DATE: April 25, 2019

TO: Honorable Mayor and City Council

FROM: Jesse Takahashi, Finance and Administrative Services Director
Daniel H. Rich, City Manager

TITLE: **Fiscal Year 2019-20 Narrative Budget Report**

STUDY SESSION MEMO

CITY OF MOUNTAIN VIEW

PURPOSE

This Study Session provides the City Council an opportunity to review and discuss the Fiscal Year 2019-20 Narrative Budget Report, which includes the City Manager's recommendations and is the foundation for the Proposed Budget. Based on input from the Narrative Budget Study Session, the Proposed Budget will be presented at public hearings on June 11 and June 18, and is scheduled for adoption after the public hearing on June 18, 2019.

The information in this report is for the following major funds: General Operating Fund (GOF), Development Services, Shoreline Golf Links, Shoreline Regional Park Community (Shoreline Community), Water, Wastewater, Solid Waste Management, and Reserves. For each fund, the report includes a current fiscal year status update of revenues, expenditures, and balance available, as well as budget recommendations for Fiscal Year 2019-20. To provide some context and assist with decisions that have longer-term implications, a 5-Year Financial Forecast (Forecast) for the GOF has been prepared and is included in this document.

BACKGROUND

The City continues to benefit from a strong local economy that is stimulating development and significant property tax growth. The Assessed Value (AV) growth for the entire City is a net 4.9 percent for Fiscal Year 2018-19 and Fiscal Year 2019-20 is projected to grow 8.4 percent. This includes growth in AV from new development and changes in ownership being added to the tax roll. Property Tax revenues for the City's General Operating Fund (GOF) are projected 7.9 percent higher for Fiscal Year 2019-20 compared to the current fiscal year Adopted. Other Local Taxes (Transient Occupancy Tax, Business License Tax, and Utility Users Tax) are projected 17.4 percent higher for Fiscal Year 2019-20 compared to the current fiscal year Adopted, primarily due to increases from Business License Tax and Transient Occupancy Tax (TOT). The Business License Tax includes an estimated $2.0 million increase in revenue related to the new

Business License Tax structure approved by voters in November 2018 to be phased in over three years starting with Fiscal Year 2019-20. The City Council has preliminarily indicated 80.0 percent of this new revenue would be allocated to transportation and 10.0 percent to housing. TOT includes an increase in revenue related to the opening of both the Hyatt Centric hotel (San Antonio Phase II) and the Shashi hotel. The other major category projected with a significant increase in Fiscal Year 2019-20 is Use of Money and Property, which includes Investment Earnings and Rents and Leases. Investment Earnings are increasing due to the Federal Reserve's actions raising rates 2.0 percent from December 2016 to December 2018. Rents and Leases are increasing as a result of annual adjustments to ground leases. Most other revenue sources are expected to remain the same or see modest changes.

Although the City's revenues are cyclical and reflect the boom and bust of economic cycles, the City has addressed past recessions, balancing the GOF by strategically reducing expenditures, establishing more efficient operating models, and working closely with employee groups to contain employee compensation costs, as well as implementing limited revenue enhancements where appropriate. While the City has added positions back in recent years as the economy has improved, the City continues to operate with fewer staff than before the last recession. In Fiscal Year 2001-02, the City peaked with 651.25 positions, and in Fiscal Year 2012-13 there was a low of 564.75 positions Citywide.

The City organization has found methods to improve efficiencies, to do more with less staff, but heavy workloads have continued to place serious pressures on staff and the organization. To address some of the staffing needs within the City, there were a total of 29.0 positions and 33.0 positions (including limited-period positions) for all funds added in the Fiscal Year 2017-18 and 2018-19 Adopted Budgets, respectively. Nine of these positions are ongoing positions in the GOF. Total Citywide position count is still down 38.0 positions from the peak, supplemented with 22.5 limited-period positions.

The City has been prudent and watchful for a slowdown in the economy. Currently, the environment has continued to be positive and, overall, revenue growth has remained strong. Most economists currently believe the State and regional fundamentals of employment and job growth are strong and that the chance of a recession over the next 24 months is possible but low. Historically, recessions have generally occurred between 3 and 9 years, post-World War II, with the longest period of expansion lasting 10 years, from 1991 to 2001. It has been approximately 10 years since the end of the last recession (June 2009), the same recovery and expansion period of the 1990s. There are other factors such as housing/rent prices, recent market volatility, global trade, and political discourse that impact the economy. Although it is uncertain when the next economic slowdown will occur, based on history, it is certain there will be another decline in the future. Consequently, it is assumed there will be an economic downturn beginning in Fiscal Year 2020-21 and continuing into Fiscal Year 2021-22.

EXECUTIVE SUMMARY

General Operating Fund

Fiscal Year 2018-19 revenues are estimated to exceed budget and expenditures are estimated below budget. After contributions of $4.0 million to the California Public Employees' Retirement System (CalPERS), $1.0 million to the Retirees' Health Other Post-Employment Benefits (OPEB) to increase the funding status of these liabilities, and transfers of $1.0 million to the General Fund Reserve, $2.0 million to the Transportation Reserve, $2.0 million to the Capital Improvement Reserve, and $2.0 million to the Strategic Property Acquisition Reserve (SPAR), the remaining $8.8 million balance is recommended to be used to fund limited-period expenditures, supplement reserves, make an additional contribution toward the City's unfunded CalPERS liability, and transfer to the Capital Improvement Reserve, if desired.

It is fortunate the City is in a desirable position to be generating significant operating balances. It provides the opportunity to address some infrastructure needs and unfunded liabilities, which were unable to be addressed during tough economic times. The overall funding status of CalPERS has declined over the past decade due to the CalPERS Fund's investment losses, demographic assumption changes, discount rate reductions, etc., and CalPERS continues its commitment towards raising the funding level of the pension plan. Staff continues to recommend lump-sum payments when possible to address this unfunded liability.

Continuing to focus on adding personnel resources where most needed and to the extent the budget will allow, long-term, additional positions are recommended for Fiscal Year 2019-20. A total of 13 net positions are recommended as ongoing positions and there are a net of 10.25 new personnel added. A summary of the positions recommended is as follows:

	GF	Other Funds	Total Positions
New Ongoing Regular	4.85	3.65	8.50
Limited-Period to Regular	3.95	0.55	4.50
Continuing Limited-Period	8.65	6.35	15.00[1]
New Limited-Period	1.75	0.00	1.75
TOTAL	19.20	10.55	29.75[1]

(1) Does not include 2.0 FTE limited-period positions reimbursed by Google per the agreement that expires June 30, 2019.

With the new positions recommended, this would provide for 626.25 ongoing positions and 16.75 limited-period positions, or a total of 643 positions, still lower than the peak of 651.25 positions. There have been some changes in operations (e.g., adding positions from contracts, such as insourcing IT, or contracting out positions, such as Shoreline Golf Links, etc.), but overall there are still fewer positions while the working environment has become more complex. The positions recommended are for almost all departments; however, about half of the resources being added or continued are development services-related, for Community Development and Public Works, in response to the continued heavy workload.

Fiscal Year 2019-20 revenues are projected to continue to rise to $148.4 million and expenditures are projected at $136.1 million (including recommendations). Revenues are at a level sufficient to fund expenditures and additional funding of $2.0 million to the General Fund Reserve, $3.0 million to the Capital Improvement Reserve, $1.0 million to the SPAR, and a contribution of $4.0 million to CalPERS. There is a projected balance of $2.3 million after these allocations. Recommendations include $781,000 in nondiscretionary increases, as well as $1.7 million in discretionary increases in high-priority areas. As in the Fiscal Year 2018-19 Adopted Budget, $2.3 million of budget savings is built into the budget.

In the 5-year Forecast, revenues are projected to continue growing; however, this Forecast assumes an economic downturn will occur during this 5-year period. It is unknown exactly when this will occur, but staff has incorporated the possible financial impact of a downturn beginning in Fiscal Year 2020-21. At that point, the projected operating balance declines and deficits are projected in Fiscal Years 2021-22 and 2022-23 and a modest balance in Fiscal Year 2023-24.

Items for City Council Discussion and Direction

In addition to the direction on the recommendations in this report, there are specific items staff would like direction on regarding whether these are items should be included in the Fiscal Year 2019-20 Proposed Budget. This section can be found at the end of the General Operating Fund.

Items that Will Be Brought Back with the Proposed Budget

In addition to the items recommended in this report, there are items that, due to timing, could not be incorporated or require further analysis before a recommendation can be made. A list of these items can be found at the end of the General Operating Fund.

Other Major Funds

- Development Services: Development activity for Fiscal Year 2018-19 remains strong and is anticipated to continue into the upcoming fiscal year. The Development Services Fund (DSF) is able to meet its current financial obligations; however, revenues are received in advance of the services provided and, therefore, a significant balance should be maintained in the fund for these services and to continue operations during the next slowdown in development activity.

- Shoreline Golf Links and Restaurant (SGL&R): Course conditions continue to improve and both revenues and expenditures are below budget for Fiscal Year 2018-19. For Fiscal Year 2019-20, revenues are projected to be higher than the current fiscal year estimated and the transfer is projected at $150,000, $40,000 higher than the current fiscal year estimated. Touchstone Inc. took over management of Michaels at Shoreline Restaurant in January 2019. A full year's operating budget is reflected for Fiscal Year 2019-20 with a projected balance of $125,000.

- Shoreline Regional Park Community (Shoreline Community): Fiscal Year 2018-19 Property Tax revenues are estimated to be $1.6 million lower than the Adopted Budget, primarily related to an unanticipated 22.9 percent decline on the July 2018 unsecured tax roll. Fiscal Year 2018-19 estimated operating expenditures are $2.2 million higher than the Adopted Budget, primarily due to a debt issuance in December 2018. Fiscal Year 2019-20 operating revenues are projected with an increase over both the current fiscal year adopted and estimated. Fiscal Year 2019-20 operating expenditures are higher than the Fiscal Year 2018-19 adopted, primarily due to operating and intergovernmental payment increases. The new debt service payments from the debt issuance are offset by the final 2014 loan payment being made in the current fiscal year.

<u>Utility Funds</u>

- <u>Water Fund</u>: The financial position of this fund had been severely impacted by reduced water sales from conservation efforts due to the drought. Over the last few years, usage has increased and is having a positive financial impact, though usage is still approximately 22.0 percent below the 2013 drought baseline.

  For the upcoming fiscal year, the San Francisco Public Utilities Commission (SFPUC) is currently proposing no wholesale water rate increase, and the Santa Clara Valley Water District (SCVWD) is proposing a 6.6 percent increase for ground (well) water, which corresponds to a 6.1 percent increase for treated water. **A 1.0 percent rate increase is recommended for the average cost of potable water and meter rates** to fund the increased cost of water and operating expenditures. The recycled water rate is recommended to increase from $3.75 to $4.50 per unit (20.0 percent), the second year of a three-year phase in to bring the rate into alignment with total costs.

- <u>Wastewater Fund</u>: Staff previously indicated through the Capital Improvement Program (CIP) process that there are major City sewer main replacement projects necessary over the next 10 years. On October 23, 2018, the City Council approved a $10.1 million loan financing for wastewater infrastructure projects to fund capital projects identified in the CIP.

  For Fiscal Year 2019-20, the Treatment Plant is currently proposing no increase in treatment costs. **A 3.0 percent rate increase is recommended** to fund operating cost increases and the additional 2.0 percent rate increase (the sixth year of 10 years) recommended to gradually increase rates to pay for major capital improvements at the Treatment Plant.

- <u>Solid Waste Management Fund</u>: For Fiscal Year 2018-19, revenues are trending higher than budgeted and expenditures are trending less than the Adopted Budget; however, SMaRT costs are higher due to increased tonnage due to development. For Fiscal Year 2019-20, the agreement with Recology provides for a 3.97 percent increase. The City’s share of SMaRT costs is currently proposed to increase 16.0 percent, 4.5 percent adjusted for tonnage. These increases, as well as City operating cost increases result in an overall average rate increase of approximately 4.0 percent; however, the fund is in stable financial condition and **a 3.0 percent overall rate increase is recommended**.

Non-Major Funds

There are recommendations for Non-Major funds, and these are highlighted after the discussion of the Utility Funds, under the Other Major Funds Section.

Reserves

With the recommendations to supplement the General Fund Reserve and the Compensated Absences Reserve, most reserves are at or higher than the target or policy balance.

There is a sufficient GOF surplus for Fiscal Year 2019-20 to recommend allocations of $2.0 million to the General Fund Reserve, $3.0 million to the Capital Improvement Reserve, $1.0 million to SPAR, and a $4.0 million contribution towards the CalPERS unfunded liability. Any remaining GOF carryover balance up to $3.0 million is recommended to be transferred to the Capital Improvement Reserve. Should the balance exceed the amount recommended, staff will return to the City Council at a later date for approval of the allocation of additional funds.

Next Steps

Based on the feedback provided by the City Council at the Narrative Budget Report (NBR) Study Session, staff will prepare the Proposed Budget to be presented to the City Council at a public hearing on June 11, 2019. The Proposed Budget is scheduled for adoption after another public hearing on June 18, 2019. Staff is available to meet with Councilmembers to discuss the Narrative Budget Report before or after the April 25 Study Session.

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DISCUSSION

GENERAL OPERATING FUND

The GOF is the single largest City fund and provides funding for core services, including Police, Fire, Parks, Recreation, Library, Planning, Public Works, and Administration. The City's financial health is shaped in part by economic forces beyond our control. Revenues fluctuate with the economic climate of Silicon Valley and the Bay Area. During the dot-com boom, City revenues, especially Sales Tax revenue, increased significantly and then, just as significantly, declined with the dot-com bust. During this past recession, due primarily to declines in Property Taxes, Sales Taxes, and Transient Occupancy Tax revenues, the GOF faced structural deficits (before corrective actions were taken) for four consecutive fiscal years. By addressing these ongoing structural deficits, the City was able to better position itself for the economic recovery. In addition, the City's sound fiscal practices and budget discipline have allowed the City to maintain its AAA credit rating, a status only a fraction of other California cities can claim.

