

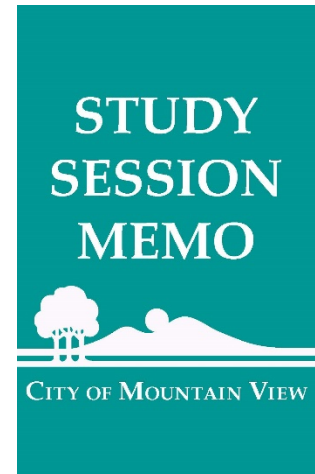
DATE: March 23, 2021

TO: Honorable Mayor and City Council

FROM: Nancy Doan, Senior Management Analyst
Joy Houghton, Associate Engineer
Dawn S. Cameron, Public Works Director

VIA: Kimbra McCarthy, City Manager

TITLE: **Fiscal Year 2021-22 through Fiscal Year 2025-26 Capital Improvement Program**



PURPOSE

The purpose of this Study Session is to provide the City Council an overview of the Capital Improvement Program (CIP) and obtain City Council input to guide staff in the preparation of the proposed Fiscal Year 2021-22 through Fiscal Year 2025-26 CIP. This is the first of two planned Study Sessions prior to the scheduled adoption of the CIP in June. This report presents: (1) an overview of the CIP; (2) information about CIP funding sources; (3) discussion of approach and criteria for prioritizing projects requiring unrestricted CIP funding sources; and (4) a proposed CIP project to offset the carbon emissions from the new City Hall/Center for the Performing Arts (CPA) heating, ventilation, and air conditioning (HVAC) system.

BACKGROUND

The CIP is a planning tool used to coordinate location, timing, and funding of capital improvements to maintain and manage City infrastructure that enhances the overall quality of life in the City. City infrastructure consists of physical structures, systems, and facilities needed to provide critical services to the community, such as sidewalks, streets, streetlights, traffic signals, utility pipe systems (stormwater, water, and wastewater), parks, trails, open space, and City buildings, including City Hall, the Center for the Performing Arts (CPA), Library, fire stations, Police/Fire Administration Building, Community Center, Senior Center, Teen Center, Michaels at Shoreline, Adobe Building, Rengstorff House, and the Municipal Operations Center.

The five-year CIP is adopted biennially, with a full plan developed in odd-numbered years and a focus only on the upcoming fiscal year in even-numbered years. In June 2021, staff will request that the City Council appropriate funding for the Fiscal Year 2021-22 CIP and adopt the plan for the four subsequent fiscal years.

Active CIP Projects

Prior to the COVID-19 Public Health emergency, the strong local economy, debt proceeds available for capital projects, and legislative developments generated significant funding for capital improvement projects over the last several years. While the number and value of new projects vary each year, there was an overall substantial increase in the number and value of projects over the last 10 years, as shown in Table 1 below:

Table 1: Five-Year Averages of New Projects

Five-Year Period	Average Number of New Projects Per Year	Average Total Budget of New Projects Per Year
2011-12 through 2015-16	49	\$21.8 million
2016-17 through 2020-21	59	\$65.3 million

Table 1 reflects an increase in new projects each year of more than 20 percent in the second five-year period and nearly a threefold increase in the total value of projects. Significant increases have occurred in a variety of project types, including pedestrian and bicycle improvements, parks and recreation, facilities renovation, major utilities, and transportation. This trend has created challenges in delivering projects in a timely manner with more projects than the project managers, engineers, and management staffing can carry at one time. There are currently 348 active projects in the CIP, of which 148 are Non-Discretionary Projects and 200 are Discretionary Projects. Attachment 1 provides the status of the major active CIP projects funded in Fiscal Year 2020-21 and earlier.

New Five-Year CIP Development

The CIP is divided into Non-Discretionary and Discretionary projects.

