wastewater Budget. Due to the Treatment Plant increase and City cost increases, wastewater rates are recommended with a 4.0 percent increase, in addition to the 2.0 percent increase (eighth year of the 10-year plan) for Treatment Plant Capital costs for a total recommended increase of 6.0 percent for Fiscal Year 2021-22. This results in a monthly increase of $2.65 in the flat residential sewer rate. There continue to be significant capital improvement projects of approximately $14.0 million, above the annual $2.4 million funded annually from rates, needed over the next two fiscal years. While some can be funded from the capacity and development fees collected, there is not sufficient available balance to fund all the projects over the next two fiscal years.

Solid Waste Management Fund

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

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

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

	2020-21 Adopted Budget	2020-21 Adjusted Budget	**2020-21 Estimated**	Variance of Estimated to Adjusted Budget
City Revenues	$ 15,021	$15,021	**$14,874**	$ (147)
Recology Revenues[(1)]	17,351	17,351	**16,956**	(395)
Total Revenues	32,372	32,372	**31,830**	(542)
City Expenditures	(15,555)	(16,212)	**(14,181)**	2,031
Recology Payments[(1)]	(17,351)	(17,351)	**(16,956)**	395
Total Expenditures	(32,906)	(33,563)	**(31,137)**	2,426
Operating Balance (Deficit)	(534)	(1,191)	**693**	1,884
Capital Projects	(284)	(284)	**(284)**	-0-
Excess (Deficiency) of Revenues	(818)	(1,475)	**409**	1,884
Beginning Balance	14,423	14,423	**14,423**	-0-
Reserve for Future Facility Equipment	(1,760)	(1,760)	**(1,760)**	-0-
Reserves	(3,889)	(3,889)	**(3,889)**	-0-
Ending Balance	$ 7,956	$ 7,299	**$ 9,183**	$1,884

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

For Fiscal Year 2020-21, a 2.0 percent rate increase effective January 1, 2021 was adopted. The City's Solid Waste Fund operating revenues are estimated at $14.9 million, $147,000 (1.0 percent) lower than budget. This is the result of lower commercial account revenue offset by higher debris box revenue. City operating expenditures are estimated at $14.2 million, $2.0 million (12.5 percent) below budget, as a result of a credit of $568,000 from the SMaRT® Station for prior-year services and savings in operations. The SMaRT® Station performs an annual reconciliation of the prior fiscal year's costs, and an adjustment is provided to each member agency. For Fiscal Year 2019-20, the City received a credit of $568,000, which was credited against current fiscal year charges.

There is an estimated operating balance of $693,000 which will fund $284,000 for Capital Projects. The fund is estimated with an ending balance of $9.2 million and reserves of

$5.6 million. The balance will be needed to smooth future rate adjustments needed for the new Recology Agreement and potential changes to the SMaRT Agreement.

For Fiscal Year 2021-22, the increase for Recology is 7.7 percent, of which 5.8 percent is for enhanced services and net SMaRT Station increases are estimated at 4.8 percent. As a result of these increases and City cost increases, operating costs are increasing approximately 5.8 percent overall. Trash and recycling rates are recommended with a 4.0 percent increase for Fiscal Year 2021-22, almost 3.0 percent less than cost increases. The gap will be funded by the available balance. This results in a monthly increase of $1.45 million for a 32-gallon cart.

II. FISCAL YEAR 2021-22 PRELIMINARY GOF FORECAST UPDATE

This section of the report focuses on the update of the Fiscal Year 2021-22 Preliminary GOF Forecast. This Forecast is based on limited data and financial assumptions made with information staff has at this time. Due to the ongoing uncertainties surrounding the COVID-19 pandemic, it remains a challenge to determine how and when economic conditions will change for better or worse. **The five-year forecast will be incorporated into the Recommended Budget, scheduled for the June 8, 2021 City Council meeting.**

The **preliminary** projection for Fiscal Year 2021-22 follows (dollars in thousands):