Building on this strong financial foundation, and with the current continuation of revenue growth, this report briefly summarizes the current fiscal year financial situation and provides the recommendations for the General Operating Fund budget for Fiscal Year 2019-20.

Updated General Operating Fund Status for Fiscal Year 2018-19

Staff continually monitors the General Operating Fund revenues and expenditures. As the fiscal year progresses, estimates are refined with a higher degree of confidence, but the final results are not available until after the close of the fiscal year. A summarized comparison of estimated amounts to budget for the GOF follows (dollars in thousands):

	2018-19 Adopted Budget	2018-19 Adjusted Budget[1]	**2018-19 Estimated**	Variance of Estimated to Adopted Budget
Revenues	$137,682	$139,255	**$143,374**	$5,692
Expenditures	(124,939)	(128,569)	**(122,604)**	2,335
Rebudgets[1]	-0-	2,255	**-0-**	-0-
Operating Balance	12,743	12,941	**20,770**	8,027
Transfer to GF Reserve	(1,000)	(1,000)	**(1,000)**	-0-
Transfer to Transp Res	(2,000)	(2,000)	**(2,000)**	-0-
Transfer to Cap Imp Res	(2,000)	(2,000)	**(2,000)**	-0-
Transfer to SPAR	-0-	(2,000)	**(2,000)**	(2,000)
CalPERS Contribution	(4,000)	(4,000)	**(4,000)**	-0-
OPEB Contribution	-0-	(1,000)	**(1,000)**	(1,000)
Ending Balance	$ 3,743	$ 941	**$ 8,770**	$5,027

(1) The Adjusted Budget includes the Adopted Budget; any encumbrance and grant/donation carryovers from the prior fiscal year (rebudgets); increases for reimbursed expenditures, grants, and donations; and any budget changes approved through January by Council for the current fiscal year.

Overall, total revenues for Fiscal Year 2018-19 are currently estimated to be $5.7 million, or 4.1 percent higher than adopted revenues. Many of the GOF major revenue sources are estimated to perform better than expected this fiscal year. However, Property Tax and Other Local Taxes are estimated below budget. Sales Tax revenue is estimated $3.2 million higher; however, $1.6 million in payments belong in the prior fiscal year (see Sales Tax section of Forecast for more information).

On the expenditure side, total operating expenditures for Fiscal Year 2018-19 are estimated to be $6.0 million, or 4.6 percent, lower than the Adjusted Budget and $2.3 million lower than the Adopted Budget. After accounting for higher revenues, the ending balance is estimated to be $8.8 million this fiscal year compared to the $3.7 million budgeted. This is an improvement, primarily related to revenues, from the estimates provided in the Midyear Report, where the operating balance was estimated at $7.7 million.

Although we expect the City will end the current fiscal year with an operating balance greater than budgeted, it is important to note the carryover balance is the funding source for key organizational needs, such as limited-period expenditures, maintaining reserve levels, funding one-time capital projects, and contributions towards unfunded liabilities.

After the $4.0 million contribution to CalPERS, $1.0 million contribution to OPEB, and transfers of $1.0 million to the General Fund Reserve, $2.0 million to the Transportation Reserve, $2.0 million to the Capital Improvement Reserve, and $2.0 million to the SPAR included in the Fiscal Year 2018-19 Budget, the estimated Fiscal Year 2018-19 carryover balance of $8.8 million (subject to changes in assets and liabilities and grants/donations carryovers), in addition to the $5.8 million remaining unallocated balance from Fiscal Year 2017-18 for a total of $14.6 million, is available to fund a net $3.7 million of limited-period expenditures plus other recommendations.

It is recommended the City transfer $1.8 million and $2.0 million to the General Fund Reserve and Compensated Absences Reserve, respectively, to bring the balances to policy levels. A contribution of $2.0 million to CalPERS is also recommended. In addition, a potential new Environmental Sustainability Reserve is being reviewed and staff will bring back a recommendation for funding with the Proposed Budget. Any remaining carryover available up to $3.0 million is recommended to supplement the Capital Improvement Reserve. The final carryover available will be determined after the fiscal year-end close and audit of the City's financial records.

The Reserve Section of this report has additional information and detail related to Reserves.

General Operating Fund Projections for Fiscal Year 2019-20

In presenting the Preliminary GOF revenues and expenditures in the Midyear Budget Status Report on February 12, 2019, staff projected a $14.1 million operating balance for Fiscal Year 2019-20. With additional information available on both revenues and expenditures as the fiscal year has progressed and the addition of budget recommendations, the updated projection is an operating balance of $12.3 million, but after allocation recommendations to the General Fund Reserve, the Capital Improvement Reserve, SPAR, and CalPERS, a balance of $2.3 million, or approximately 1.5 percent of projected revenues, is recommended. This balance is after recommendations for expenditure increases and includes $2.3 million of budget savings. A brief discussion of revenues and expenditures for Fiscal Year 2019-20 follows.

Compared to the current Adopted Budget, and including recommendations, total revenues are anticipated to grow by $10.7 million, or 7.8 percent, next fiscal year, and total expenditures are projected to increase $11.2 million or 8.9 percent.

Comprehensive information for revenues and expenditures is included in the GOF Forecast Section included in this document. A summary comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (dollars in thousands):

	2017-18 Audited	2018-19 Adopted Budget	2018-19 Estimated	**2019-20 Recommended**	Variance of 2019-20 Recom-mended to 2018-19 Adopted
Revenues	$136,377	$137,682	$143,374	**$148,401**	$10,719
Expenditures	(113,682)	(124,939)	(122,604)	**(136,116)**	(11,177)
Rebudgets[1]	429	-0-	-0-	**-0-**	-0-
Operating Balance	23,124	12,743	20,770	**12,285**	(458)
Transfer to GNOF	(15,124)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	-0-	(1,000)	(1,000)	**(2,000)**	(1,000)
Transfer to Transp Res	-0-	(2,000)	(2,000)	**-0-**	2,000
Transfer to Cap Imp Res	-0-	(2,000)	(2,000)	**(3,000)**	(1,000)
Transfer to SPAR	(2,000)	-0-	(2,000)	**(1,000)**	(1,000)
CalPERS Contribution	(4,000)	(4,000)	(4,000)	**(4,000)**	-0-
OPEB Contribution	(2,000)	-0-	(1,000)	**-0-**	-0-
Ending Balance	$ -0-	$ 3,743	$ 8,770	**$ 2,285**	$ (1,458)

[1] Rebudgets include grant and donation carryovers and changes in assets, liabilities, and reserves for encumbrances.

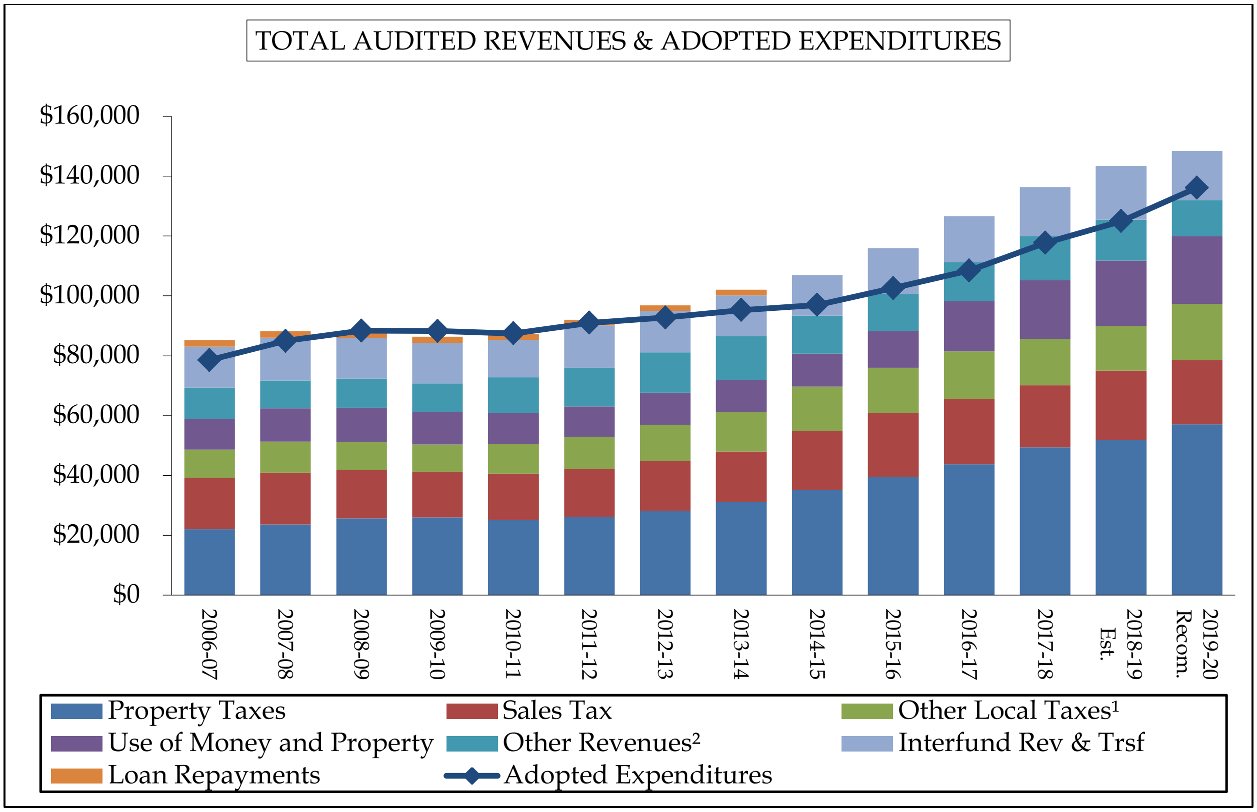
A summary of the Fiscal Year 2019-20 budget recommendations is as follows (dollars in thousands):

Total Revenues	$148,144
Total Net Expenditures	(133,671)
Recommendations:	
Non-Discretionary	(781)
Discretionary Increases	(1,664)
Revenue Changes	257
Operating Balance	12,285
Transfer to General Fund Reserve	(2,000)
Transfer to Capital Improvement Reserve	(3,000)
Transfer to SPAR	(1,000)
CalPERS Contribution	(4,000)
Balance	$ 2,285

Revenue Projections for Fiscal Year 2019-20

For Fiscal Year 2019-20, GOF revenues are projected to grow by 7.8 percent compared to the current fiscal year adopted, to $148.4 million, including recommendations. All major categories of revenues are projected with increases over the current fiscal year adopted. More detail on each revenue source can be found in the Forecast.

The City's recent revenue history and estimated revenues for the current fiscal year and projected revenues for the upcoming fiscal year are as follows (dollars in thousands):



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

This table demonstrates the cyclical nature of the City's balance between revenues and expenditures. In recessionary years, small margins existed between GOF revenues and expenditures, while that gap widens during high-revenue-growth years as we are currently experiencing. The adopted expenditures in the table include budget savings; however, for Fiscal Years 2008-09 through 2010-11, the actual budget saving results were greater than adopted and were necessary to maintain a positive operating balance due to revenue shortfalls compared to budget. In comparison, for Fiscal Year 2011-12 through Fiscal Year 2014-15, actual budget savings have declined, but revenues were greater than adopted.

Recommendations regarding new fees and modifications to current fees are included with this report (see Attachment 1).

Expenditure Projections for Fiscal Year 2019-20

The recommended expenditures for Fiscal Year 2019-20 include the addition of $781,000 of non-discretionary increases, which preserves current service levels, and $1.7 million discretionary additions for resources to meet demands and reduce some of the strain on staff.

While several new expenditure requests by departments are being recommended, there were more requests by departments for ongoing expenditure increases, many of which would be desirable. However, as can be seen in the Forecast, although more expenditures could be afforded in the Fiscal Year 2019-20 Budget, it is recommended to only add expenditures that are generally sustainable through the next economic downturn, when the GOF could be once again facing an operating deficit, requiring budget reductions to maintain a balanced GOF. To address heavy workloads, many current demands for resources are being addressed through limited-period funding.

Although service levels are generally not increasing, except in limited areas, the City's costs are increasing. As a service organization, approximately 80.0 percent of expenditures are for personnel. Total costs of personnel are increasing $8.0 million. Although there were structural changes adopted Statewide with pension reform in 2012, retirement costs are still projected to increase by $2.1 million for Fiscal Year 2019-20 (not including new position recommendations) over the current fiscal year Adopted Budget. The changes resulting from pension reform will likely not be realized for 15 years or more, until there are a majority of employees under the new formula.

The categories of changes in costs from the Fiscal Year 2018-19 Adopted Budget to the Fiscal Year 2019-20 recommended budget are as follows (dollars in thousands):

Expenditure Changes:		
Compensation Changes	$4,011	
Retirement (CalPERS)	2,135	
Health and Other Benefits	337	
New Personnel Recommendations	1,499	
Total Changes Personnel Costs		7,982
Nonpersonnel Recommendations, Net		947
Transfers		2,005
Other Recommendations, Net		243
Total Expenditures Increase		$11,177

All labor contracts and resolutions expire June 30, 2020, but have a reopener on salary for Fiscal Year 2019-20 and discussions are under way. Open enrollment for health care is on a calendar year, and new premiums are effective each January 1. The premiums budgeted for Fiscal Year 2019-20 are actual rates through December 2019 and assume an increase of 5.0 percent to 10.0 percent, depending on the plan for medical, and 2.0 percent for dental beginning January 2020. CalPERS rates are budgeted based on the actuarial rates provided by CalPERS.

Changes to transfers include the 80.0 percent and 10.0 percent of the new Business License Tax structure which the City Council preliminarily earmarked for transportation and housing, respectively, increases to "At Risk" revenue allocated to the Capital Improvement Reserve, and the Ameswell rent allocated to the Budget Contingency Reserve. Other net recommendations of $243,000 include increases to Capital Outlay, Fleet Maintenance, Liability self-insurance, and the amortization of the Retirees' Health unfunded actuarial accrued liability (UAAL), offset by a temporary reduction in Equipment Replacement funding.

