

April 27, 2017

Fiscal Year 2017-18  
**Narrative Budget Report**  
and  
5-Year Financial Forecast

Presenters: Dan Rich, City Manager

Patty J. Kong, Finance and Administrative Services Director



# Outline

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- General Operating Fund 5-Year Financial Forecast
- General Operating Fund Recommendations
- Items for City Council Discussion and Direction
- Other Major Funds and Reserves
- Next Steps



# GOF 5-Year Forecast Introduction

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- Provides longer-term financial trends
- Based on reasonable assumptions
- Confidence levels more uncertain in outer years
- Foundation for Council's budget deliberations



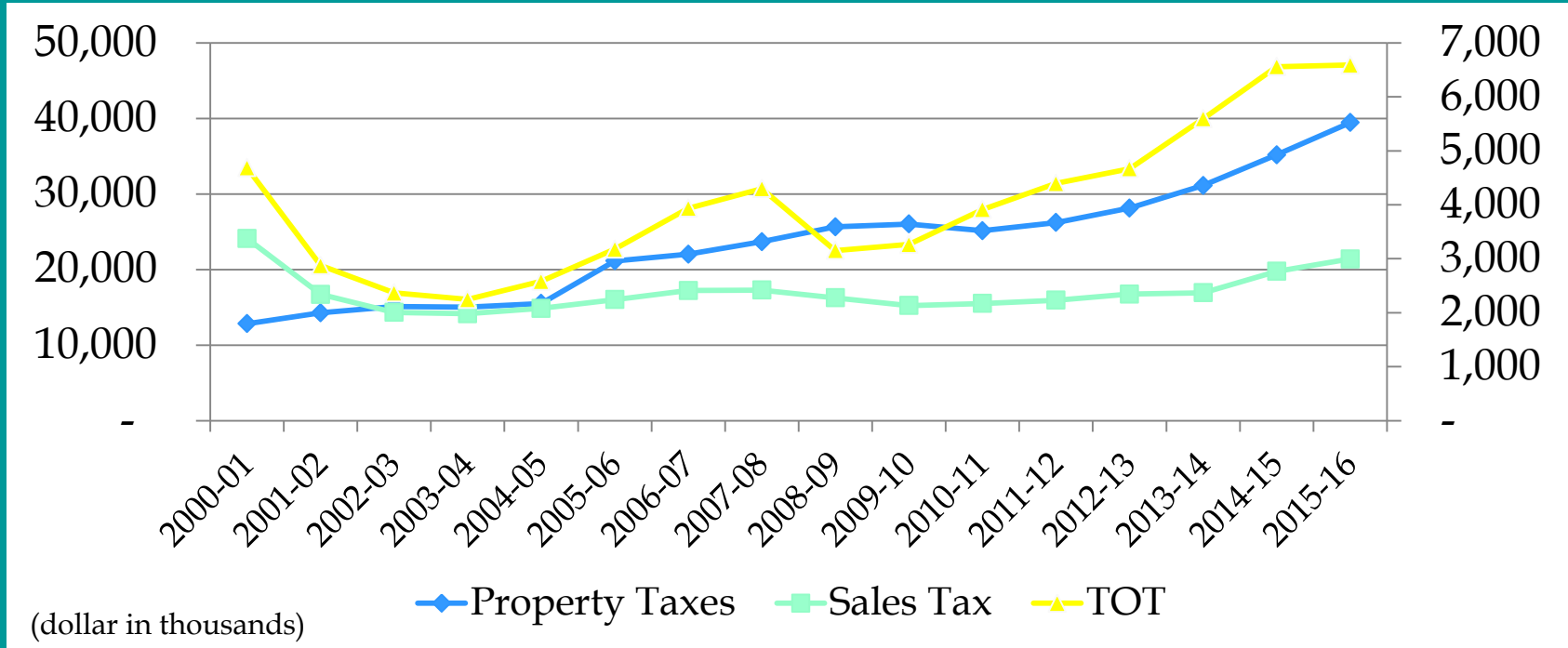
# Background

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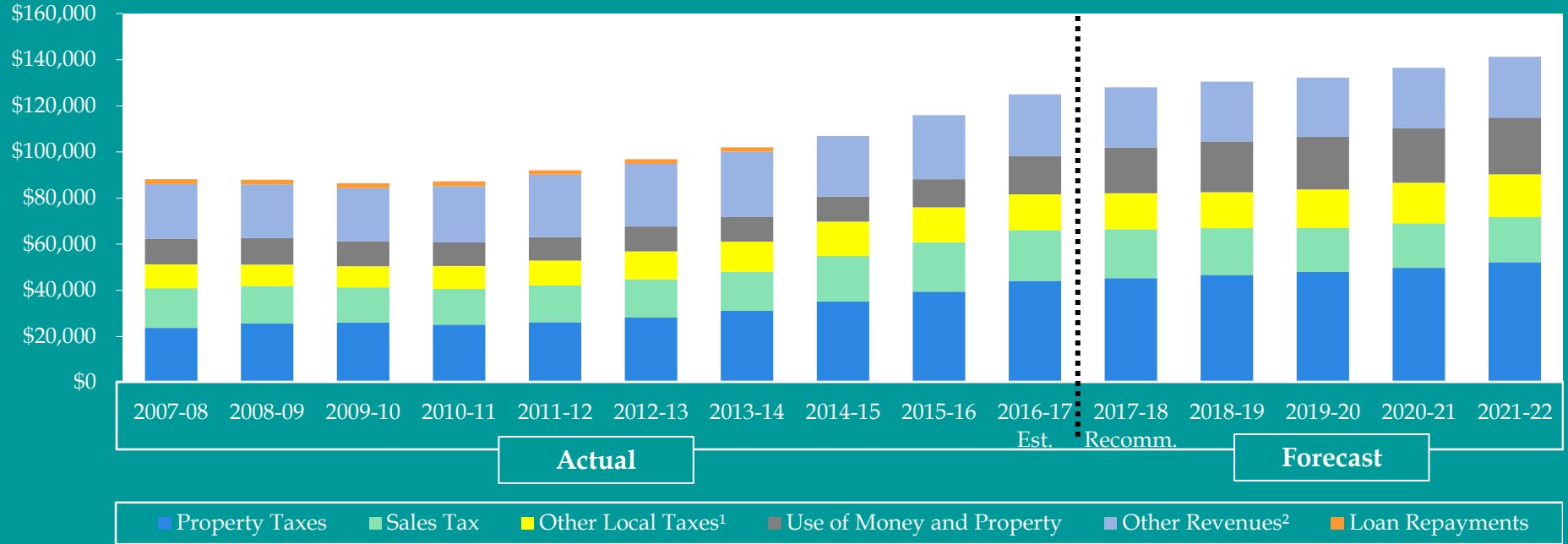
- Economic factors
- Period of strong revenue growth
- Cyclical revenue base
- Forecast period assumes recession