	2019-20 Audited	2020-21 Adopted Budget	2020-21 Estimated	**2021-22 Preliminary Forecast**	Variance of 2021-22 Forecast to 2020-21 Adopted
Revenues	$ 142,667	$144,162	$ 141,487	**$146,412**	$ 2,250
Expenditures[1]	(129,911)	(144,021)	(141,171)	**(150,402)**	(6,381)
Rebudgets[2]	(1,229)	-0-	-0-	**-0-**	-0-
Operating Balance	11,527	141	316	**(3,990)**	(4,131)
Excess ERAF	-0-	-0-	4,864	**5,836**	5,836
Transfer to GNOF[3]	(5,527)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	(2,000)	-0-	-0-	**-0-**	-0-
CalPERS Contribution	(4,000)	-0-	-0-	**-0-**	-0-
Ending Balance	$ -0-	$ 141	$ 5,180	**$ 1,846**	$ 1,705

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

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

(3) Includes $1.0 million in Fiscal Year 2019-20 for the Sustainability Capital Project.

The preliminary forecast projects total GOF revenues of $146.4 million, $2.3 million (1.6 percent) more than the current fiscal year Adopted Budget and an increase of $4.9 million (3.5 percent) compared to the current fiscal year Estimated.

Expenditures are anticipated to increase $6.4 million (4.4 percent) to $150.4 million compared to the current fiscal year Adopted. For Fiscal Year 2021-22, there is a preliminary negative operating balance of $4.0 million, and staff is recommending to utilize Excess ERAF funding to smooth the impacts of lost revenue due to the COVID-19 pandemic. **This forecast includes preliminary expenditure recommendations for Fiscal Year 2021-22 to be presented with the Recommended Budget in June.** All labor agreements expire June 30, 2021, and negotiations of new contracts are currently in progress.

The full five-year forecast will be presented in the Recommended Budget in June. This forecast will continue to incorporate impacts from the COVID-19 pandemic in Fiscal Year 2022-23. Revenue projections are based on reasonable assumptions utilizing available information from a wide variety of sources. These sources include reviewing the City's historical trends, gathering information from economists that specialize in the regional economics of Silicon Valley, reviewing various indicators (e.g., unemployment data, etc.), checking with neighboring agencies, reviewing State of California and national economic trends, and factoring in known Mountain View conditions, such as lease terms and property development. However, there are still many unknowns surrounding the pandemic and the extent of continuing SIP restrictions. The forecast assumes that most of the general public will be vaccinated by fall 2021, but it is still uncertain how long it will take the economy to fully recover from the pandemic.

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

Revenues

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

	2019-20 Audited	2020-21 Adopted Budget	2020-21 Estimated	**2021-22 Preliminary Forecast**	Variance of 2021-22 Forecast to 2020-21 Adopted
Property Taxes	$ 54,839	$ 57,207	$ 59,126	**$ 60,272**	$3,065
Sales Tax	19,452	19,604	18,361	**18,477**	(1,127)
Other Local Taxes	15,880	17,237	13,408	**16,775**	(462)
Use of Money and Property	22,345	22,571	21,921	**23,014**	443
Licenses, Permits, and Fees/Fines and Forfeitures	6,364	6,232	5,563	**6,767**	535
Intergovernmental	795	702	845	**738**	36
Charges for Service	2,094	2,315	1,290	**2,099**	(216)
Miscellaneous Revenues	3,273	1,872	4,119	**1,781**	(91)
Interfund Revenues and Transfers	17,625	16,422	16,854	**16,489**	67
Total Operating Revenues	$142,667	$144,162	$141,487	**$146,412**	$2,250

A brief explanation of the assumptions and changes for Fiscal Year 2021-22 follows:

Property Tax revenue is projected at $60.3 million, an increase of $3.1 million compared to the current fiscal year Adopted and $1.1 million compared to the current fiscal year

Estimated. Compared to the July 1, 2020 tax roll, the Fiscal Year 2021-22 AV of secured property-generating tax revenues for the GOF is projected with net growth, reflecting the following:

- A 1.036 percent increase in AV for most properties resulting from the annual CCPI inflation factor (October 2019 to October 2020);

- AV increases resulting from changes in ownership which occurred from January 1, 2020 through December 31, 2020 (information currently available);

- Increased AV related to new development anticipated to be included in the July 1, 2021 tax roll; and

- Anticipated AV decreases resulting from the resolution of current appeals and projected new appeals.