<u>Fiscal Year 2019-20 Budget Recommendations</u>

The following is a discussion of non-discretionary and discretionary recommended expenditure increases. Departments have reviewed their programs, work levels, and preliminary goals for the upcoming fiscal year and developed their budget requests. The Citywide non-discretionary increase is primarily related to information technology, janitorial services, contractual services, and City utility cost increases. The discretionary items are based on requests made by departments that have been reviewed by the City Manager and are recommended for City Council consideration. These recommendations are included in the Fiscal Year 2019-20 numbers presented and complete lists of the non-discretionary, discretionary, and limited-period recommendations can be found in Attachments 2, 3, and 4, respectively.

Non-Discretionary Increases

Non-discretionary increases totaling $781,000, offset by $177,000 in new revenue, are recommended to fund existing and new required operational costs such as increases in information technology costs, City utility cost increases, and contract services. A listing of recommended items, $25,000 and over, are as follows (see Attachment 2 for a complete listing of non-discretionary items with descriptions):

- **Shared Public Safety System Maintenance:** $155,000 (offset by $155,000 revenue)
- **Information Technology Licenses and Maintenance:** $146,200

- **City Utility Cost Increase (placeholder):** $100,000
- **Janitorial Cost Increases for City Facilities:** $91,900
- **School Crossing Guard Services:** $65,300
- **False Alarm Outsourcing:** $38,500
- **Congestion Management Agency Dues:** $29,700

Discretionary Recommendations

New expenditures totaling $1.7 million, offset by $80,000 in new revenue, are recommended for high-priority ongoing programs; $1.5 million is related to personnel. A listing of recommended items, $25,000 and over, is as follows (see Attachment 3 for a complete listing of discretionary items with descriptions):

- **Senior Deputy City Attorney Position:** $240,700
- **Assistant Communications Operations Supervisor Position:** $227,200
- **Senior Human Resources Analyst Position:** $200,500
- **Analyst I/II—Environmental Sustainability Position:** $186,200 (see Attachment 5)
- **CMO Office Assistant III Position:** $135,900 (see Attachment 5)
- **IT Office Assistant III Position:** $135,900
- **Conversion of a 0.5 FTE Librarian I/II position to 1.0 Analyst I/II:** $102,200
- **Associate Civil Engineer—Traffic Section Position (0.45):** $96,300
- **Short-Term Rental Compliance Contract:** $80,000 (offset by $80,000 revenue)
- **Library Books, eBooks, and Electronic Resources:** $51,800
- **Fire Special Operations Overtime for Training:** $51,000
- **Parks and Open Space Worker I/II Position (0.35): No Net Cost** ($46,100 offset by a reduction in wages and contracts)
- **Building Attendant Wages for new Community Center:** $40,000

Limited-Period Recommendations

Limited-period funding totaling $3.7 million (excluding rebudgeted items), offset by $10,000 in revenue, is recommended; $2.3 million is related to personnel, much of which is a continuation of current staffing (notated with an *). A listing of items recommended as limited-period expenditures, $25,000 and over, are as follows (see Attachment 4 for a complete listing of limited-period items with descriptions):

- **Firefighter Recruit Academy:** $497,000
- **Police Officer Position—Community Outreach*:** $264,000 (see Attachment 6)
- **Professional IT Services:** $225,000
- **Two Public Safety Dispatcher Overhire Positions (50 percent funded)*:** $199,000
- **Human Resources Analyst I/II Position*:** $160,000
- **Smart City Innovation:** $150,000
- **Management Fellow Position*:** $145,000
- **HazMat Training:** $139,800
- **Citywide Succession Planning:** $125,000
- **CMO/CSD Communications Coordinator Position (0.50):** $105,400
- **Human Resources Analyst Wages:** $100,000
- **Employee Relations/Labor Negotiations Attorney Services:** $95,000
- **Two Police Officer Trainee Positions (25 percent funded)*:** $91,000
- **Fire Training and Education:** $90,000
- **Community Services Officer (CSO) Position (0.50)*:** $87,000
- **Program for Sidewalk Ramping and Grinding:** $75,000
- **Visual Arts Committee:** $60,000
- **PW Hourly Staff to Support the Traffic Section:** $60,000

- **PW Hourly Staff to Support the Capital Projects Section:** $60,000
- **Senior System Specialist Overhire Position (3 months funding):** $57,000
- **Peninsula Bikeway Phase II/Bike Racks:** $54,700
- **Employee Wellness Program:** $53,000
- **Sustainability Outreach and Engagement Program:** $50,000 (see Attachment 5)
- **FASD Consultant Services:** $50,000
- **Lot 12 Development:** $50,000
- **New Community Center—Pilot Program for Day Porter Services:** $44,100
- **Public Records Act Management Software:** $40,000
- **Towing Fee Subsidy:** $40,000 (see Attachment 6)
- **Parking Enforcement Hourly:** $40,000 (see Attachment 6)
- **Multilingual Community Coordinator Position (0.25):** $35,800
- **CPA Lobby Furniture:** $33,500
- **PW Hourly Staff to Support the Transportation Section:** $30,000
- **Fire Entry-Level Recruitment Program:** $30,000
- **City's Antique Fire Apparatus:** $30,000
- **Window and Blind Cleaning:** $25,000
- **Community Risk Assessment:** $25,000

Listings of Fiscal Year 2019-20 Recommended Capital Outlay and Equipment Replacement are included as Attachments 7 and 8, respectively. In addition, as directed by the City Council as part of the revised nonprofit funding process and review of Citywide memberships, Attachment 9 provides a summary of Citywide memberships included in the Fiscal Year 2019-20 budget. The Fiscal Year 2019-20 Proposed Budget will include a summary of nonprofit funding incorporating direction from the April 23, 2019 CDBG Public Hearing.

Items for City Council Discussion and Direction

There are items staff is providing additional information on and requests City Council direction before preparing the Fiscal Year 2019-20 Proposed Budget:

- **Library Services Department Potential Fee Modification**—Over the past year, the Library staff has been researching and analyzing Library fines and fees. Information was presented to the Library Board for discussion over a series of meetings and the Library Board approved the recommendation to eliminate fees at their December 2018 meeting. See Attachment 10 for more information.

- **City Council's Budget**—A Finance Committee meeting is scheduled for April 23, 2019 to discuss the City Council's budget. Any recommendations will be brought back with the Fiscal Year 2019-20 Proposed Budget.

Items that will be brought back with the Fiscal Year 2019-20 Proposed Budget

There are items that either due to timing or the need for further analysis before a recommendation can be made are not included in this Narrative Budget Report. Recommendations related to the following items will be brought back with the Fiscal Year 2019-20 Proposed Budget:

- Environmental Sustainability (see Attachment 5)

- Homeless and Enforcement requests discussed at the March 19, 2019 City Council meeting (see Attachment 6)

- Public Safety and Public Works Succession Planning

- Fire and Environmental Protection Division Staffing

- Additional Management Fellow for CDD and PWD

- Community Health Awareness Council's (CHAC) Request

- Homeless Census Count (Below-Market-Rate Housing Fund)

SUMMARY

Assisted by an extended period of strong economic growth, combined with fiscally responsible actions taken in prior fiscal years, the City is poised to strategically invest funds in needed areas such as additional staff and capital projects, as well as continuing to address liabilities such as CalPERS and increase reserve levels for the General Fund Reserve and SPAR. The growing economy has resulted in overall revenues projected to increase 7.8 percent over the Fiscal Year 2018-19 Adopted Budget. This results in the ability to include ongoing non-discretionary expenditure increases of $781,000 and discretionary increases of $1.7 million for the most needed areas, as well as $3.7 million in limited-period expenditures. The recommendations include 29.75 positions, with a net of 10.25 new staff. The result of the recommendations is a projected GOF surplus for Fiscal Year 2019-20 of $2.3 million after recommended transfers.

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OTHER MAJOR FUNDS

General Fund: Development Services Fund

Development Services is a General Fund program, separated from the GOF in order to facilitate better tracking and accounting. This separation was established to allow for an effective way to match revenues and expenditures. Initially created for Building Services, this fund was expanded for Fiscal Year 2014-15 to more fully encompass all development activity.

For the current fiscal year, development activity continues to remain strong. Operating revenues estimated for Fiscal Year 2018-19 are $18.5 million, $4.6 million higher than adopted; however, $354,000 lower than the prior fiscal year audited. Development-related revenues are cyclical in nature, and there is a timing difference for each project as plan check revenue is collected at the beginning of the development process and permit revenue just prior to construction; all services are provided subsequent to the payment of fees.

Operating expenditures for the current fiscal year are estimated at $16.5 million, $1.5 million (10.4 percent) higher than the Adopted Budget, primarily as a result of encumbrances carried over from the prior fiscal year which are estimated to be spent. Included in operating expenditures is $1.8 million to reimburse the cost of administrative support by the GOF. In addition, Development Services contributed $503,000 to CalPERS (proportionate to the General Fund contribution), $56,000 to the Compensated Absences Fund, and funded capital projects of $295,000. After further analysis during the fiscal year, the $250,000 budgeted for the Retirees' Health UAAL is not needed.

The Land Use Document Fee was approved with the Fiscal Year 2015-16 Adopted Budget to establish a reserve for the purpose of accumulating costs associated with the update of Land Use Documents (e.g., General Plan, Precise Plans, Zoning Ordinance, etc.). For the current fiscal year, Land Use Document fees of $2.1 million have been received, $1.3 million more than budgeted. The fund is estimated to end the current fiscal year with a balance of $16.8 million and a Reserve for Land Use Documents of $9.0 million.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (dollars in thousands):

	2017-18 Audited	2018-19 Adopted	2018-19 Estimated	2019-20 Recommended
Revenues:				
Investment Earnings	$ 424	$ 441	$ 635	$ 748
Permits	11,305	7,755	9,704	9,773
Charges for Services	7,067	5,723	8,150	7,036
Other	61	34	14	10
Total Revenues	18,857	13,953	18,503	17,567
Operating Expenditures	14,114	14,905	16,451	16,022
Operating Balance (Deficit)	4,743	(952)	2,052	1,545
Land Use Documents	2,414	800	2,055	800
CalPERS Contribution	(689)	(503)	(503)	(503)
Transfer to Comp Absences	(22)	(56)	(56)	(100)
Retirees' Health UAAL	-0-	(250)	-0-	-0-
Capital Projects	(40)	(295)	(295)	(3,066)
Excess (Deficiency) of Revenues	6,406	(1,256)	3,253	(1,324)
Beginning Balance	16,138	22,544	22,544	25,797
Land Use Doc Reserve	(6,951)	(7,751)	(9,007)	(9,807)
Ending Balance	$15,593	$13,537	$16,790	$14,666

The Fiscal Year 2019-20 recommendations total $2.2 million and there is $133,000 recommended to be rebudgeted. Those recommendations $25,000 and over are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

- **Consultants to Support Land Development Section*:** $450,000 (limited-period)
- **Consultants to Support Construction Section*:** $400,000 (limited-period)
- **Building Inspector I/II positions (2.0):** $137,400 ($387,400 offset by reduction in contracts) (ongoing)
- **Associate Civil Engineer—Construction Section Position*:** $214,000 (limited-period)

- **Associate Civil Engineer—Land Development Section Position*:** $214,000 (limited-period)
- **Associate Planner Position*:** $189,900 (limited-period)
- **Transportation Demand Management Ordinance**: $100,000 (limited-period)
- **Consultants to Support Traffic Engineering Section*:** $100,000 (limited-period)
- **Associate Civil Engineer—Traffic Section Position (0.30):** $64,200 (ongoing)
- **PW Hourly Staff to Support the Construction Section*:** $60,000 (limited-period)
- **PW Hourly Staff to Support the Land Development Section*:** $60,000 (limited-period)
- **Associate Civil Engineer—Land Development Section Position (0.25)*:** $53,500 (limited-period)
- **Precise Plan Noticings**: $36,000 (limited-period)
- **Permitting System Maintenance**: $25,000 (ongoing)

*Represents a continuing limited-period position, hourly staff, or contract/consultant.

- Major Capital Projects:
  - Downtown Precise Plan Update: $1,750,000
  - Terra Bella Precise Plan: $1,200,000

Fiscal Year 2019-20 operating revenues are projected at $17.6 million, $3.6 million higher than the current fiscal year Adopted Budget, and $936,000 lower than the current fiscal year estimate. Development is projected to remain strong through Fiscal Year 2019-20, but the timing of project approvals and payment of fees is uncertain. Fiscal Year 2019-20 operating expenditures are recommended at $16.0 million, $1.1 million more than the current fiscal year Adopted Budget. The fund is projected to end the 2019-20 Fiscal Year with an operating balance of $1.5 million. Land Use Document fees are projected at $800,000 and, after funding the $503,000 contribution to CalPERS (proportionate to the General Fund contribution), $100,000 transfer to Compensated Absences, and $3.1 million for capital projects, there is a projected ending balance of $14.7 million and a Reserve for Land Use Documents of $9.8 million. This ending balance represents fees paid in advance of the services provided, including multi-year development projects, and is necessary to continue funding operations during the next slowdown in development activity.

General Fund: Shoreline Golf Links/Restaurant Fund

Shoreline Golf Links (SGL) 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 generally open to the public 364 days a year. Touchstone Golf, LLC (Touchstone), assumed management and operations of SGL (Pro Shop and maintenance) in January 2012.

In March 2018, the current tenant of Michaels at Shoreline Restaurant advised staff of his desire to terminate the lease at the end of the calendar year. Following deliberations on the terms for the termination of the lease, the City Council directed staff to work with Touchstone to integrate the Michaels at Shoreline Restaurant operation into the Touchstone golf course management agreement. On October 23, 2018, 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.

Although SGL and the Michaels at Shoreline Restaurant are considered General Fund programs, they are tracked and reported separately for management information purposes and to provide a more comprehensive overview of the operations.