Non-Discretionary Projects

Non-Discretionary projects (Attachment 2) are primarily annual and periodic infrastructure maintenance projects to preserve the City’s significant investment in its infrastructure and facilities. They also include projects required for regulatory compliance. While Council can alter funding, these projects are generally approved with few changes on a consistent cycle (annual or biennial) with small inflationary adjustments.

As part of the current five-year CIP development process, staff has evaluated the list of Non-Discretionary projects and determined that they continue to play an essential role in providing for critical infrastructure maintenance. Staff may be proposing some refinements to the Non-Discretionary projects within existing funding levels as part of the proposed five-year CIP to be presented to Council in May 2021.

Discretionary Projects

Discretionary projects are those that do not fit the Non-Discretionary description and require approval of the City Council. The sources of potential Discretionary projects include City plans and studies (e.g., Precise Plans, Transportation Plans, Sea-Level Rise Study, Utility Master Plans, Parks and Open Space Plan, etc.), City Council goals and priorities, project submittals from all City departments, and the unscheduled projects in the current CIP. Staff compiles the list of candidate Discretionary projects for the upcoming five-year CIP as follows:

- Roll forward the projects planned for Years 3 to 5 in the previous five-year CIP into Years 1 to 3 in the new CIP. Attachment 2 provides the list of planned Discretionary projects for Fiscal Years 2021-22, 2022-23, and 2023-24 from the five-year CIP adopted in 2019;
- Add new project proposals. Typically, new projects are to be considered for Years 4 and 5 of the CIP, which have no roll-forward projects. However, some projects are considered for Years 1 to 3 if requested by the project sponsor or to reflect changing City needs and Council priorities; and
- Add requests for amendments to active CIP projects, which can include both scope changes and additional funding.

CIP Funding Sources

Depending on the project scope and location, different funding sources may be used. Table 2 lists the funding sources used to fund capital improvement projects.

Table 2: CIP Funding Sources

Funding	Source and Uses
UNRESTRICTED FUNDS	
CIP Reserve	General Fund surpluses as approved by the City Council and a portion of lease revenues. There are no restrictions on the type or location of projects to be funded.
Construction and Conveyance Tax	Revenues derived from construction and real property conveyance fees. Expenses are restricted to implementation of the CIP, including servicing bonds issued in connection with capital improvements; however, there are no restrictions on the type or location of projects.
ENTERPRISE FUNDS	
Water Fund	Restricted to operation and maintenance of all facilities required to supply, distribute, and meter potable and recycled water.
Wastewater Fund	Restricted to operation and maintenance of all facilities required to transport and process wastewater.
Solid Waste Management Fund	Restricted to solid waste collection, transportation, processing, and recycling services of the City and two of the City's landfill postclosure maintenance activities.
TRANSPORTATION FUNDS	
Gas Tax Fund	As prescribed by State law, restricted to transportation purposes, primarily: <ul style="list-style-type: none"> • Road construction; • Maintenance and repair of roads, highways, bridges, and culverts; • Improvement of public transportation, trade corridors, and infrastructure promoting walking and bicycling; • Reduction of congestion on major corridors; and • Certain administrative costs.
Senate Bill 1 (SB 1)/ Road Maintenance and Rehabilitation account (RMRA)	Revenue from the State derived from an increase in diesel excise and sales taxes, gasoline excise tax, the assessment of an annual transportation improvement fee based on the value of the vehicle, and an annual \$100 Zero Emissions Vehicle fee. The use of the City's share of formula funds received from the State is primarily restricted to road infrastructure maintenance and repair. The CIP receives an average of \$1.4 million per year from this source.