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

Sales Tax revenue is projected at $18.5 million for Fiscal Year 2021-22 based on the actual fourth-quarter sales tax activity and the prior three quarters, adjusted for the following:

- One-time payments;

- California Department of Tax and Fee Administration (CDTFA) (previously known as State Board of Equalization (SBOE)) one-time audit adjustments;

- Distributions received in error; and

- Anticipated new businesses and business closures.

This results in a decline of $1.1 million compared to the current fiscal year Adopted Budget and an increase of $116,000 compared to the current fiscal year Estimated. Sales Tax revenues have been impacted by SIP restrictions due to the pandemic. At the high in Fiscal Year 2000-01, Sales Tax revenues reached $24.1 million. During the recession that followed, Sales Tax revenue declined an unprecedented $7.4 million in Fiscal Year 2001-02 to a low of $14.2 million in Fiscal Year 2003-04. Taking into consideration the prior fiscal years' CDTFA corrections, Sales Tax revenues have still not recovered to the peak level reached in Fiscal Year 2000-01. However, with the passage of ARPA, it is expected the economy will benefit from the increased stimulus spending, including positive impacts on sales tax revenue.

Other Local Taxes revenue is projected at $16.8 million, $462,000 (2.7 percent) lower than the current fiscal year Adopted and $3.4 million (25.1 percent) higher than the current fiscal year Estimated, primarily from the third and final year phase-in of the new Business License Tax structure. TOT revenue has been significantly impacted by the pandemic and is projected $1.8 million lower than the current fiscal year Adopted and $1.5 million higher than the current fiscal year Estimated. The projection assumes that hotel occupancies should begin to increase by fall 2021. In addition, the Shashi Hotel just opened recently, and the Moffett Gateway Hotel is expected to open toward the end of 2021. The Fiscal Year 2021-22 Business License Tax projection includes the third and final year phase-in of the new Business License structure as approved by voters. This is an increase of $1.6 million from the current fiscal year Adopted, $527,000 lower than anticipated in the previous forecast, resulting from business closures due to the pandemic. The City Council earmarked 80.0 percent of the increased tax for transportation and 10.0 percent for housing; transfers are included and discussed in the expenditure section below. Fiscal Year 2021-22 UUT revenue is projected $229,000 lower than the current fiscal year Adopted and essentially the same as Estimated.

Use of Money and Property revenue is projected to increase by $443,000 (2.0 percent) and $1.1 million (5.0 percent) compared to the current fiscal year Adopted and Estimated, respectively. Investment revenue is projected to decline due to the current market of low interest rates. Lease revenues are projected with inflators as stipulated in the leases or estimated with 2.0 percent increases. Rental revenue is projected to increase from the easing of SIP restrictions on gatherings.

Licenses, Permits, and Fees/Fines and Forfeitures revenue is projected to be $535,000 (8.6 percent) and $1.2 million (21.6 percent) higher than the current fiscal year Adopted Budget and Estimated, respectively. The projection assumes about the same level of activity prepandemic plus the approval of one cannabis permit and higher vehicle and parking fines reflecting more vehicles back on the road and parking downtown.

Intergovernmental revenue is projected to be $36,000 (5.1 percent) higher than the current fiscal year Adopted and $107,000 (12.7 percent) below the current fiscal year Estimated. The projected budget does not include any mandated reimbursement funding or intergovernmental grants and reimbursements as the amounts are variable.

Charges for Services revenue is projected to be $216,000 (9.3 percent) below the current fiscal year Adopted and $809,000 (62.7 percent) higher than the current fiscal year

Estimated. Charges for Services revenue has been another source of revenue significantly impacted by the pandemic. The CPA has been closed since March 2020, and there are limited Recreation programs offered due to SIP restrictions. Registrations for summer camps and classes are promising but will depend on continued easing of SIP restrictions. The projection assumes that by fall 2021, CPA events and Recreation classes and camps will be able to resume after a transition period to ramp up services.

Miscellaneous Revenues are projected to be $91,000 (4.9 percent) below the current fiscal year Adopted, primarily due to lower CPA revenue similar to as stated above for Charges for Services. The projection is $2.3 million (56.8 percent) below the current fiscal year Estimated primarily due to the $2.7 million in reimbursements for Fire Strike Team deployments in the current fiscal year Estimated. Some grants, donations, and reimbursements cannot be anticipated and, therefore, are not budgeted.