For Fiscal Year 2018-19, total revenues are estimated at $3.0 million, including $2.2 million for the golf course and $809,000 for the restaurant for less than six months of operations. Golf Revenues are estimated $362,000 (14.3 percent) lower than the Adopted Budget due to some unfortunate timing of weather and the smoke from the fires up north impacting air quality during November.

The Fiscal Year 2018-19 operating expenditures are estimated at $3.0 million, including $2.1 million for the golf course and $807,000 for less than six months of operations for the restaurant. Golf expenditures are estimated $274,000 (11.3 percent) below the Adopted Budget of $2.4 million, and restaurant expenditures are as budgeted midyear. Included in operating expenditures is the management fee of $112,000 to Touchstone, $77,600 to reimburse the cost of administrative support provided by the GOF, and annual funding of liability insurance and equipment replacement. After allowing for a minimum ending balance of $5,000, there is $25,000 available to transfer to the GOF, less than the budgeted transfer of $110,000.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (dollars in thousands):

	2017-18 Audited	2018-19 Adopted	2018-19 Estimated	2019-20 Recommended
Revenues:				
Golf Revenues	$2,323	$2,532	$2,170	$2,458
Restaurant Revenues	-0-	-0-	809	2,000
Total Revenues	2,323	2,532	2,979	4,458
Expenditures:				
Golf Expenditures	2,250	2,423	2,149	2,306
Restaurant Expenditures	-0-	-0-	807	1,871
Total Expenditures	2,250	2,423	2,956	4,177
Operating Balance	73	109	23	281
Transfer to GOF	(89)	(110)	(25)	(275)
Excess (Deficiency) of Revenues	(16)	(1)	(2)	6
Beginning Balance	23	7	7	5
Ending Balance	$ 7	$ 6	$ 5	$ 11

The Fiscal Year 2019-20 recommendations include a full fiscal year of funding for the restaurant and a net reduction of $53,400 for the golf course. Those recommendations $25,000 and over are as follows (see Attachments 2 and 3 for complete listings with descriptions):

- **Restaurant Operating Costs:** $1.8 million (offset by $2.0 million revenue)
- **Golf Course Water Cost Increases:** $28,600 (ongoing)
- **Golf Course Net Operating Cost:** $(82,000) (offset by $74,800 reduced revenue)

Projected revenue for Fiscal Year 2019-20 is $4.5 million, including $2.5 million for the golf course and $2.0 million for the restaurant. Golf course revenue is projected $74,000 lower than the current fiscal year Adopted, and $288,000 and $135,000 higher than the current fiscal year estimated and prior fiscal year audited, respectively. Touchstone continues to monitor the membership programs and incorporates adjustments as appropriate. Frequent Player fees are recommended to increase approximately 3.0

percent; and Loyalty Program fees, Tournament fees and all other Greens fees are recommended with a $1 per player increase. The recommended fee increases were reviewed and approved by the Advisory Greens Committee.

Fiscal Year 2019-20 projected expenditures by Touchstone and the City are $4.2 million, including $2.3 million for the golf course and $1.9 million for the restaurant. Golf course expenditures are projected $117,000 lower than the current fiscal year adopted. The golf course operating costs reflect recommended increases for utilities offset by decreases in funding for supplies and personnel costs, in addition to lower administrative and City staff costs which are now accounted for in the restaurant. Included in the Fiscal Year 2019-20 recommended operating expenditures are the management fee of $120,000 to Touchstone, contributions of $204,500 for annual equipment replacement, and $106,400 for reimbursement of administrative support provided by the GOF. Fiscal Year 2019-20 is projected with an operating balance sufficient for $275,000 to be transferred to the General Operating Fund and allow for the $5,000 minimum balance.

Staff continues to work with Touchstone and meets quarterly to review the operations and financial status of the golf course and restaurant. The second term of the operating agreement with Touchstone expires December 31, 2021.

Shoreline Regional Park Community Fund

The Shoreline Regional Park Community (Shoreline Community) was created by legislation in 1969, known as the Shoreline Regional Park Community Act (Act), for the development and support of the Shoreline Regional Park (Shoreline Park) and to economically and environmentally enhance the surrounding North Bayshore Area. 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, and other indebtedness of the Shoreline Community. The Act prescribes the powers of the Shoreline Community, including the construction and replacement of the infrastructure needed to serve the Shoreline Community such as streets, curbs, gutters, parking lots, sidewalks, water and sewer services, lighting, waste disposal, power and communications, housing and levees, as well as operations and maintenance of Shoreline Park. The Shoreline Community is a separate legal entity with its own budget and financial statements, but is considered a blended component unit of the City and financial activities are reported with the City's financial document.

The primary source of revenues for the Shoreline Community is property taxes, which include the revenue generated from the Shoreline Community's 1.0 percent levy assessed on the incremental taxable value of real and personal property located within the Shoreline Community. The AV of secured real property that does not experience a change in ownership or is not subject to new construction is adjusted annually at a rate not to exceed the California Consumer Price Index (CCPI) or 2.0 percent, whichever is lower. However, if a property changes ownership, it is reassessed at the current market value and new construction is initially valued at the cost of the construction. Unsecured tax on personal property, such as computers and other equipment, is assessed on the value of the property as self-reported annually to the County by businesses.

Fiscal Year 2018-19 property taxes are estimated lower and investment earnings are estimated higher than budget, resulting in estimated operating revenues of $42.5 million, $1.0 million (2.3 percent) lower than budget and $1.7 million (3.8 percent) lower than the prior fiscal year audited. The property tax revenue adopted for Fiscal Year 2018-19 anticipated a net increase compared to the July 1, 2017 tax roll resulting from changes in ownership, the 2.0 percent annual CCPI, and resolution of appeals. The Fiscal Year 2018-19 estimated property tax is lower than budget as a result of the unanticipated 22.9 percent decrease in unsecured AV on the July 1, 2018 tax roll compared to the prior fiscal year.

Operating expenditures for the current fiscal year are estimated at $33.1 million, $2.2 million (7.2 percent) higher than the Fiscal Year 2018-19 Adopted Budget of $30.9 million, the net result of savings in salary and benefits, and supplies and services offset by the additional debt service for the 2018 Shoreline Regional Park Community Bonds issued in December 2018. This estimate includes the operations of the Shoreline Regional Park, landfill, and street maintenance, as well as the Shoreline Community's share of costs for services such as Police and Fire protection, planning, and general administration.

The intergovernmental payment to the County, in accordance with the agreement authorized in December 2004, is estimated to be $152,400 lower than budget as a result of the estimated lower than budgeted property taxes. Contributions to the Mountain View Whisman School District (MVWSD) and the Mountain View Los Altos Union High School District (MVLAUHSD) have been made in accordance with the 10-year Joint Powers Authority (JPA) Agreement approved in June 2013 and are $122,000 higher than budget, as this calculation is based on the percent change in total property tax received between the two prior fiscal years.

The North Bayshore Development Impact Fees (NBSDIF) is made up of three pieces accounted for separately. The transportation-related piece is accounted for in the Shoreline Community, and the water and sewer infrastructure pieces are accounted for in the Water and Wastewater Funds, respectively (see Water and Wastewater Funds). Interest on the transportations related NBSDIF of $468,000 is estimated and there have been no fees received during the current fiscal year through February 2019. The estimated balance available for transportation projects is $4.3 million and is held in the Development Impact Fees Reserve for funding of future transportation projects.

The estimated operating balance of $9.4 million is funding a $201,000 contribution to CalPERS (proportionate to the General Fund contribution), $42,000 to the Compensated Absences Fund, and a $195,000 contribution to the Retirees' Health UAAL. In addition, there is funding of $14.6 million for capital projects, including $6.4 million for the Shoreline Boulevard/Highway 101 Off-Ramp Realignment, Design CIP funded from the NBSDIF. The Shoreline Community Fund is estimated with a $13.0 million ending balance and $19.5 million in reserves, which includes the General, Landfill, Sea Level Rise, and Development Impact Fee Reserves.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (dollars in thousands):

	2017-18 Audited	2018-19 Adopted	2018-19 Estimated	2019-20 Recommended
Revenues:				
Property Taxes	$42,100	$41,808	$40,219	$48,154
Investment Earnings	1,225	1,339	1,709	1,987
Other	861	366	594	478
Total Revenues	44,186	43,513	42,522	50,619
Expenditures:				
Operating	12,597	14,036	13,966	14,442
Intergovernmental Payments	10,293	10,272	10,241	10,669
Debt Service	4,902	6,566	8,897	6,423
Total Expenditures	27,792	30,874	33,104	31,534
Operating Balance	16,394	12,639	9,418	19,085
CIP Refunds	19	-0-	-0-	-0-
Bond Proceeds	-0-	-0-	-0-	69,280
Development Impact Fees & Int	17,135	-0-	468	-0-
CalPERS Contribution	(302)	(201)	(201)	(201)
Transfer to Comp Absences	(20)	(42)	(42)	(70)
Retirees' Health UAAL	(995)	(195)	(195)	(500)
Capital Projects from Fees	(13,370)	(6,400)	(6,400)	(3,848)
Capital Projects from Bond Proceeds	-0-	-0-	-0-	(69,280)
Capital Projects	(43,369)	(7,118)	(8,218)	(14,771)
Excess (Deficiency) of Revenues	(24,508)	(1,317)	(5,170)	(305)
Beginning Balance	62,188	37,680	37,680	32,510
Reserve	(4,600)	(5,200)	(5,200)	(5,300)
Reserve for Landfill	(6,000)	(7,000)	(7,000)	(8,000)
Reserve for Sea Level Rise	-0-	(3,000)	(3,000)	(6,000)
Reserve for Dev Impact Fees	(10,248)	(3,848)	(4,316)	(468)
Ending Balance	$16,832	$17,315	$12,994	$12,437

The Fiscal Year 2019-20 recommendations total $372,200. Those recommendations $25,000 and over are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

- **Parks and Open Space Worker I/II Position (1.65 FTE): No Net Cost** ($217,300 offset by a reduction in wages and contracts) (ongoing)
- **City Utility Cost Increase (placeholder):** $125,000 (ongoing)
- **Associate Civil Engineer—Traffic Section Position (0.25):** $53,500 (ongoing)
- **Associate Civil Engineer—Land Development Section Position (0.25)*:** $53,500 (limited-period)
- **Consultants to Support Traffic Engineering Section:** $50,000 (limited-period)
- **Community Risk Assessment:** $50,000 (limited-period)

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*Represents a continuing limited-period position.

- Major Capital Projects:
  - Plymouth/Space Park Realignment: $27,780,000 ($21.4 million 2018 Bond Proceeds)
  - NB Shoreline Blvd/101 Off-Ramp Realignment, Construction: $23,000,000 ($14.1 million 2018 Bond Proceeds)
  - Shoreline Blvd at 101 Ped/Bike Overcrossing, Construction: $20,000,000 ($14.8 million 2018 Bond Proceeds, $3.8 million Development Impact Fee)
  - Charleston Pump Station Realignment: $4,150,000
  - Fire Station 5 Classroom/Training, Construction: $2,840,000 ($2.5 million 2018 Bond Proceeds)
  - Sailing Lake Improvements, Construction: $2,500,000 ($1.5 million 2018 Bond Proceeds)
  - Charleston Road Improvements, Design: $2,135,000
  - Shoreline Boathouse Expansion: $1,640,000 ($1.0 million 2018 Bond Proceeds)

Projected revenues for Fiscal Year 2019-20 are $50.6 million, $7.1 million, and $8.1 million higher than the current fiscal year adopted and Fiscal Year 2018-19 estimated, respectively. The 2.0 percent CCPI, changes in ownership, new development, and projected reductions from resolved appeals result in a net increase in property tax compared to Fiscal Year 2018-19 estimated property taxes. Primarily, Google's purchase of 2025 and 2011 Stierlin Court for $1.0 billion in November 2018 increased Fiscal Year 2019-20 property tax by $6.3 million. Unsecured AV is reported by business owners and can fluctuate significantly. As of January 2019, the County has approximately 5,300 active appeals for properties throughout the County, including properties located in the Shoreline Community. The County has provided summarized information about pending appeals and the Fiscal Year 2019-20 revenue includes a projected tax loss based on historical resolution of appeals. In addition, certain revenues, such as precise plan reimbursements, are not budgeted.

Fiscal Year 2019-20 expenditures are recommended at $31.5 million. In addition, there is a $201,000 contribution to the CalPERS liability (proportionate to the General Fund contribution); $70,000 transfer to the Compensated Absences Fund; $500,000 contribution to the Retirees' Health UAAL; and $87.9 million for capital projects, of which $3.8 million is funded from development impact fees and $69.3 million is funded from the 2018 Shoreline Regional Park Community Bond proceeds.

The Sea Level Rise Reserve is increasing $3.0 million as part of the plan to set aside $3.0 million annually over 10 fiscal years to fund approximately $30.0 million for projects identified in the Shoreline Sea Level Rise Study. The General Reserve and Landfill Reserve are also increasing based on guidelines previously approved. The Shoreline Community Fund is projected to end the 2019-20 Fiscal Year with an ending balance of $12.4 million, and $19.8 million in Reserves.

UTILITY FUNDS
WATER, WASTEWATER, SOLID WASTE MANAGEMENT

The City's enterprise utility funds 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. Proposition 218 requires governmental agencies to conduct a majority protest hearing prior to adopting any changes in utility rates. A notice is required to be mailed no later than 45 days prior to the public hearing and is required to include the proposed rate adjustment, the calculation methodology, and describe the process for submitting a protest vote. The legislation also provides for future rate increases within prescribed limits to be approved without holding a hearing each year for up to an additional four years.

A Proposition 218 hearing is not required for the recommended rate increases as all recommended increases for Fiscal Year 2019-20 are within the prescribed limits as noticed May 6, 2016 and approved at the June 21, 2016 public hearing (for Water and Wastewater rates) and noticed May 4, 2018 and approved at the June 19, 2018 public hearing (for trash and recycling rates) pursuant to Government Code Section 53756. Staff will be mailing a notification of the recommended rate changes on or before June 1.