# GOF Historical Revenue Comparison



# Revenue Summary

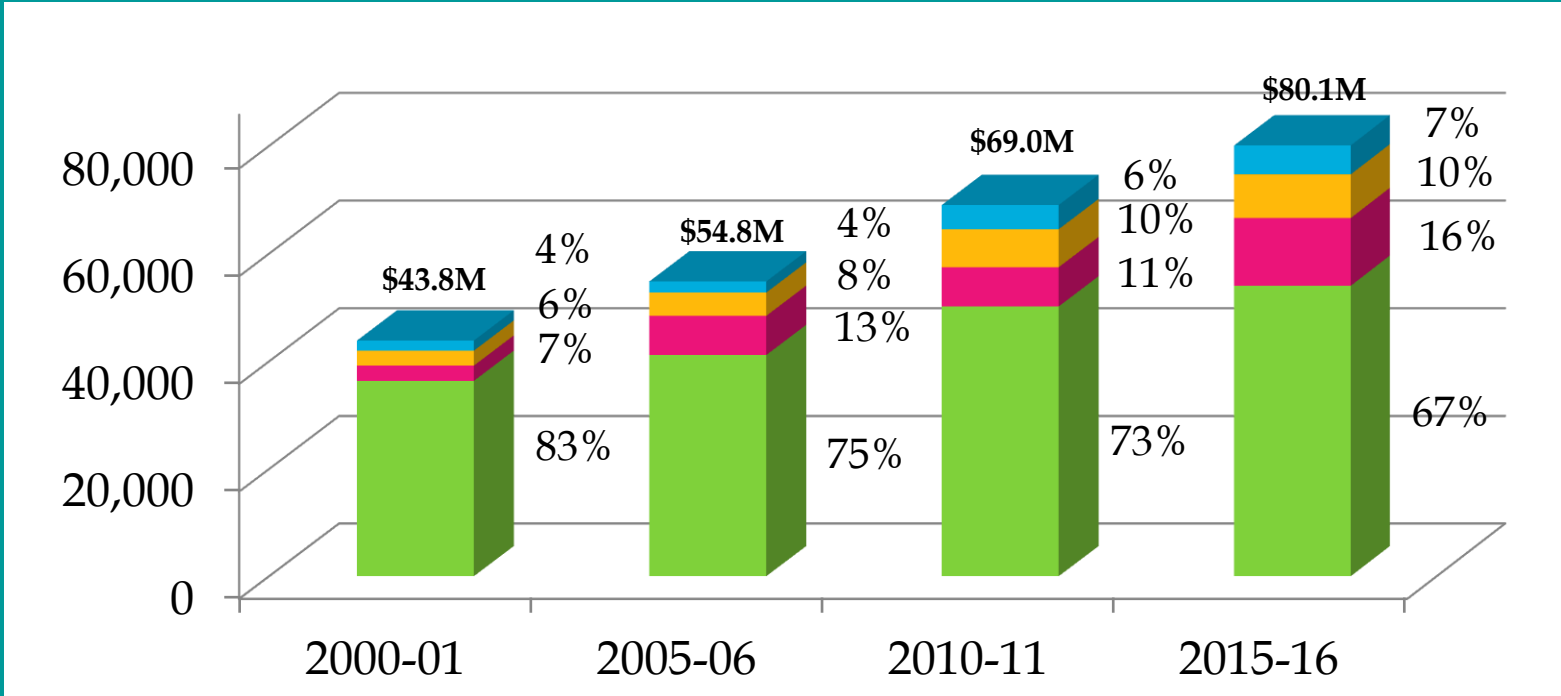


(<sup>1</sup>) Other Local Taxes is comprised of Transient Occupancy Tax (TOT), Utility Users Tax (UUT), and Business Licenses.  
 (<sup>2</sup>) Other Revenues is comprised of Licenses, Permits & Franchise Fees, Fines & Forfeitures, Intergovernmental, Charges for Services, Miscellaneous, and Interfund Revenues & Transfers.

(dollars in thousands)