Funding	Source and Uses
Vehicle License Fee – 2010 Measure B	<p>In November 2010, Santa Clara County voters approved a measure to increase the annual Vehicle Registration Fee (VRF) by \$10 for transportation-related projects. This fund is managed by the Santa Clara County Valley Transportation Authority (VTA), and 80 percent is allocated to the cities and County of Santa Clara based on city population and County road and expressway lane mileage; primary use of this funding is for road infrastructure maintenance and repair. The CIP receives an average of \$500,000 per year from this source.</p>
VTA Measure B 2016 Sales Tax	<p>In November 2016, Santa Clara County voters approved Measure B, a 30-year, half-cent Countywide sales tax to enhance transit, highways, expressways, and active transportation (bicycles, pedestrians, and complete streets):</p> <ul style="list-style-type: none"> • The City receives an annual allocation from the Local Street and Road program to be used for road infrastructure maintenance and repair with the option to use for congestion relief projects whenever the City’s average Pavement Condition Index (PCI) is over 70. The CIP receives an average of \$1.5 million per year from this source. • The City’s Transit Center (Castro) and Rengstorff Grade Separation projects will receive Measure B Grade Separation Program funding. <p>The City also was awarded some Measure B Bicycle/Pedestrian Capital project competitive grants.</p>
General Fund – Transportation Reserve	<p>The Transportation Reserve was initially funded with \$4 million from General Fund surplus. Based on a Council resolution adopted in 2018, 80 percent of the increased revenue from the business license tax (2018 Measure P) is also placed into the Transportation Reserve to be used for transportation and innovative transit solutions, including:</p> <ul style="list-style-type: none"> • Mountain View Community Shuttle; • Caltrain grade separation projects; • Bicycle and pedestrian improvements; and • New transit systems to employment centers.

Funding	Source and Uses
SHORELINE REGIONAL PARK COMMUNITY FUND	
<p>The State Legislature created the Shoreline Regional Park Community (Shoreline Community or SRPC). Tax increment derived on the difference between the frozen base year value and the current fiscal year assessed value and other revenues generated from the activities of the Shoreline Community are to be utilized to develop and support the Shoreline Community and surrounding North Bayshore Area. In addition to annual operations and maintenance expenses, the SRPC is used for the following types of capital projects to support the North Bayshore Area:</p> <ul style="list-style-type: none"> • Transportation improvements, including North Bayshore Precise Plan Priority Transportation Improvements; • Sea-level rise infrastructure improvements; • Landfill postclosure; and • Utility (water, sewer, storm drain) improvements. 	
DEVELOPMENT FEES AND CHARGES	
Impact Fees	<p>Uses are restricted to projects/improvements identified in the relevant impact fee's nexus study:</p> <ul style="list-style-type: none"> • Shoreline Community Development Impact Fee – Sewer; • Shoreline Community Development Impact Fee – Transportation; • Shoreline Community Development Impact Fee – Water; and • Citywide Transportation Impact Fee.
Utility Capacity Charges	Used for new or upsized water and sewer utility mains to meet growing service demands Citywide.
Storm Drain Fund	Revenues derived from off-site drainage fees authorized by Mountain View City Code Section 28.51, which are restricted for storm drainage capital improvements.
Park Land Dedication Fund	Revenues derived from fees authorized by Chapter 41 of the Mountain View City code, which are restricted for park and recreation projects.
Community and Public Benefit Funds	A developer may be required by Council under certain conditions to provide community or public benefits, such as area improvements or affordable housing, as a result of their development project. A developer may pay a fee in lieu of providing these community or public benefits which will then be used by the City to provide capital improvements in the general area of the development as approved by the City Council.

The Finance and Administrative Services Department provides the estimated revenue and/or fund balances for all funding sources available for allocation in the CIP. The Public Works Department reviews and evaluates project scope and location to determine

appropriate funding sources and presents the proposed projects with proposed funding sources to the City Council for review and approval.

DISCUSSION

The number and types of projects to be included in the CIP are dependent on staffing and funding resources. As noted in the Active CIP Projects section above, the number and value of CIP projects in the last five years have increased substantially due to a booming economy and some new funding sources. This volume of projects has overwhelmed staffing resources, primarily at the management level, leading to delays in delivering the current list of funded projects. Staff plans to give stronger consideration to staffing capacity in terms of the number of new projects to be recommended for the five-year CIP in order to give project staff an opportunity to “catch up.”