Water Enterprise Fund

The Water Enterprise Fund is a utility fund accounting for the revenues and expenditures associated with the provision of retail water service 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 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). 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 1.0 percent increase for the average cost of water and meter rates, and a 22.0 percent increase for recycled water rates were adopted for Fiscal Year 2018-19. Operating revenues for Fiscal Year 2018-19 are estimated at $37.4 million, approximately $1.0 million (2.7 percent) higher than budget. Although this fund has been significantly impacted by previous water conservation efforts due to the drought, the financial condition of the fund is now benefiting from increased water usage from the past three years. However, usage is still approximately 22.0 percent below the 2013 drought baseline.

The recycled water rate was previously set to recover the cost of the program, including the loan repayment and ongoing recycled water program operating costs. Costs have increased over the last three fiscal years due to added limited-period and operating costs for regulatory compliance. This resulted in the rate no longer covering the cost of the program based on current usage. City Council approved phasing in the rate increase needed to cover the cost of the program over a three-year period, adopting a rate for Fiscal Year 2018-19 of $3.75 per unit from $3.07 per unit, and approving increases for Fiscal Years 2019-20 and 2020-21 to $4.50 per unit and $5.00 per unit, respectively. Recycled water sales are currently trending as budgeted. If recycled water consumption increases or decreases, the rate increases recommended will be reduced or increased, respectively, to cover the cost of the program. Staff continues efforts to convert customers from potable water to recycled water when possible.

Operating expenditures for Fiscal Year 2018-19 are estimated at $32.4 million, $357,000 (1.1 percent) lower than the budget of $32.7 million. This is primarily the result of savings in operations offset by slightly higher SCVWD retail water costs than budgeted. The City's long-term contract with the SFPUC has a minimum water purchase requirement and an individual supply guarantee (ISG) maximum purchase through 2040. During the drought, the SFPUC waived the minimum purchase requirement. However, the SFPUC is no longer waiving the City's minimum water purchase and the Fiscal Year 2018-19 budget reflects full funding of the minimum purchase requirement.

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 (EPA) was approaching their individual water supply guarantee (ISG) with the SFPUC which precluded approval of large development projects in EPA. The City of Mountain View is not anticipated to reach its ISG through 2040. Therefore, staff worked with EPA to transfer 1.0 million gallons of the City's ISG to EPA in return for $5.0 million. The agreement was approved in 2017, and the $5.0 million is reserved to be used toward future minimum water purchase penalties when insufficient water service charges are collected. A penalty of $3.0 million is currently estimated for Fiscal Year 2018-19.

The estimated operating balance for Fiscal Year 2018-19 is $5.0 million, which is sufficient to fund the CalPERS contribution of $387,000 (proportionate to the General Fund contribution), Retirees' Health UAAL of $200,000, and the current fiscal year's $3.0 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. Capacity fees received through February 2019 total $921,000 and interest is estimated at $117,000. Various Development Impact Fees have been adopted by the City Council, and for Fiscal Year 2018-19, no revenue has been received through February 2019, but interest is estimated at $124,000. Any fees received and interest earned will be designated for specific projects, and are identified in the Five-Year CIP or have been set aside in reserves. Capacity and Development Impact Fees received in prior fiscal years are sufficient to fund the $3.6 million in additional capital projects. The Water Fund is estimated to have an $8.9 million ending balance and $22.3 million in reserves, which includes the water transfer reserve, and the balance of capacity and development impact fee revenues received and interest earned on the balance.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (dollars in thousands):

	2017-18 Audited	2018-19 Adopted	2018-19 Estimated	2019-20 Recommended
Revenues:				
Investment Earnings	$ 563	$ 502	$ 631	$ 789
Water Sales	33,305	34,002	34,577	34,924[1]
Recycled Water Sales	640	660	668	750
Other	1,626	1,242	1,529	1,250
Total Revenues	36,134	36,406	37,405	37,713
Expenditures:				
Operating	9,359	10,510	10,100	11,178
Water Purchases	20,973	21,290	21,343	21,627
Loan Repayment—Recycled Water	300	300	300	300
Debt Service	630	629	629	634
Total Expenditures	31,262	32,729	32,372	33,739
Operating Balance	4,872	3,677	5,033	3,974
Capacity/Development Impact Fees & Int	7,239	-0-	1,162	-0-
Water Transfer	5,000	-0-	-0-	-0-
CalPERS Contribution	(590)	(387)	(387)	(387)
Retirees' Health UAAL	(294)	(200)	(200)	(500)
Capital Projects from Fees	(2,287)	(3,640)	(3,640)	(6,173)
Capital Projects	(3,082)	(3,038)	(3,038)	(3,174)
Excess (Deficiency) of Revenues	10,858	(3,588)	(1,070)	(6,260)
Beginning Balance	21,320	32,178	32,178	31,108
Capacity/Dev Impact Fees Reserves	(8,692)	(5,052)	(6,214)	(41)
Water Transfer Reserve	(5,000)	(5,000)	(5,000)	(5,000)
Reserves	(10,830)	(11,042)	(11,042)	(11,296)
Ending Balance	$ 7,656	$ 7,496	$ 8,852	$ 8,511

(1) Based on the recommended 1.0 percent rate adjustment.

The Fiscal Year 2019-20 recommendations total $433,500. Those recommendations $25,000 and over are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

- **Associate Civil Engineer—Engineering and Environmental Compliance Section Position*:** $214,000 (limited-period)
- **GIS contract:** $100,000 (limited-period)
- **Hourly Utility Locating:** $66,000 (limited-period)
- **Associate Civil Engineer—Land Development Section Position (0.25)*:** $53,500 (limited-period)

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*Represents a continuing limited-period position.

- Major Capital Projects:
  - Water & Sewer Replacement at 101, Construction: $5,627,000
  - Miscellaneous Water Main/Service Line Replacement: $2,636,000
  - Water System Improvements and Recycled Water System Improvements: $641,000

The major factors that influence rate setting for the Water Fund are: (1) the cost of wholesale water; (2) water consumption level; (3) annual operating costs; and (4) level of capital improvements. The cost of water purchases from the SFPUC and other water sources (approximately 65.0 percent of recommended expenditures) has been subject to major fluctuations for more than a decade and has caused the City's retail water rate adjustments to vary significantly. Annual capital project funding of $3.0 million is included in the rate calculation as the three-year rolling average of annual projects.

For Fiscal Year 2019-20, a 1.0 percent rate increase is recommended for the average cost of water and meter rates and a 20.0 percent increase (the second year phase-in of increasing the rate at stated above) is recommended for the recycled water rate. The recycled rate will be 35.2 percent lower than the potable Uniform water rate. The Uniform and Tier 2 rates reflect the average cost of water; Tier 1 is set at 75.0 percent and Tier 3 is set at 160.0 percent of the average cost of water. Meter rates are tied to the capacity ratios published by the American Water Works Association (AWWA). Because of these relationships, individual rate increases may be slightly more or less than the 1.0 percent stated. This 1.0 percent rate increase is for rate increases from providers and

CPI as allowed. Recommended fee modifications are included in Attachment 1, and a comparison of the current rates and the recommended rates are included in Attachment 11.

Fiscal Year 2019-20 projected revenues, with the recommended rate adjustments and water consumption based on the current fiscal year trend, are $37.7 million and recommended expenditures are $33.7 million (after eliminating the budget effect of depreciation expense). Included in expenditures are the proposed rate adjustments to wholesale water costs. For Fiscal Year 2019-20 the SFPUC has proposed a zero rate increase and SCVWD is proposing 6.6 percent for groundwater, which corresponds to an 6.1 percent rate increase for treated water (treated water is $100 more per acre-foot than groundwater). Final rates will not be approved by the SFPUC until mid-May and by SCVWD on April 23, 2019. Staff will provide an update to Council if there are any changes to the proposed rate increase with the Proposed Budget on June 11, 2019.

The recommendation results in an operating balance of $4.0 million. There are also capital projects of $3.2 million, a contribution to CalPERS of $387,000 (proportionate to the General Fund contribution), and funding for Retirees' Health UAAL of $500,000. This results in projected Fiscal Year 2019-20 reserve balances of $16.3 million, which includes the water transfer reserve, and the balance of capacity and development impact fee revenues received and the interest earned on the balance. The projected ending balance for this fund is $8.5 million.

As stated above, Capacity fees are not included in the projection for Fiscal Year 2019-20 as the fees are uncertain, and are available for capital projects after the fees are actually received. Capacity Fees previously received will fund $518,000 additional capital projects recommended for Fiscal Year 2019-20. The North Bayshore Development Impact Fees and other Development Impact Fees previously received will fund $5.6 million in additional capital projects recommended for Fiscal Year 2019-20. Both Capacity and Development Impact fees provide funding for additional capital projects and mitigate the need to fund these projects with rate increases.

The SFPUC has provided estimated future water rate increases of 0.0 percent through Fiscal Year 2021-22, 15.1 percent in Fiscal Year 2022-23, and 8.3 percent in Fiscal Year 2023-24. It has been requested the SFPUC consider a rate smoothing strategy for the estimated 15.1 percent rate increase in Fiscal Year 2022-23.

<u>Wastewater Enterprise Fund</u>

The Wastewater Enterprise Fund is the utility fund that accounts for the costs and revenues associated with the collection, transportation, and treatment of wastewater generated from all residences 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 the Wastewater Fund include the construction and maintenance of sanitary sewer lines, stormwater lines, and pump stations; the City's share of costs associated with the operation of the Treatment Plant; and personnel costs for the operation and maintenance of the system. This fund is affected by costs associated with stringent requirements for the Treatment Plant, stormwater discharges into San Francisco Bay, and fluctuations in water usage. Revenues are partially governed by the amount of water used by commercial dischargers in the City each fiscal year.

A 8.0 percent overall rate increase was adopted for Fiscal Year 2018-19. This includes a 4.0 percent rate increase for operations, a 2.0 percent rate increase for future Treatment Plant capital costs, and 2.0 percent for unanticipated Treatment Plant costs in Fiscal Year 2015-16. 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 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 2018-19 is the fifth year.

Unforeseen Treatment Plant costs in Fiscal Year 2015-16 caused the fund to be in a distressed financial condition. To fully fund the impact of the increases in Treatment Plant costs, the rate increase for Fiscal Year 2016-17 would have needed to be 26.0 percent. City Council approved staff's recommendation to spread the increase needed to stabilize the financial position of this fund over three years (6.0 percent in each of Fiscal Years 2016-17, 2017-18, and 2018-19) and utilize half of the rate stabilization reserve for Fiscal Years 2016-17 and 2017-18 to balance the fund. Only a 2.0 percent increase was needed in Fiscal Year 2018-19 (the third and final year) and the rate stabilization reserve has been restored to the policy level.

Operating revenues for Fiscal Year 2018-19 are estimated at $23.9 million, essentially the same as the budget of $23.8 million. Operating expenditures are estimated at $17.5 million, $860,000 (4.7 percent) lower than the budget of $18.4 million. This is due to a $419,000 credit for prior fiscal year Treatment Plant expenses and savings in operations.

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 were $419,000 lower than budgeted, resulting in a credit that is applied towards the current fiscal year's treatment costs. The credit from the Treatment Plant is related to obligations encumbered but not spent and, therefore, is being reserved in anticipation the expenditures will be included in the reconciliation for Fiscal Year 2018-19. The estimated operating balance of $6.4 million will fund the CalPERS contribution of $222,000 (proportionate to the General Fund contribution), Retirees' Health UAAL of $50,000, and $2.4 million for capital projects, as well as the $419,000 Treatment Plant credit being reserved.

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 2019 total $740,600 and interest is estimated at $214,100. Various Development Impact Fees have been adopted by the City Council, and thorough February 2019, $28,800 has been received and interest is estimated at $29,900. Any fees 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 $6.5 million in additional capital projects.

The majority of the sanitary sewer 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 last year, 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 $10.1 million proceeds will fund capital projects as identified. The financing structure includes the ability to draw funds as needed for the first 18 months, lowering interest cost, and the ability to prepay 10 percent of the outstanding balance each year and all of the outstanding balance after 10 years without penalty. After the full $10.1 million is drawn, annual payments will be approximately $852,000.

The fund is estimated with a $5.3 million ending balance and $16.0 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, the reservation of the $419,000 prior year Treatment Plant credit, the balance of capacity and development impact fee revenues received and the interest earned on the balance, as well as the full reserve requirement for the fund.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (dollars in thousands):

	2017-18 Audited	2018-19 Adopted	2018-19 Estimated	2019-20 Recommended
Revenues:				
Hazardous Materials/ Fire Safety Permits	$ 557	$ 425	$ 484	$ 425
Investment Earnings	297	272	385	482
Wastewater Service	21,700	23,095	23,025	23,716 (1)
Other	342	34	18	34
Total Revenues	22,896	23,826	23,912	24,657
Expenditures:				
Operating	6,931	7,135	6,634	7,359
Wastewater Treatment	8,710	11,254	10,835 (2)	11,579
Debt Service/Issuance	-0-	-0-	60	909
Total Expenditures	15,641	18,389	17,529	19,847
Operating Balance	7,255	5,437	6,383	4,810
Capacity/Development Impact Fees & Int	5,660	-0-	1,013	-0-
Loan Proceeds	-0-	-0-	58	6,891
CalPERS Contribution	(349)	(222)	(222)	(222)
Retirees' Health UAAL	(246)	(50)	(50)	-0-
Capital Projects from Fees	(627)	(6,500)	(6,500)	(999)
Capital Projects from Loan Proceeds	-0-	-0-	-0-	(6,891)
Capital Projects	(2,103)	(2,409)	(2,409)	(2,157)
Excess (Deficiency) of Revenues	9,590	(3,744)	(1,727)	1,432
Beginning Balance	13,476	23,066	23,066	21,339
Capacity/Dev Impact Fees Reserves	(7,969)	(1,469)	(2,483)	(1,484)
Treatment Plant Reserve	(3,844)	(6,354)	(6,773) (2)	(8,342) (1)
Reserves	(6,542)	(6,765)	(6,765)	(6,925)
Ending Balance	$ 4,711	$ 4,734	$ 5,318	$ 6,020

(1) Based on a recommended 3.0 percent rate increase and includes $1.9 million in revenue generated by the rate increases for planned Treatment Plant capital costs that is being reserved.