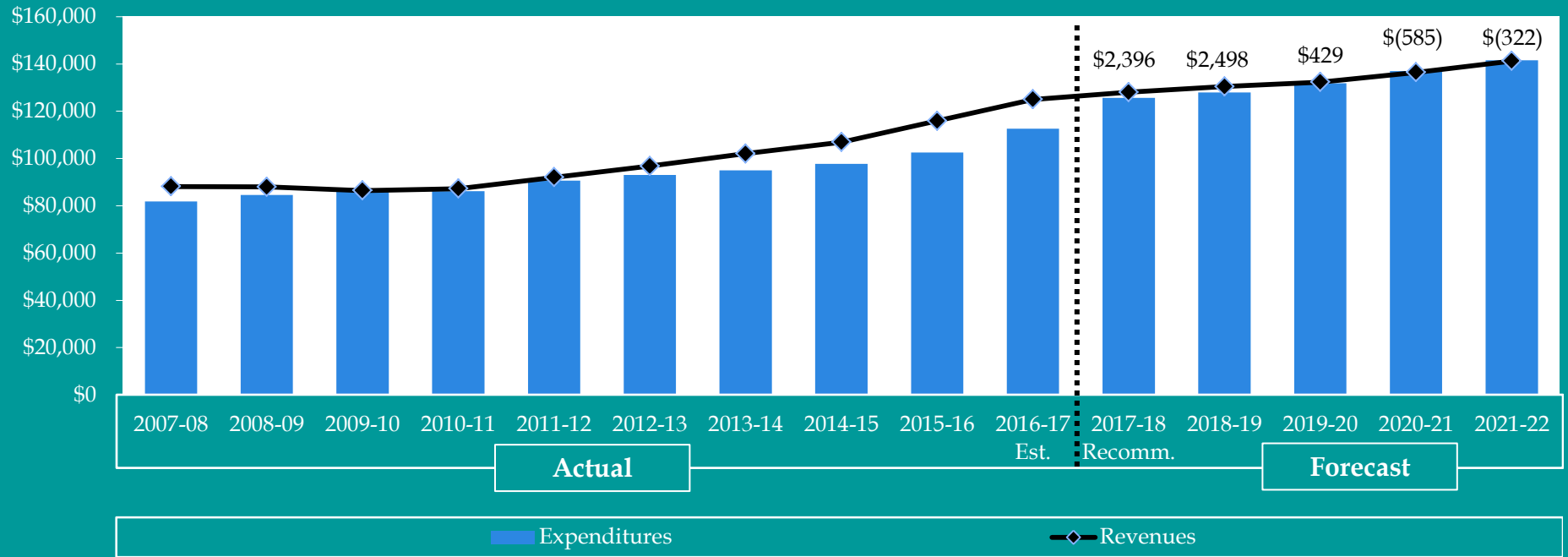


# GOF Salaries & Benefits Comparison



■ Salaries & All Pays   
 ■ Pension   
 ■ Health   
 ■ Other Benefits

# Revenue & Expenditure Summary



<sup>(1)</sup> Forecast includes \$1.8 M in budget savings.  
(dollars in thousands)



# Fiscal Year 2016-17

## General Operating Fund

	2016-17 Adopted <u>Budget</u>	2016-17 <u>Estimated</u>
Revenues	\$ 118,718	125,018
Expenditures	(108,433)	(106,108)
Operating Balance	10,285	18,910
Transfer to GNOF	(500)	(500)
CalPERS Contribution	(2,000)	(2,000)
OPEB Contribution	(2,000)	(2,000)
Transfer to SPAR	(2,000)	(2,000)
Rebudgets	<u>-0-</u>	<u>-0-</u>
Ending Balance	\$ <u>3,785</u>	<u>12,410</u>

(dollars in thousands)

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# Status Quo

## Use of FY 2016-17 Carryover

Estimated Available Carryover Balance	\$ 12,410
Allocations:	
Limited-Period Expenditures	(2,709)
Capital Outlay	(352)
General Fund Reserve	(3,160)
Compensated Absences Reserve	(2,412)
Capital Improvement Reserve	(1,777) <sup>(1)</sup>
CalPERS	(2,000)
Retirees' Health (OPEB)	-0-
SPAR	-0-
Total Allocations	<u>(12,410)</u>
Estimated Remaining Balance Available	\$ <u>-0-</u>

(1) Recommend any balance remaining be allocated to the CIP Reserve up to \$4.0 million based on the actual balance available after the fiscal year-end close.