CIP Funding Status

Staff has been giving special attention to the potential impacts of the COVID-19 pandemic on the CIP funding sources listed in Table 2. Listed below is a summary of the status of these funding sources:

- **Unrestricted Funds** – Construction/Conveyance (C/C) Tax revenue available for CIP projects will be significantly less next fiscal year than in past years. Allocations to the CIP Reserve are also anticipated to be much lower than previous years. The impact of these reduced funding levels on planning the five-year CIP is discussed in detail below.
- **Enterprise Funds** – These funds are generated by fees charged to residential and business customers and are used to fund both Non-Discretionary and Discretionary utility projects. Pre-COVID forecasts indicated that there may be insufficient funding for future major utility infrastructure replacement/rehabilitation needs, but this situation has not been worsened by COVID-19 economic impacts, assuming all planned fee increases are implemented.
- **Transportation Funds** – The funding received from SB 1, Vehicle License Fee, and VTA Measure B for road infrastructure maintenance and repair is expected to remain relatively stable. These three funds combined provide an average of \$3.4 million a year to the CIP.

The gas tax, however, has experienced a significant decline in revenues due to the stay-at-home orders. Between Fiscal Years 2016-17 and 2019-20, the CIP received an annual allocation of gas tax for road maintenance and improvements in the range of

\$1.5 million to \$1.9 million. This was reduced to \$1.1 million in Fiscal Year 2020-21. The forecast for Fiscal Year 2021-22 is currently only \$371,000 for the CIP, a reduction of over \$1.2 million a year received prior to COVID-19. At this time, the five-year CIP will be assuming a range of \$405,000 to 512,000 a year for Years 2 to 5 until there is evidence that gas tax revenue has rebounded.

- **Shoreline Regional Park Community** – At this time, this revenue source has not been significantly affected by COVID-19 economic impacts.
- **Developer Fees and Charges** – At this time, development activity continues to be strong. One factor that may affect CIP funding are policy decisions related to the use of Community and Public Benefits, which have frequently provided significant funding for transportation improvements.

CIP Unrestricted Funds

CIP Reserve and C/C Tax are extremely valuable CIP funding sources because there are no restrictions on the type or location of projects. They can be used for any capital project that does not have its own dedicated funding source or to supplement when the dedicated funding source is not enough. These unrestricted funds have been particularly useful in funding the following types of projects:

- City buildings/facilities repairs, renovations, remodels, and expansion. With the exception of City facilities in North Bayshore which can use SRPC funds, there is no other CIP funding source for most City facilities, which are facing growing demands due to the aging of buildings and increasing staff and public use;
- Information Technology projects which have limited access to the other funding sources;
- Certain parks and pathways rehabilitation/renovation needs that do not have access to the Park Land Dedication Fund;
- Supplementing the transportation funds dedicated to road pavement rehabilitation projects to improve the City's pavement conditions and to repair/improve other roadway infrastructure such as traffic signals, streetlights, sidewalks, and trees/landscaping; and
- Supplementing bicycle, pedestrian, and other transportation improvements to meet sustainability goals by reducing greenhouse gas (GHG) emissions and to support the City's jobs and housing growth.

CIP Reserve – The availability of CIP Reserve funding is significantly reduced due to the impacts of COVID-19. The CIP Reserve receives most of its revenue from General Fund annual surpluses, which are at risk of going away over the next few years pending the outcome of COVID-19 and other economic factors. The only other source is a portion of lease revenue. As shown in Table 3, the CIP received a total of \$36 million in CIP Reserve over the last five years but is currently projected to receive less than \$10 million in the next five years.