(2) Includes $419,000 credit for the prior fiscal year.

The Fiscal Year 2019-20 recommendations total $103,500 and rebudgets of $20,000. Those recommendations $25,000 and over are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

- **Associate Civil Engineer—Land Development Section Position (0.25)*:** $53,500 (limited-period)

- **Hourly Staff to Review Sewer Video:** $50,000 (ongoing)

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*Represents a continuing limited-period position.

- Major Capital Projects:

  — Water & Sewer Replacement at 101, Construction: $4,273,000 (Loan proceeds)

  — Interceptor Force Trunk Rehab, Construction Phase II: $1,840,000 ($1.6 million from Loan proceeds)

  — Miscellaneous Storm/Sanitary Sewer Main Replacement: $1,649,000

  — San Antonio Area Sewer Improvements, Construction Phase I: $1,500,000 ($1.0 million from Loan Proceeds)

Costs for the Treatment Plant are proposed with no increase for Fiscal Year 2019-20, resulting in the cost of wastewater treatment to be approximately 60.0 percent of the total recommended operating expenditures. **A 3.0 percent overall rate increase is recommended for Fiscal Year 2019-20:** 1.0 percent is the result of no increase from the Treatment Plant for Fiscal Year 2019-20 and operating cost increases up to the CPI, and 2.0 percent is the sixth year of the phase-in of planned Treatment Plant capital costs as noticed and approved for Fiscal Year 2019-20 at the rate hearing on June 21, 2016. For rate-setting purposes, a $2.2 million base level of annual maintenance capital projects is assumed for Fiscal Year 2019-20.

Based on the recommended rate increase, operating revenues for Fiscal Year 2019-20 are projected at $24.7 million and recommended operating expenditures are $19.8 million (after eliminating the budget effect of depreciation expense). The operating balance of $4.8 million will fund the contribution to CalPERS of $222,000 (proportionate with the General Fund contribution), and $2.2 million of the $9.0 million recommended for capital projects. The remaining $6.9 million is funded from loan proceeds. Additionally, there is $1.9 million in revenue generated by the rate increases for planned Treatment Plant capital costs that is being reserved. This results in a reserve balance of $6.9 million, in addition to the Capacity/Development Impact Fee and Treatment Plant reserves of $9.8 million. The projected ending balance for Fiscal Year 2019-20 is of $6.0 million.

As with the Water Fund, Capacity fees are not included in the projection for Fiscal Year 2019-20 as the fees are uncertain, and are available for capital projects after the fees are actually received. Capacity Fees previously received will fund $645,000 in additional capital projects recommended for Fiscal Year 2019-20. The North Bayshore Development Impact Fees and other Development Impact Fees previously received will fund $354,000 in additional capital projects recommended for Fiscal Year 2019-20. Both Capacity and Development Impact fees provide funding for additional capital projects and mitigate the need to fund these projects with rate increases.

Solid Waste Management Enterprise Fund

The Solid Waste Management Enterprise Fund is the 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) 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 and recyclables. The City bills and collects all revenues for solid waste services.

For Fiscal Year 2017-18, a 5.0 percent rate increase was adopted for carts, incorporating the new residential food scraps program, and there was no increase for all other services.

The City's Solid Waste Fund operating revenues for Fiscal Year 2018-19 are estimated at $15.5 million compared to the budget of $14.0 million. Trash and recycling service charges are trending $1.5 million (10.7 percent) higher than budget, mainly due to higher debris box revenue associated with the high level of development activity. City operating expenditures are estimated at $13.1 million, $233,000 (1.6 percent) lower than the Adopted Budget of $13.3 million, as a result of savings in operations offset by higher SMaRT Station costs due to the prior fiscal year SMaRT Station reconciliation. 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 2017-18, the City owed an additional $387,000, which has been paid in the current fiscal year. This was mainly due to increased tonnage from debris boxes associated with development activity for which the City is also seeing increased revenue, and also higher processing costs for the food scraps program. The current fiscal year is continuing to see these trends and staff expects the reconciliation for the current fiscal year to show the City owing the SMaRT Station for these reasons. These trends have been incorporated into the Fiscal Year 2019-20 SMaRT budget. Recology revenues and expenditures are not considered part of the City's budget as these are contractually passed through to Recology, but are shown for informational purposes.

Operating revenues are estimated higher than operating expenditures by $2.4 million. After funding the additional CalPERS contribution of $159,000 (proportionate with the General Fund contribution), and the current fiscal year's $594,000 for capital projects, there is an estimated ending balance of $8.7 million and reserves of $4.2 million.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (dollars in thousands):

	2017-18 Audited	2018-19 Adopted	2018-19 Estimated	2019-20 Recommended
Revenues:				
Investment Earnings	$ 152	$ 169	$ 194	$ 253
Trash and Recycling Service Charges	14,666	13,676	15,138	15,429[1]
Other	204	195	129	195
City Revenues	15,022	14,040	15,461	15,877
Recology Revenues[2]	15,679	15,655	16,865	17,535
Total Revenues	30,701	29,695	32,326	33,412
Expenditures:				
Operating	4,798	5,685	4,815	5,867
Disposal and SMaRT Station Charges	7,059	7,653	8,290[3]	8,887
City Expenditures	11,857	13,338	13,105	14,754
Recology Payments	15,679	15,655	16,865	17,535
Total Expenditures	27,536	28,993	29,970	32,289
Operating Balance	3,165	702	2,356	1,123
CalPERS Contribution	(241)	(159)	(159)	(159)
Retirees' Health UAAL	(876)	-0-	-0-	-0-
Capital Projects	(338)	(594)	(594)	(293)
Excess (Deficiency) of Revenues	1,710	(51)	1,603	671
Beginning Balance	9,596	11,306	11,306	12,909
Reserve for Future Fac Equip	(440)	(880)	(880)	(1,320)
Reserves	(3,186)	(3,335)	(3,335)	(3,689)
Ending Balance	$ 7,680	$ 7,040	$ 8,694	$ 8,571

(1) Based on a 3.0 percent rate adjustment recommended.
(2) Neither revenues nor expenditures are adopted for Recology.
(3) Includes $387,000 owed for SMaRT Station reconciliation for the prior fiscal year.

The Fiscal Year 2019-20 recommendations total $256,000. Those recommendations $25,000 and over are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

- **Administrative Aide—Solid Waste Section Position*:** $159,800 (limited-period)
- **Reclassification of an Environmental Compliance Specialist position to Associate Civil Engineer:** $38,200 (ongoing)
- **City Utility Cost Increase (placeholder):** $30,000 (ongoing)

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*Represents a continuing limited-period position.

- Major Capital Improvements:
  - Shoreline Landfill Cap Maintenance and Repairs: $139,000
  - Landfill Gas/Leachate System Repairs and Improvements: $139,000

The agreement with Recology provides for an increase based on CPI and for Fiscal Year 2019-20 is 3.97 percent. The City's share of SMaRT Station costs is currently proposed to increase 16.0 percent, 4.5 percent after adjusting for tonnage increases that have associated revenue. These provider increases, as well as increases in the cost of City programs up to the CPI, result in an overall average rate increase of 4.0 percent. However, this fund is in a stable financial condition and staff is recommending an overall rate increase of 3.0 percent for Fiscal Year 2019-20.

For Fiscal Year 2019-20, **a 3.0 percent overall rate increase is recommended**. With a 3.0 percent rate increase, the rate for a 32-gallon cart will increase by $1.05 a month to $34.95 per month, which is still lower than our neighboring cities' rates. Attachment 1 includes recommended fee modifications and Attachment 11 includes a comparison of the current rates and the recommended rates. Revenues for Fiscal Year 2019-20, including the rate adjustment recommended, are projected to total $33.4 million (City revenues of $15.9 million) with total expenditures of $32.3 million (City expenditures of $14.8 million). There is also funding of $293,000 for capital projects and a contribution to CalPERS of $159,000 (proportionate with the General Fund contribution). The fund is projected to end the 2019-20 fiscal year with a reserve at the policy level of $3.7 million, the reserve for future facility equipment of $1.3 million, and an $8.6 million ending balance.

Non-Major Funds

The Fiscal Year 2018-19 recommendations ($25,000 and over) for non-major funds are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

Child-Care Commitment Reserve

- **Low-Income Child-Care Subsidies:** $100,000 (limited-period)

Measure B Fund

- **Safe Routes to Schools (SRTS) Education Program:** $184,900

Certified Access Specialist (CASp) and Training Fund

- **CASp Training:** $50,300 (limited-period, includes $33,800 rebudget)

Below-Market-Rate (BMR) Housing Fund

- **Lot 12 Development:** $100,000 (limited-period)
- **Fair Housing Assessment:** $85,000 ($60,000 rebudget) (limited-period)

Downtown Benefit Assessments Districts Fund

- **Downtown Parking Consultant Services/Long-Term Solutions:** $300,000 (limited-period)
- **Secretary—Economic Development Position (0.25 FTE)*:** $39,600 (limited-period)

General Liability Self-Insurance Fund

- **Liability Insurances:** $181,300 (ongoing)

Equipment Maintenance and Replacement Fund

- **Service Maintenance and Repair Contracts:** $107,000 (ongoing)
- **Hourly Staff to Support Fleet Section:** $25,000 (limited-period)

Retirees' Health Fund

- **Retirees' Health Actuarial Valuation:** $30,000 (limited-period)

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RESERVES

The City has established reserves for various purposes in the General Fund, Shoreline Regional Park Community Fund, Utility funds, Internal Services funds, and other Special Revenue funds. Reserves are essential elements in maintaining financial stability, meeting long-term objectives, and providing the ability to respond to unanticipated situations. They are also a source of interest income that is used for operating needs or offsets other funding requirements. A factor considered by Standard & Poor's in reconfirming the City's AAA underlying credit rating is the structure and funding status of reserves. Most reserves are established pursuant to City Council Policy A-11, Section 4, Reserve Policies, and others have been approved, as needed, by the City Council. A discussion regarding the reserve classifications, estimated fiscal year-end reserve balances compared to policy, or target balances and the recommended allocations are described below.

Utility reserves are recorded in the Water, Wastewater, and Solid Waste Management Funds for emergencies, contingencies/rate stabilization, and capital improvements.

Reserve Classifications

Reserves can be classified as those uncommitted but designated for a specific purpose and those created to fund liabilities.

- Reserves uncommitted but designated for specific purposes:
  - General Fund
  - General Fund Budget Contingency
  - Earned Lease Revenue
  - Capital Improvements
  - Transportation
  - Open Space Acquisition
  - Strategic Property Acquisition
  - Child-Care Commitment
  - Minor Trust

- Reserves to fund liabilities:
  - Property Management
  - Graham Site Maintenance
  - Compensated Absences
  - Equipment Replacement
  - Workers' Compensation Self-Insurance
  - Unemployment Self-Insurance
  - Liability Self-Insurance
  - Retirees' Health Insurance Program

Reserves in the first group are uncommitted but designated for a specific purpose and are funded entirely by the General Fund (except the Minor Trust). Those in the second group have current or future liabilities offsetting all or most of the reserve balance and, with the exception of the Property Management and Graham Site Maintenance, receive transfers from multiple operating funds.

Staff has performed a preliminary review of reserve levels and included funding recommendations for specific reserve requirements. With the recommendations, all reserves are at or above policy level. The City continues to make progress toward the funding of its retirees' health and pension liabilities.

Background and Analysis

The table below details the estimated balance, recommended allocations, recommended balance, and policy/target balance for each reserve (dollars in thousands):

	6/30/19 Estimated Balance	Amount Recommended for Allocation	Other Funds	7/1/19 Recommended Balance	Policy/ Target Balance
Uncommitted but Designated for Specific Purpose:					
GF Reserve	$ 25,435	$1,800[1]	$ -0-	$ 27,235	$ 27,235[1]
GF Budget Contingency	6,644	-0-	-0-	6,644	6,644
GF Earned Lease Revenue	5,823	-0-	-0-	5,823	4,682
GF Transportation[2]	4,000	-0-	-0-	4,000	4,000
GF Capital Improvements	15,135	TBD[3]	-0-	15,135[4]	8,041[4]
GF Open Space Acquisition	456	-0-	-0-	456	456
GF Strategic Property Acquisition	11,707	-0-	-0-	11,707	11,707
GF Child-Care Commitment	497	-0-	-0-	497	-0-
Minor Trust	423	-0-	-0-	423	415
Subtotal	70,120	1,800	-0-	71,920	63,180
To Fund Liabilities:					
GF Property Management	1,560	-0-	-0-	1,560	1,560
Graham Site Maintenance	778	-0-	-0-	778	778
Compensated Absences[5]	5,430	2,000	170	7,600	7,600[6]
Equipment Replacement[5]	27,990	-0-	-0-	27,990	25,000
Workers' Compensation[5]	12,600	-0-	-0-	12,600	8,149[7]
Unemployment[5]	600	-0-	-0-	600	600
Liability Self-Insurance[5]	5,100	-0-	-0-	5,100	4,403[7]
Subtotal	54,058	2,000	170	56,228	48,090
Total	$124,178	3,800	170	128,148	112,270
Retirees' Health[8]	$130,150	$ -0-	$ -0-	$130,150	$189,938[9]

(1) Policy balance is between 20.0 percent and 25.0 percent of the Net General Operating Fund budget.
(2) New reserve recommended.
(3) Balance recommended up to $3.0 million, to be determined based on actual results for Fiscal Year 2018-19.
(4) Includes $3.0 million balance for prepaid lease from Downtown Family Housing Project.
(5) Funding provided by the General Fund, Development Services, Shoreline Golf Links, Parking District, Community Development Block Grant (CDBG), Shoreline Regional Park Community, Enterprise Funds, and Fleet Maintenance, as applicable.
(6) Based on the liability established as of June 30, 2018.