Interfund Revenues and Transfers are projected at $16.5 million, essentially the same as the current fiscal year Adopted and $365,000 (2.2 percent) below the current fiscal year Estimated, primarily due to estimated higher-than-budgeted CIP overhead in the current fiscal year.

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

Expenditures

A comparison of the Preliminary Forecast to current fiscal year Estimated and Adopted Budget and prior fiscal year Audited for the GOF follows (dollars in thousands). The departmental budget requests have been reviewed and preliminary recommendations are included in the Preliminary Forecast.

	2019-20 Audited	2020-21 Adopted Budget	2020-21 Estimated	**2021-22 Preliminary Forecast**	Variance of 2021-22 Forecast to 2020-21 Adopted
Salaries and Benefits:					
Salaries and All Pays	$ 64,899	$ 71,000	$ 67,919	**$ 72,562**	$1,562
Retirement	20,247	24,668	23,896	**25,505**	837
Health Benefits	8,963	11,213	9,067	**11,741**	528
All Other Benefits	7,076	7,416	6,887	**7,705**	289
	101,185	114,297	107,769	**117,513**	3,216
Services and Supplies	17,611	19,575	20,059	**20,053**	478
Capital Outlay/Equipment Replacement	2,797	2,820	3,220	**2,745**	(75)
Interfund Expenditures and Transfers	8,318	10,329	10,123	**13,091**	2,762
Debt Service	-0-	1,000	-0-	**1,000**	-0-
Budget Savings	Included	(4,000)	Included	**(4,000)**	-0-
Total Operating Expenditures	$129,911	$144,021	$141,171	**$150,402**	$6,381

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

Salaries and Benefits expenditures are projected $3.2 million higher than the current fiscal year Adopted. The forecast includes any impact from the minimum wage increase from $16.05 to $16.30 per hour effective January 2021. The cost for retirement benefits reflects the rates provided by CalPERS and results in a less than 1.0 percent increase in pension costs compared to the Fiscal Year 2020-21 Adopted Budget. Health benefit costs are projected with increases based on historical trends. All labor agreements expire June 30, 2021, and labor negotiations have begun and are expected to conclude prior to budget adoption in June.

Services and Supplies expenditures are currently projected $478,000 (2.4 percent) higher than the current fiscal year Adopted Budget. This forecast includes preliminary recommendations for the Fiscal Year 2021-22 budget but does not include any increased cost needed for potential City water, wastewater, and trash rate increases. Detail of final recommended increases will be included with the Recommended Budget in early June.

Capital Outlay/Equipment Replacement expenditures include $500,000 for Capital Outlay. The annual equipment replacement funding amount is projected at $2.2 million, 5.4 percent lower than the current fiscal year Adopted, the net impact of inflation for replacement cost and some adjustments to quantity of items and life expectancy, offset by approximately $898,000 lower-than-annually-required funding. No annual funding is needed for certain pieces of equipment that have reached their life expectancy but are not recommended to be replaced yet as they are still operating well. This is a one-time decrease in funding as, once this equipment is replaced, full annual funding will be required again.

Interfund Expenditures and Transfers are projected with a $2.8 million (26.7 percent) increase over the current fiscal year Adopted. The cost of the liability self-insurance pool for which the City is a member has increased significantly resulting in an increase of $595,000 for the GOF's share of the cost. Inflationary increases for the cost of the Retirees' Health Unfunded Actuarial Accrued Liability (UAAL) amortization based on the actuarial valuation as of July 1, 2019 result in an increase of $5,000. The transfer for "At-Risk" lease revenue is projected to increase $61,000 (3.9 percent), still approximately $1.6 million. These revenues will fund future capital projects and are set aside to reduce the dependency on the significant increases that have resulted in the recent revaluation of City leases to Google LLC and represent an estimate of annual lease revenue loss that could result from the potential secured AV decline in the Shoreline Community after a downturn in the economy. During previous economic slowdowns, the Shoreline Community experienced approximately 15.0 percent declines in secured AV.