(dollars in thousands)

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FY 2017-18  
General Operating Fund  
Recommended Budget



# Summary

## FY 2017-18 Recommended Budget

Total Revenues	\$ 128,058
Total Net Expenditures	(115,362)
Recommendations:	
Non-Discretionary	(1,034)
Discretionary	(1,230)
Revenue Changes	<u>(36)</u>
Operating Balance	10,396
CalPERS Funding	(4,000)
OPEB Funding	(2,000)
SPAR Funding	<u>(2,000)</u>
Net Balance	\$ <u>2,396</u>

(dollars in thousands)

Limited-Period Recommendations: Net \$2.7 million  
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# Expenditure Changes

## FY 2016-17 Adopted to FY 2017-18 Recommended

### Expenditure Changes:

Compensation Changes	\$ 1,481	
Retirement (CalPERS)	1,590	
Health and Other Benefits	820	
New Personnel Recommendations	<u>1,274</u>	
Total Changes Personnel Costs		5,165
Nonpersonnel Recommendations		990
Other Recommendations		<u>3,038</u>
Total Expenditure Increase		\$ <u>9,193</u>

(dollars in thousands)

# Personnel

- The City reduced approximately 70 positions (GOF Fiscal Year 2001-02 through Fiscal Year 2014-15).
- Over the past 4 years, City has added 38.5 net new positions (All Funds).
- The City continues to operate at a lean staffing level.

## FY 2017-18 Recommendations

	<b>GF</b>	<b>Other Funds</b>	<b>Total Positions</b>
New Ongoing Regular	3.50	1.25	4.75
Limited-Period to Regular	1.00	5.00	6.00
Continuing Limited-Period	4.95	3.05	8.00
New Limited-Period	2.00	3.00	5.00
<b>Total</b>	<b>11.45</b>	<b>12.30</b>	<b>23.75</b>

# FY 2017-18 Recommendations

## Major Non-Discretionary Increases

- Information Technology Costs \$ 342,600
- City Utility Costs 200,000
- Minimum Wage Impact 1/2-year 200,000
- Contract Services 152,200
- PG&E Cost 66,200

**Total Non-Discretionary Increases: \$1.0 million**



# FY 2017-18 Recommendations (cont.)

## Major Discretionary Recommendations

- |   |            |
|---|------------|
| • Positions (4.50 FTE)  | \$ 673,900 |
| • Hiring, Retention, and Training   | 140,000    |
| • Reclassification of Six Firefighter Positions to Paramedic Level<br>(changing the authorized level of Paramedics from 21 to 27) | 116,100    |
| • Silicon Valley Clean Energy 100 Percent Renewable Energy  | 80,000     |
| • Geographic Information System Data Conversion Services<br>(offset by reduction in revenue of \$50,000)                          | (50,000)   |
| • Materials and equipment   | 75,000     |
| • Wages   | 36,800     |

**Total Discretionary Recommendations: \$1.2 million**





# FY 2017-18 Recommendations (cont.)

## Major Limited-Period Recommendations

- Positions (6.95 FTE) \$ 1,159,600
- Programs 766,000
- Firefighter Recruit Academy 150,000
- **Transfer to the CSFRA Fund 150,000**
- Hourly Wages 180,000
- Workplace Investigations 45,000
- Labor Negotiations 35,000
- Automatic Locks and Installation for Park Restrooms 28,000
- Placeholder for New City Council Goal Related to Vulnerable Populations 25,000

**Total Limited Period Recommendations: Net \$2.7 million**



# Council Questions

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# FY 2017-18 Fee Recommendations

- Majority of fees recommended with inflationary increases.
- Community Services' fees impacted by the City's Minimum Wage Ordinance.
- New Fees
  - Marriage Officiant Off-Site
  - Tree Replacement
  - Recreation Grass and Synthetic Field Rentals
  - Residential Parking Permit Program
  - Compost Bin Service
  - Compactor Services



# Items for Council Discussion and Direction

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Council direction requested on the following:

- CalPERS Funding Strategy
- Lease Revenues
- Credit Card Processing Fees
- Community Health Awareness Council (CHAC) Request
- Council's Budget



# CalPERS Discount Rate Change

- Discount rate change from 7.5 to 7.0 percent
- Phasing in over 3 years beginning in Fiscal Year 2018-19 (total 7 year phase in)
- Projected normal costs increase of 1-3 percent of salary for miscellaneous and 2-5 percent for safety plans
- Projected annual unfunded liability payment increases 30 to 40 percent
- Cost increase projected at \$684,000 in year 1 growing to a projected \$8.6 million in year 7.