(7) Actuarial liability, in addition to reserve for catastrophic claims per policy, as applicable.
(8) Funds accumulated in the California Employers' Retiree Benefit Trust (CERBT).
(9) Based on the actuarial valuation as of July 1, 2017 for Fiscal Year 2019-20 at the recommended discount rate of 6.25 percent.

General Fund Reserve

Per Policy A-11, as recently modified, the General Fund Reserve has a policy balance of between 20.0 percent and 25.0 percent of the GOF adopted net expenditures. This reserve is the source of funding for necessary, but unanticipated, expenditures during the fiscal year, unanticipated revenue shortfalls, source for interfund loans, emergencies, and to generate ongoing interest earnings. In Fiscal Year 2009-10, up to $1.0 million in the General Fund Reserve was earmarked for the first-time homebuyers program. These loans would be considered as an investment alternative and would be included as funds toward the policy balance. No loans have been issued to date and staff is currently reviewing the program for potential revisions.

For Fiscal Year 2019-20, staff is recommending an estimated allocation from the GF carryover of $1.8 million to maintain this reserve at 20.0 percent and an additional allocation of $2.0 million from the Fiscal Year 2019-20 GOF to bring the reserve up to 21.5 percent. The final amount necessary from the current fiscal year carryover to maintain the minimum will be calculated with the Adopted Budget. If there is any use of this reserve for the remainder of the current fiscal year, it will modify the amount available.

General Fund Budget Contingency Reserve

This reserve was created during the downturn in the economy in the early 2000s to position the City to adjust to anticipated lower revenues and provide financial flexibility in case revenue estimates were not met or State actions forced further budget reductions. In Fiscal Year 2006-07, the Council consolidated and eliminated what was believed at the time to be an unnecessary reserve as the economy and City revenues had improved. Then the economy plunged into the deepest recession since the Great Depression and this reserve was reestablished in Fiscal Year 2008-09.

During this past recession, this reserve was used for the transitioning of positions to be eliminated, the phasing out of certain expenditures, in addition to funding for the transitioning of employee benefit changes, transitioning Shoreline Golf Links to a new operating model, and the elimination of the City's redevelopment agency. The reserve is estimated with a balance of $6.6 million, as of June 30, 2019, and will be available for similar purposes during the next economic downturn.

The full projected annual revenue from the Ameswell (Moffett Gateway) property after a few years of operations is estimated at over $3.5 million. The majority of this revenue is currently recommended to be earmarked for debt service to fund the Police/Fire Administration Building Remodel and Expansion. During the Fiscal Year 2017-18 budget process, a strategy was adopted for the revenue received in the fiscal years prior to the beginning of debt service be used for a limited-period need and transferred to this reserve. Fiscal Year 2018-19 includes a transfer in the amount of $1.4 million, and Fiscal Years 2019-20 through 2021-22 include transfers in the amount of $1.6 million to the Budget Contingency Reserve.

General Fund Earned Lease Revenue

In April 2011, the City leased the remaining portion of the Charleston East site to Google Inc. (Google) and Google prepaid $30.0 million as rent for the approximately 52-year lease term that coincides with the lease term for the northern portion of the site. The initial $30.0 million was placed in a fiduciary fund for the benefit of Google. The annual rent of approximately $580,900 is recognized as it is earned and accumulated in this reserve with the intent the $30.0 million principal balance will be available at the end of the 52-year lease term. Based on an average 3.5 percent interest rate over the 52-year lease term, it was originally projected annual average interest earnings would be $1.1 million.

Beginning in Fiscal Year 2011-12, $1.1 million was transferred to the GOF from this reserve. However, due to the unprecedented low interest rate environment, the transfer was reduced to $750,000 for Fiscal Years 2012-13 and 2013-14, and in Fiscal Year 2014-15 transfers were ceased altogether. The estimated balance at the end of Fiscal Year 2018-19 is $5.8 million, higher than the target balance of $4.7 million. Staff will reevaluate projected interest earnings, but at this point it is recommended that no transfers be made and funds continue to be accumulated in this reserve.

General Fund Transportation Reserve

This reserve was established with the Fiscal Year 2018-19 budget and initially funded with $2.0 million from the Fiscal Year 2017-18 GF carryover and an additional $2.0 million from the GOF in Fiscal Years 2018-19.

In addition, an update to the Business License Tax structure was approved by voters in November 2018. City Council preliminarily earmarked 80.0 percent of new tax generated to transportation and 10.0 percent to housing. Council's prior discussions focused on the tax measure in conjunction with the Comprehensive Modal Plan to fund transportation capital projects for transportation needs. A number of significant priority transportation projects have been identified to mitigate traffic congestion, improve infrastructure, and allow for continued growth in the City. The new Business License Tax structure is to be phased in over three years. Fiscal Years 2019-20 and 2020-21 include an estimated $1.6 million and $2.9 million, respectively, Fiscal Years 2021-22 and 2022-23 include an estimated $4.1 million each, and Fiscal Year 2023-24 includes an estimated $4.2 million, representing 80.0 percent of new tax generated transferred to this reserve.

General Fund Capital Improvement Reserve

The City has a long-term policy to reserve a minimum of $5.0 million for unspecified capital projects in the General Fund Capital Improvement Reserve. This provides flexibility in the City's planning for capital projects, serves as a contingency fund for capital projects, generates ongoing investment earnings, and also serves as an emergency pool of funds for unanticipated high-priority capital needs.

As previously noted during the Fiscal Year 2017-18 budget process, the Google agreement to sublease Parking Lots C and D from SFX (LiveNation) ended in December 2017. The City Council approved Google's request for a three-year extension of the sublease through December 2020 for a $600,000 one-time payment to the City, which was received in early April 2017 and will be transferred to the Capital Improvement Reserve over the life of the remaining lease.

Additional contributions to the Capital Improvement Reserve are recommended from the funds set aside, identified as at risk, from the increases generated from the Google Leases revaluations. During Fiscal Year 2017-18, the decennial revaluation process has been completed for the three City-owned land leases between the City and Google. Based on the revaluations of the three sites, annualized rent payments increased approximately $6.8 million. Since it is probable that during the time span before the next decennial adjustment in April 2026, there will be at least one economic downturn and if a downturn occurs when a revaluation occurs, the lease revenues to the City could decline. Staff reviewed the changes in AV for the past 13 years and identified a potential 15.0 percent loss in secured AV in the event of an economic downturn. Therefore, to reduce the dependency on these revenues, staff recommended, and the City Council adopted, a strategy to set aside 10.0 percent of this potential decline in lease revenues to fund future capital projects. In Fiscal Year 2018-19, a potential 10.0 percent decline in revenues, calculated at $1.4 million, was transferred to the Capital Improvement Reserve to fund projects in Fiscal Year 2019-20 or later. For Fiscal Year 2019-20 through the forecast period, this is calculated at between $1.5 and $1.7 million and will be available to fund projects the fiscal year after it is received.

This reserve generally receives an allocation from the General Fund carryover balance and received $3.0 million from the Fiscal Year 2017-18 carryover. It is recommended the balance up to $3.0 million of the Fiscal Year 2018-19 carryover be transferred to this reserve. Additional allocations of $4.0 million from the Fiscal Year 2018-19 GOF and $3.0 million recommended from the Fiscal Year 2019-20 GOF is for potential debt service to fund the Police/Fire Administration Building Remodel and Expansion if Council desires to fund this project sooner than when the revenues from the Ameswell development will be available.

In June 2009, $3.5 million was appropriated for the acquisition of the property at 263 Escuela Avenue (now The View Teen Center) and was repaid from the land lease prepayment for the Downtown Family Development Project in Fiscal Year 2011-12. However, these funds are considered unearned revenue and are available to be allocated as rent is earned. There is a remaining balance of $3.0 million of unearned revenue.

General Fund Open Space Acquisition Reserve

This reserve was established for the purpose of acquiring open space to meet the needs of the City. Council Policy A-11 provides the proceeds from sale of surplus property be allocated to this reserve if there is no other recommendation. These funds are designated to be available as supplemental funding to Park Land Dedication fees for open space acquisition. During Fiscal Year 2016-17, $2.9 million was deposited in this reserve from the sale of the Mora Drive property. On December 11, 2018, City Council authorized $3.0 million for the Funding and Joint Use Agreement between the Los Altos School District and the City, to be repaid from funds received for the 2580 California Street project. There is an estimated available balance of $456,000 in this fund.

General Fund Strategic Property Acquisition Reserve (SPAR)

This reserve was created in Fiscal Year 2000-01 for the purpose of setting aside specific funds for the City to use for the acquisition of strategic property(ies) in order to take advantage of economic development opportunities. This fund was used to purchase the Vector Control site (Ameswell/Moffett Gateway) which will provide ongoing revenue to the City. The proceeds from the sales of City-owned property have been placed in this reserve as one source for its funding.

For Fiscal Year 2016-17, $2.0 million was transferred to this fund as part of the GOF budget, $1.0 million was transferred from Fiscal Year 2016-17 General Fund carryover, and this reserve funded $5.0 million towards the capital improvements for the Community Center. For Fiscal Year 2017-18, $2.0 million was transferred to this fund as part of the GOF budget. During the current fiscal year, City Council appropriated $1.8 million from this reserve for the acquisition of real property located at 310/312 Escuela Avenue and approved a transfer of $2.0 million from the GOF budget. Additional activity in this reserve is the lease and sublease of the property on Villa and View Streets. The estimated balance available in this reserve is $11.7 million.

The City has a positive history of leveraging City properties with long-term ground leases to generate ongoing revenues for the GOF. Long-term ground lease revenues are recession-resistant and are usually structured with inflationary increases.

General Fund Child-Care Reserve

This reserve was established for the repayment to the Packard Foundation for the financing of the Child-Care Center. The final payment to the Packard Foundation was made in January 2016. Community Gatepath was selected as the new operator of the Child-Care Center in 2015 and will continue to make the same annual payments of $201,000.

As the annual $201,000 lease payment from Community Gatepath was no longer needed for repayment of the loan, the City Council initially approved using up to $100,000 per fiscal year for low-income subsidies through the initial term (June 30, 2019) of the Operator Agreement with Community Gatepath, and the annual $201,000 lease payment was moved to the GOF. On November 27, 2018, the City Council authorized renewal of the agreement with Community Gatepath and authorized continuing up to $100,000 per fiscal year for low-income subsidies over the next five fiscal years. The balance of this reserve is estimated at $497,000.

Minor Trust

On September 13, 2016, the Council accepted a donation in the amount of $400,000 from the Minor Trust, to be invested on behalf of the Mountain View Public Library. A residual amount of $10,235 was received later in the fiscal year for a total donation of $410,235. Per the terms of the Trust, the funds are to be placed in a separate account and up to 75 percent of the annual income may be appropriated each year to support Library materials and programs at the discretion of the Library Services Director. The balance in this reserve is estimated to be $423,000.

General Fund Property Management Reserve

This reserve was established in Fiscal Year 1995-96 to provide a source of funds for landlord obligations that could arise from the lease of City property in the North Bayshore Area and has been expanded to encompass any City-owned leased property. These obligations could include environmental testing, certain responsibilities identified in land leases, or other costs normally incurred by a lessor. There is an estimated balance of $1.6 million in this reserve.

Graham Site Maintenance Reserve

This reserve was established in Fiscal Year 2004-05 to fund maintenance obligations for the Graham Sports Complex. In the agreement with the school district to construct the reservoir beneath the playing fields at Graham Middle School, the Water Fund contributes $220,000 per year to this reserve. The City agrees to maintain this site and the GOF is reimbursed from this reserve for the maintenance costs of the Graham Sports Complex. The Council also approved costs associated with the Mountain View Sports Pavilion to be reimbursed from this reserve. The reserve has an estimated balance of $778,000 to fund future maintenance or improvements to the site.

Compensated Absences Reserve

The Compensated Absences Reserve was established in Fiscal Year 1991-92 to fund the City's liability for the accrued vacation, comp time, and sick leave obligations of employees in all funds except the Enterprise and Internal Services Funds. The liabilities of the Enterprise and Internal Services Funds are recorded in those respective funds as required by governmental accounting standards. This reserve is drawn down for leave payoffs to separating and retiring employees (for accumulated vacation and sick leave, if applicable, under the City's Personnel Rules) and current employee vacation cash-out payments during the fiscal year. The leave liability is recalculated, in accordance with generally accepted accounting principles (GAAP), each fiscal year with the close of the City's financial records.

As of March 31 for the current fiscal year, $1.2 million has been paid out and it is estimated an additional $600,000 will be utilized by the end of the fiscal year. The calculated liability for this reserve has increased $337,000 from the prior fiscal year. The current estimated reserve balance of $5.4 million is below the calculated liability of $7.6 million based on 80.0 percent of the liability as of June 30, 2018. Although it has been a long-standing policy to fund 100.0 percent of the liability in this reserve, 100 percent funding is unlikely to ever be required at any particular time. As part of the CalPERS strategy to increase the funding of the City's pension obligation, the funding level was approved to be decreased to 80.0 percent for Compensated Absences. To bring the funding level to the current policy level of 80.0 percent funding would require $2.2 million of additional funding. The liability will be recalculated at the close of the current fiscal year.

Equipment Replacement Reserve

The City established the Equipment Replacement Reserve in Fiscal Year 1991-92 to stabilize the annual funding needed for the replacement of certain City equipment.

Level annual contributions are received from various funds and this reserve absorbs the large fluctuations in annual expenditures for equipment replacement from fiscal year to fiscal year. Only major categories of capital assets are included in the Equipment Replacement Fund. The assets included are all vehicles, information technology equipment (e.g., computers, printers, servers, etc.), Police and Fire radios, CAD/RMS system hardware, and Communications Center furniture and equipment. The equipment for the maintenance of Shoreline Golf Links is also separately accounted for in the Equipment Replacement Reserve. The annual contribution level is based on the cost or estimated replacement cost of the asset divided by the estimated useful life of the asset.