The lease revenue from the Ameswell (Moffett Gateway) property is projected at $2.2 million, $704,000 more than current fiscal year Adopted, and is transferred to the Budget Contingency Reserve to be utilized for funding of limited-period items until the proposed debt service related to the Police/Fire Administration Building project begins. The new Business License structure was approved by voters in November 2018, and the City Council earmarked 80.0 percent of the increased tax (above the then-current $250,000 received annually) for transportation and 10.0 percent for housing. Based on the projected $6.0 million to be received in January 2022 for the fully phased-in structure, the projection includes $4.6 million transferred to the Transportation Reserve and $573,000 transferred to the General Housing Fund, leaving an additional $573,000 above the $250,000 base amount in the GOF.

Debt Service is projected at $1.0 million for Fiscal Year 2021-22 based on an upcoming long-term debt issue for the Hope Street project, which was originally expected to be issued in the current fiscal year, but has been delayed and is tentatively planned to be completed in the new fiscal year.

III. **AMERICAN RESCUE PLAN ACT FUNDING UPDATE**

As previously mentioned, on March 11, 2021, President Joe Biden signed into law a nearly $1.9 trillion coronavirus relief bill. Known as the American Rescue Plan Act of 2021 ("ARPA"), the law represents the sixth COVID-19 recovery measure that Congress has passed since March 2020. The ARPA includes over $65 billion for local governments nationwide with an estimated $8 billion coming to California cities.

The City of Mountain View is expected to receive approximately $14.8 million in direct funding over two years. The actual amount the City may receive could be less than the estimated amount due to final adjustment to the allocation factors used by the Department of the Treasury. Receipt of the funds will be in two tranches one year apart. The first distribution will be within 60 days of the passage of the bill and certification of need to the Department of the Treasury. The second distribution will occur one year later.

Eligible use of funds is broader than CARES Act/Coronavirus Relief Funds and includes expenditures such as the following:

- Revenue replacement for lost revenue due to the pandemic;

- Negative economic impacts from the pandemic;

- Assistance to small businesses, households, hard-hit industries, and economic recovery; and

- Investments in water, sewer, or broadband infrastructure.

Notably, funds cannot be deposited into a pension fund. The Department of the Treasury is still in the process of creating implementation guidance and regulations to further clarify the potential uses of these funds and any restrictions that may be placed on how they can be spent. The funds must be fully utilized by December 2024 and will require periodic reporting to the Department of the Treasury as to how they were spent.

The first tranche of funding is expected to be approximately $7.4 million, pending the final assessment of the Department of the Treasury. Staff's recommendation considers the existing programs and services already funded by the City, in which demand exceeded available funding as well as other areas of need that have not yet been addressed, such as technology enhancements related to teleworking, upgrading systems, hybrid meetings, laptops, and end-user support; facilities improvements related to health and safety measures for reopening; economic development efforts; addressing the needs of local nonprofit organizations that play a significant role in assisting the community during the pandemic; infrastructure improvements; and expanding financial relief to others that have been impacted by the pandemic during the past year.

Out of the first tranche of $7.4 million in funding, staff is recommending approximately $4.4 million in uses at this time and is further recommending that Council provide direction this evening on other desired uses. Any remaining funding will be assessed in relation to the City's budget situation and other anticipated needs, which may include capital improvement projects, and will be presented to Council with the Fiscal Year 2021-22 Recommended Budget on June 8, 2021.

Preliminary Recommended Uses	**Amount**
Safe parking and homelessness services	$ 250,000
Rent relief program	1,000,000
Small business grants of $5,000 provided to businesses who applied and did not get selected in the grant lottery	135,000
Economic vitality strategy	200,000
Castro StrEATs aesthetic improvements	60,000
Unpaid utility bills for residents/small business	750,000
Nonprofit funding gap from CDBG/GF NOFA process	117,000

Preliminary Recommended Uses	**Amount**
CHAC one-time funding	100,000
Contract services/PPE/facility improvements related to reopening City buildings and implementing required health and safety changes	600,000
Technology equipment, hardware, and IT contracts to support online services/remote work/Zoom conference rooms/hybrid meetings	1,000,000
Displacement strategy	50,000
Transit Center Master Plan	100,000
TOTAL	**$4,362,000**

FISCAL IMPACT

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

ALTERNATIVES

1. Do not approve the recommendations.

2. Provide other direction.

PUBLIC NOTICING—Agenda posting.

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