# Contributions to Unfunded Liabilities

	Unfunded Liability <sup>(1)</sup>	Total Annual Normal <u>Contrib.</u>	Prior Extra <u>Contrib.</u>	Recomm. FY17-18 <u>Contrib.</u>
CalPERS <sup>(2)</sup>	\$ 194.0 M	20.6 M	9.0 M	12.3 M
OPEB	<u>29.5 M</u>	<u>5.6 M</u>	<u>6.5 M</u> <sup>(3)</sup>	<u>4.0 M</u> <sup>(3)</sup>
Total	\$ <u>223.5M</u>	<u>26.2 M</u>	<u>15.5 M</u>	<u>16.3 M</u>

(1) CalPERS and OPEB estimated as of 6/30/17

(2) All Funds contributions

(3) General Fund contributions only

(dollars in millions)

# GF CalPERS Funding Strategy

Pay down a sizable portion of the unfunded liability immediately to reduce long term costs

- Recommendation
  - \$6.0M from the reduction in the GF Reserve
  - \$4.0M FY 2017-18 GOF
- Option 1
  - \$3.0M SPAR
  - \$3.0M FY 2016-17 GOF Carryover
  - \$4.0M FY 2017-18 GOF
- Option 2
  - \$3.0M Capital Improvement Reserve
  - \$3.0M FY 2016-17 GOF Carryover
  - \$4.0M FY 2017-18 GOF



# Lease Revenues

- Amphitheatre Parking
  - 3 year extension \$600,000 recommended to Capital Improvement Reserve
  - 5 year 2021-2025 \$2.25 million annually (escalates 4.0 percent per year)
    - \$10.0 million recommended for additional CalPERS paydown
    - \$2.2 million recommended to Capital Improvement Reserve
- Moffett Gateway
  - Lease revenue commences at building permits, estimated Fiscal Year 2017-18
  - Debt service projected for Fiscal Year 2019-20
  - \$2.0 million prior to debt service recommended to Budget Contingency Reserve
- Google Lease Revaluation
  - 15.0 percent at risk (\$1.9 million annually) recommended to Capital Improvement Reserve





# Credit Card Processing Fees - Options

Feature	Utility Payments*	Nonutility Payments
Applied to All Transactions Online	Yes	Yes
Applied to Credit Card Transaction On-Site	No	Yes
Can Be Fixed or Flat Fee	Yes	Yes
Can Be a Percentage Fee	No	Yes
Can Select the Type of Payment to Apply the Fee**	N/A	Yes
Uniform Fee Required for All Forms of Payments	Yes	No
Fee Can Be Shared between City and Customer	Yes	Yes

\* If any portion of the processing cost is paid by the customer, the Discount Fee Program would no longer be available.

\*\* For example, Transient Occupancy Tax payments, but not recreation fee payments.



# Council Questions

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- CalPERS Funding Strategy
- Lease Revenues
- Credit Card Processing Fees
- Community Health Awareness Council (CHAC) Request
- Council's Budget



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# Other Major Funds FY 2017-18 Recommended Budget



# GF – Development Services Highlights

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## Fiscal Year 2017-18

- Continued strong activity projected
- Land Use Documents Fee and Reserve \$5.3 M
- Total positions recommended 8.70 FTE (3.20 FTE LP)



# GF – Development Services Recommendations

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## Major Discretionary Recommendations:

- Positions - limited-period to ongoing: \$814,500
- Position - new ongoing regular: \$163,000
- Digital Imaging of Building and Fire Permits: \$50,000 (offset by \$50,000 in fees)

**Total Discretionary Recommendations: \$1.0 million**

## Major Limited-Period Recommendations:

- Consultant Support: \$600,000
- Positions – continuing limited-period or hourly staff: \$383,700
- Positions – new limited-period: \$236,500
- Digital Imaging of Building Permits: \$60,000
- Cost of Service Study: \$40,000