The annual funding level is projected at $4.3 million. However, there are many pieces of equipment that have reached their life, have been fully funded, but are not recommended for replacement yet as they are still in good operating condition. Therefore, Fiscal Year 2019-20 funding has been reduced to $3.8 million. The current estimated balance of $28.0 million is slightly higher than the policy balance; however, the target balance is under review. Equipment replacements scheduled for Fiscal Year 2019-20 total $1.3 million, plus there is $1.0 million recommended to be rebudgeted (from the $3.0 million budgeted in the current fiscal year) for a total of $2.3 million. Staff generally reviews all items before purchasing and will only replace those items necessary due to expected failure or that will provide improved efficiencies.

Workers' Compensation Self-Insurance Reserve

The Workers' Compensation Fund was established by Council resolution in 1975 to account for the City's self-insured obligations for Workers' Compensation liabilities to City employees injured while at work. The primary reasons to be self-insured are to control costs and pay claims as they are incurred to maximize cash flow and provide timely and better services. When insured, one pays the entire premium fees up front and then the insurance carrier manages the claim in hopes of incurring less cost.

Expenditures paid out of this fund include the cost for the City's third-party administrator (TPA), the insurance above our self-insurance retention of $750,000, claims, indemnity payments, and the State self-insurance fee.

In addition, the City budgets $200,000 a year to fund Public Safety employees' salaries while on Workers' Compensation. This is utilized when Police or Fire is required to backfill with overtime or other personnel for an employee out on Workers' Compensation and cannot absorb the cost of the employee's salary in the department's budget.

The required balance of this reserve is based on projected liabilities as determined by an actuarial valuation conducted every fiscal year. In addition, the reserve policy includes funding of $1.5 million for the potential of two catastrophic claims at the City's current level of self-insured retention of $750,000 per claim (i.e., deductible). The accrued liability is reviewed on an annual basis with the fiscal year-end close of the City's financial records.

The Reserve has an estimated balance of $12.6 million, which is higher than the $8.1 million policy level as of June 30, 2018. Staff is not recommending any reduction in this reserve at this time and will evaluate as needed.

Unemployment Self-Insurance Reserve

The Unemployment Self-Insurance Reserve was approved by Council in 1978. This program provides for the State-mandated unemployment insurance benefits for former employees. The City pays for unemployment claims on a pay-as-you-go basis and generally, contributions for the estimated payments are made annually. Annual expenditures will fluctuate in this fund and during the Great Recession higher unemployment and longer eligibility periods resulted in higher unemployment costs. However, with the economic recovery, unemployment claims have decreased. The balance in this reserve is approximately $600,000.

Liability Self-Insurance Reserve

The Liability Self-Insurance Reserve was approved by Council in 1980. The City currently self-insures for the first $1.0 million of liability exposure per occurrence. The City is a member of the Authority of California Cities Excess Liability (ACCEL) Program for the pooling of liability insurance above the $1.0 million self-insured retention. ACCEL began in 1986 as a pool for medium-sized cities and the City joined ACCEL in 1992. Other members of the pool are Anaheim, Bakersfield, Burbank, Modesto, Monterey, Ontario, Palo Alto, Santa Barbara, Santa Cruz, Santa Monica, and Visalia. ACCEL pools liability coverage and the City purchases additional coverage through ACCEL. Other expenditures funded from the Liability Fund are for outside legal counsel for defense against claims, insurance (e.g., property, automobile, flood, etc.), and payment for claims.

Council Policy A-11 specifies the policy level of this reserve to be $2.0 million for the self-insured exposure for two catastrophic incidents and an amount to fund estimated incurred claims. The estimated incurred claims are determined by an actuarial valuation performed every year and are reviewed on an annual basis with the close of the City's financial records. The actuarial valuation, last updated as of June 30, 2018, indicates a liability of $2.4 million, resulting in the policy level for this reserve at $4.4

million. The current estimated balance of $5.1 million is higher than the policy level, but staff is recommending the surplus balance remain in the fund to offset potential future liability increases.

Retirees' Health Insurance Program Reserve

The City provides other postemployment benefits (OPEB) by contributing all or a percentage of the premium cost for its retired employees' health care. The cost for current employees who will be eligible for this benefit in the future, as well as those already retired, represents an outstanding liability to the City.

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*, became effective for the City with the fiscal year ending June 30, 2008. This statement requires the City to update its Retirees' Health valuation every two years and it was recently updated as of July 1, 2017.

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

The 2015 valuation included the migration of Public Safety employees into the CalPERS health system (PEMHCA). As previously discussed with Council, it is anticipated the City's total actuarial accrued liability (AAL) will increase significantly by adding dependent coverage; however, the plan costs are lower and the employees are now contributing annually towards this liability.

The major changes resulting in the change in the 2017 valuation includes the change in the ultimate health-care trend, the passage of time, savings from lower than projected PEMCHA premiums, and changes in demographics. The City participates in the California Employers' Retiree Benefit Trust (CERBT or Trust) managed by CalPERS. The 2017 valuation included a reduction in the discount rate from 6.73 percent to 6.50 percent to provide a margin for adverse deviation or uncertainty. It was also anticipated CERBT would consider a reduction in the discount rate in June 2018 and the valuation included a model at a 6.25 percent discount rate to be used for Fiscal Year 2019-20 if the discount rate was reduced by CERBT. The discount rate was reduced and the liability reflected for Fiscal Year 2019-20 is at the 6.25 percent discount rate.

The City has made great strides toward funding the AAL of $189.9 million (projected for Fiscal Year 2019-20), with estimated assets set aside of $130.2 million, or 68.5 percent funded, at a discount rate of 6.25 percent. Previously, all funds other than the GOF had contributed their share of the unfunded AAL (UAAL). However, certain factors have caused some volatility in calculating the UAAL for each fund, and some funds are no longer fully funded. Many factors can cause the liability for each fund to change: (1) the actuarial accrued liability (AAL) generally increases with each updated valuation; (2) the unfunded AAL (UAAL) can be reduced when greater than expected interest is earned or reduced when less is earned; (3) lump-sum contributions reduce the UAAL; (4) position count increases or decreases due to budget changes (moved between funds or added); and (5) position count in the Defined Benefit (DB) Plan increases or decreases as a result of nonsafety employees being able to choose the Defined Contribution (DC) Plan option. The last factor has caused some volatility in calculating the UAAL for each fund; therefore, some funds are no longer fully funded. Staff is attempting to smooth the effect that position turnover and the choice of benefit option is having on funding status in order to avoid large spikes in the amount of funding needed.

To reduce the GOF share of its UAAL, a total of $11.5 million additional funds have been budgeted and transferred to the CERBT since Fiscal Year 2014-15, including $1.0 million from the GOF in Fiscal Year 2018-19 and also includes funding from other funds to maintain the other funds' funding level. Prior to the discount rate change to 6.25 percent, this liability was estimated to be over 80.0 percent funded, and it is now at just under 70.0 percent funded. Staff continues to focus on the City's pension liability as a higher priority. The Fiscal Year 2019-20 budget includes recommended funding from other funds to maintain their share of the liability with consideration of the volatility factors mentioned above. The valuation will be updated during Fiscal Year 2019-20 as of July 2019.

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CONCLUSION

Strong revenue growth has continued and the GOF is in a good financial position. For Fiscal Year 2019-20, the economy is anticipated to remain strong with growth in revenues primarily in Property Taxes, Business License Tax due to the previously mentioned tax structure change, and Rents and Leases, with other major categories remaining stable or with modest changes. The GOF revenues are projected to increase to $148.4 million, or 7.8 percent, compared to the current fiscal year adopted revenues. The City Manager is making the following new expenditure recommendations:

- $781,000 non-discretionary

- $1.7 million discretionary

These contribute to an 8.9 percent total expenditure increase and the GOF is projected to have an operating balance of $12.3 million at the end of Fiscal Year 2019-20. Additional recommendations to transfer funds to reserves and towards unfunded liability, leaves a balance of $2.3 million or 1.5 percent of projected revenues. A total of 29.75 positions, including a net of 10.25 new personnel, are recommended. Although there are other areas where additional resources could be added, more are not recommended at this time as it is anticipated there will be a slowdown in the economy in the next few years, at which time operating deficits will return. In addition, the City Manager recommends net limited-period expenditures of $3.7 million to address the need for additional staff resources.

The Development Services Fund revenues for the current fiscal year are estimated to exceed budget as development activity remains strong. The Fund is estimated to end Fiscal Year 2018-19 with an available balance of $16.8 million and the Land Use Document Reserve of $9.0 million. This balance is necessary due to the timing of development-related revenues and expenditures. Revenues for development activity are often collected well in advance of the performance of services and occurrence of the corresponding expenditure. Development activity is anticipated to remain strong through Fiscal Year 2019-20.

The condition of the Shoreline Golf Links continues to improve under the management of Touchstone. In January 2019, Touchstone also took over management of Michaels at Shoreline Restaurant. Fiscal Year 2018-19 revenues and expenditures for Shoreline Golf Links are estimated less than budget, allowing for a reduced transfer of $25,000 to the GOF. Continued improvement is projected for Fiscal Year 2019-20 with modest fee increases recommended. Restaurant revenues and expenditures were appropriated midyear for six months and are estimated as budgeted with no transfer to the GOF.

The Shoreline Community's total Fiscal Year 2018-19 property taxes are estimated $1.6 million lower than budget due to an unanticipated 22.9 percent decrease in unsecured AV on the July 1, 2018 tax roll. Fiscal Year 2019-20 revenues are projected with an increase over both the current fiscal year adopted and estimated. Fiscal Year 2019-20 expenditures are projected higher than the current fiscal year adopted due to recommendations and higher costs in administration and intergovernmental payments. New debt service payments for the 2018 debt issue are offset by the final payment for the 2014 Loan made in the current fiscal year.

The financial position of the Water Fund was severely impacted by reduced water sales from conservation efforts during the drought. However, over the last several fiscal years, water usage increased and has resulted in an improved financial condition of the Water Fund. For Fiscal Year 2019-20, the SFPUC is proposing no rate increase in wholesale water costs and SCVWD is proposing a 6.6 percent for ground (well) water and 6.1 percent rate increase for treated water. A 1.0 percent rate increase in the average cost of water and meter rates is recommended for Fiscal Year 2019-20 to fund the increased cost of water and City operational costs. A 20.0 percent increase in the recycled water rate is recommended for the second year of a three-year phase-in of increased rates to cover the cost of the program.

Wastewater Fund revenues are trending as budgeted and expenditures are trending lower than budget. Expenditures are below budget, primarily due to savings in operating costs and the credit from the Treatment Plant from the prior fiscal year. For Fiscal Year 2019-20, a 3.0 percent rate increase is recommended. There is no proposed increase in Treatment Plant costs, which, combined with City operating cost increases, results in a 1.0 percent increase. The additional 2.0 percent is for the incremental phasing in of funding for capital replacements at the Treatment Plant (the sixth year of 10). A $10.1 million loan was approved during the current fiscal year to fund recommended infrastructure projects included in the CIP for Fiscal Year 2019-20.

Solid Waste Management Fund revenues are higher than budget, primarily due to higher debris box revenue associated with the high level of development activity. Expenditures are trending lower than budget, a net of lower operating costs offset by higher SMaRT Station costs for the prior fiscal year. For Fiscal Year 2019-20, a 3.0 percent rate increase is recommended attributable to increased costs for Recology, the SMaRT Station, and City operating costs. Tonnage at the SMaRT Station from the City has increased due to debris box construction activity, and it is expected the reconciliation for the current fiscal year will show the City owing money, for which revenue has been received. The increased trend in tonnage and cost has been incorporated in the Fiscal Year 2019-20 SMaRT budget.

The recommended rate increases for all three utilities are within those provided, noticed, and approved under Proposition 218 in 2016 and 2018. The total average increase for a single-family residential customer as recommended for all three utilities is 2.1 percent, resulting in an estimated increase of $3.17 monthly. Rates will generally still be comparable to, or lower than, our neighboring cities. A comparison of the current and the recommended rates is included in Attachment 11.

With the recommendations in this report, most reserves are at or exceed their target or policy balance. Any remaining GOF carryover balance up to $3.0 million is recommended to be transferred to the Capital Improvement Reserve. Should the balance exceed the amount recommended, staff will return to the City Council at a later date for approval of the allocation of additional funds.

There is also a sufficient GOF surplus for Fiscal Year 2019-20 to recommend allocations of $2.0 million to the General Fund Reserve, $3.0 million to the Capital Improvement Reserve, and $1.0 million to the SPAR, and contributions of $4.0 million to CalPERS.

NEXT STEPS

Council input and direction are sought on the material in this report at the April 25, 2019 Study Session. Based on feedback from the City Council, the Fiscal Year 2019-20 Proposed Budget will be prepared for distribution to the City Council prior to the first budget hearing on June 11. A second public hearing and final adoption is scheduled for the City Council meeting of June 18, 2019.

PUBLIC NOTICING

Agenda posting, notice on social media, and notice published in the *San Jose Post Record* and the *Mountain View Voice*.

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Attachments:
1. Fiscal Year 2019-20 Recommended Fee Modifications
2. Fiscal Year 2019-20 Recommended Non-Discretionary Ongoing Changes
3. Fiscal Year 2019-20 Recommended Discretionary Ongoing Changes
4. Fiscal Year 2019-20 Recommended Limited-Period Expenditures
5. Fiscal Year 2019-20 Funding for Sustainability
6. Homeless Initiatives and Parking Enforcement Strategies
7. Fiscal Year 2019-20 Recommended Capital Outlay
8. Fiscal Year 2019-20 Recommended Equipment Replacement
9. Fiscal Year 2019-20 City-wide Memberships
10. Library Services Department Potential Fee Modification
11. Comparison of Current and Recommended Utility Rates