**Total Limited-Period Recommendations: \$1.3 million**



# GF – Shoreline Golf Links Highlights

## Fiscal Year 2017-18

- Course conditions continue to improve
- Revenues projected at \$2.5 M and expenditures projected at \$2.4 M
- Projected \$125,000 operating balance
- Recommended increases to fees

## Major Ongoing Recommendations:

- Minimum Wage Impact 1/2-year: \$64,900
- Net Miscellaneous: (\$185,600)

**Total Ongoing Recommendations: (\$120,700)**



# Shoreline Regional Park Community Highlights

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## Fiscal Year 2017-18

- Property taxes projected to decrease due to resolved appeals
- Capital Improvement Projects \$28.4 M
- Reserves of \$17.1 M

## Future

- Significant CIPs and anticipated debt service for potential future infrastructure needs



# Shoreline Regional Park Community Recommendations

## Major Ongoing Recommendations:

- Ranger Service Contract: \$82,000
- Transportation Planner (0.25): \$49,900
- Associate Civil Engineer-Land Development Position (0.20)\*: \$36,700

**Total Ongoing Recommendations: \$184,600**

\* Represents a position going from limited-period to ongoing

## Major Limited-Period Recommendations:

- Two Associate Civil Engineer-Land Development Positions (0.40): \$73,500
- Associate Civil Engineer-Traffic Section Position (0.25)\*: \$45,900

**Total Limited-Period Recommendations: \$119,400**

\* Represents a continuing limited-period position





# Water Fund Highlights

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## Fiscal Year 2017-18

- Wholesale costs increases:
  - SFPUC proposes no increase
  - Budget reflects minimum water purchase
  - 9.0 percent (treated water) and 9.9 percent (well water) from SCVWD
- 7.0 percent increase for average cost of water and meter rates and 3.0 percent increase for recycled water rate recommended



# Water Fund Recommendations

## Major Ongoing Recommendations:

- Utility Online Payment Processing: \$50,000

**Total Ongoing Recommendations: \$118,500**

## Major Limited-Period Recommendations:

- Associate Civil Engineer-Engineering and Environmental Compliance Section Position\*: \$169,600
- Two Associate Civil Engineer-Land Development Positions (0.40): \$73,500

**Total Limited-Period Recommendations: \$243,100**

\* Represents a continuing limited-period position



# Wastewater Fund Highlights

## Fiscal Year 2017-18

- 10.0 percent overall rate increase recommended
  - 2.0 percent Treatment Plant cost increase
  - 2.0 percent fourth year phase-in of future Treatment Plant capital expenditures
  - 6.0 percent increase approved June 21, 2016 for unanticipated FY2015-16 Treatment Plant costs

## Future

- Staff is evaluating the need of issuing debt for the City's additional capital projects



# Wastewater Fund Recommendations

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## Major Ongoing Recommendations:

**Total Ongoing Recommendations: \$19,400**

## Major Limited-Period Recommendations:

- Two Associate Civil Engineer-Land Development Positions (0.40): \$73,500

**Total Limited-Period Recommendations: \$73,500**



# Solid Waste Management Fund Highlights

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## Fiscal Year 2017-18

- 10.0 percent increase for carts (includes final phase-in for cost of service study)
- 2.0 percent increase for all other trash and recycling services recommended
- New residential food scraps program being implemented July 2017, recommended rate increase to be deferred to FY 2018-19



# Solid Waste Fund Recommendations

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## Major Ongoing Recommendations:

- Commercial Composting Processing Fee: \$35,000

**Total Major Ongoing Recommendations: \$56,700**

## Major Limited-Period Recommendations:

- Two Associate Civil Engineer-Land Development Positions (0.40): \$73,500

**Total Limited-Period Recommendations: \$73,500**



# Summary of Recommended Residential Utility Rate Increases

- No Prop 218 notice required
- 8.5 percent total average increase for a single-family residential customer
  - Water
    - \$5.17/month increase for 250 gal/day (10 units)
  - Wastewater
    - \$3.45/month increase
  - Solid Waste
    - \$2.95/month increase for one 32-gallon cart



# Utility Rate Comparison Single Family Residential

	<u>Mountain View</u>	<u>Palo Alto</u>	<u>Sunnyvale</u>
<u>Water</u> <sup>(1)</sup>			
Current	\$ 72.73	\$ 89.85	\$ 53.66
Recommended	77.90	93.44	60.37
Recommended Increase	7.1%	4.0%	12.5%
<u>Sewer</u>			
Current	34.30	34.83	42.89
Recommended	37.75	34.83	47.18
Recommended Increase	10.1%	0.0%	10.0%
<u>Trash</u> <sup>(2)</sup>			
Current	29.30	47.69	38.23
Recommended	32.25	50.07	39.38
Recommended Increase	10.1%	5.0%	3.0%

<sup>(1)</sup> Based on 10 units of water plus meter charge. Mountain View's meter charge for single family is for both 5/8 and 3/4 inch meter sizes. Sunnyvale and Palo Alto have separate rates. This comparison uses the lower 5/8 inch meter rate.

<sup>(2)</sup> Mountain View and Palo Alto based on 32-gallon, Sunnyvale based on 35-gallon. Mountain View has biweekly recycling pick-up; Palo Alto and Sunnyvale have weekly recycling pick-up.



# Non-Major Funds Recommendations

- Child-care Commitment Reserve: \$100,000 (limited-period)
- Public Benefit Fund: \$477,000 (limited-period)
- BMR Housing Fund: \$52,000 (ongoing) and \$60,000 (limited-period)
- Housing Impact Fund: \$25,000 (ongoing) and \$15,000 (limited-period)
- CSFRA Fund: \$150,000 (limited-period)
- Successor Agency Fund: \$250,000 (limited-period)
- Downtown Benefit Assess. Districts Fund: \$165,000 (limited-period) and \$20,000 (ongoing, offset with \$20,000 revenue)
- Tree Mitigation Fund: \$50,000 (ongoing, offset with \$50,000 revenue)
- Workers' Compensation Fund: \$54,000 (ongoing)



# Reserves

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- Council Policy A-11
- Reserves designated for specific purposes
- Reserves to fund liabilities
- Majority at or exceed policy or target level
- Funding level depends on Council direction



# Reserve Recommendations

- General Fund Reserve
  - Recommending to revise policy balance to allow a range of between 20.0 to 25.0 percent of net GOF Adopted expenditures
- General Fund Budget Contingency Reserve
  - Recommending \$755,400 and \$1.3 million, for Fiscal Years 2017-18 and 2018-19, respectively, from Ameswell development project prior to beginning of debt service
- General Fund Capital Improvement Reserve
  - Recommending \$600,000 for extension of amphitheatre parking sublease
  - Recommending \$1.9 million Fiscal Year 2017-18 (\$2.3 to 2.5 million annually over following 4 fiscal years) for at risk Google land lease revaluations
  - Recommending up to \$4.0 million from General Fund carryover available balance (subject to actual results)
- Compensated Absences Reserve
  - Recommending to reduce policy to 80.0 percent funded



# Council Questions

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- Other Major Funds
- Utility Rates
- Non-Major Funds
- Reserves



# Direction Requested

- General Operating Fund
  - Recommended Actions
    - Non-Discretionary
    - Discretionary
    - Limited-Period
- Fees
- Other Major Funds
- Utility Rates
- Non-Major Funds
- Reserves
- Other Council Discussion Items
  - CalPERS Funding Strategy
  - Lease Revenues
  - Credit Card Processing Fees
  - CHAC Request
  - Council's Budget



# Next Steps

- May 2 – CDBG Hearing
- May 16 – Adoption of Fiscal Years 2017-2019 Major Council Goals and Projects
- June 6 – Capital Improvement Program Adoption Public Hearing
- June 13 – Proposed Budget Public Hearing
- June 20 – Public Hearings:
  - Capital Improvement Program Funding
  - Budget Adoption