**Table 3: CIP Reserve Funding Levels
(Dollars in Thousands)**

	2016-17	2017-18	2018-19	2019-20	2020-21	5-Year Total
Budgeted	\$7,813	\$6,766	\$8,124	\$9,203	\$4,146	\$36,052
	2021-22	2022-23	2023-24	2024-25	2025-26	5-Year Total
Planned	\$1,047	\$1,910	\$2,065	\$2,223	\$2,391	\$9,636

C/C Tax – The City’s forecasting of C/C Tax revenue has historically been conservative, with actual funding usually being considerably higher than forecast during good economic times. This conservative forecasting reflects the volatile nature of these funds, which can vary by more than \$10 million annually depending on economic conditions. The five-year CIP typically assumes between \$4 million and \$5 million a year in C/C Tax for Years 2 to 5. Year 1 C/C Tax revenue, however, is based on the actual C/C Tax collected in the prior fiscal year, which frequently led to a budget in excess of \$10 million for Year 1. As shown in Table 4, however, the C/C Tax budgeted this year was only \$6.4 million. Based on current C/C Tax revenue received, \$4.3 million will be available for the Fiscal Year 2021-22 CIP.

**Table 4: Construction and Conveyance Tax Funding Levels
(Dollars in Thousands)**

	2016-17	2017-18	2018-19	2019-20	2020-21	5-Year Total
Budgeted	\$9,389	\$12,522	\$10,824	\$13,027	\$6,360	\$52,122
	2021-22	2022-23	2023-24	2024-25	2025-26	5-Year Total
Planned	\$4,280	\$4,496	\$4,400	\$4,281	\$4,206	\$21,663

There is a possibility that more CIP Reserve and/or C/C Tax will be available than forecasted in the outer years of the five-year CIP, but staff expects the first two years of the CIP (Fiscal Years 2021-22 and 2022-23) to be lean as shown on the tables.

In order to ensure as much funding as possible for projects that rely on these unrestricted funds, staff has analyzed the following approach:

- Maximize the use of all other funding sources for the roll-forward CIP projects and potential new projects to the extent feasible to save the CIP Reserve and C/C Tax for projects without dedicated funding sources;
- Utilize Transportation Reserve for bicycle/pedestrian and other related transportation projects more extensively than has been done previously; and
- Return excess CIP Reserve and C/C Tax funds from nearly completed projects before full close-out of the projects.

After applying the measures listed above, staff calculated the remaining demand for the CIP unrestricted funds. As shown in Table 5, the demand for CIP Reserve and C/C Tax combined from the roll-forward projects, project amendments, and new projects greatly exceeds the amount of funding expected to be available each year.

**Table 5: CIP Unrestricted Funds Available and Required
(Dollars in Thousands)**

	2021-22	2022-23	2023-24	2024-25	2025-26
Estimated Available Funding as of July 1	\$5,327	\$ 6,406	\$ 6,465	\$ 6,504	\$ 6,597
Estimated Balance from Return of Excess Funds from Active Projects and Projects to be Closed	6,000	-	-	-	-
Amount Available for Capital Projects	\$11,327	\$ 6,406	\$ 6,465	\$ 6,504	\$ 6,597
Non-Discretionary CIPs	\$5,096	\$ 4,963	\$ 6,228	\$ 5,130	\$ 6,540
Discretionary CIPs	11,285	34,332	13,570	4,900	21,330
Amendments to Existing Projects	4,708	-	-	-	-

	2021-22	2022-23	2023-24	2024-25	2025-26
Total of All Projects	\$21,089	\$39,295	\$19,798	\$10,030	\$27,870
Deficit for Fiscal Year	(\$9,762)	(\$32,889)	(\$13,333)	(\$3,526)	(\$21,273)

The deficit for projects requiring the unrestricted CIP funding is \$9.8 million for Fiscal Year 2021-22 and \$32.9 million for Fiscal Year 2022-23. Although the annual deficits for the remaining three years are high, they are somewhat less concerning because many factors could change before the next five-year CIP is developed in 2023. However, it is important to balance out the first two years of the CIP.

Impact of Reduced Gas Tax Funds on CIP Unrestricted Funds

For Fiscal Year 2021-22, the gas tax funding available for the CIP will be \$1.2 million less than the annual allocations received prior to COVID-19. This situation could continue into the following four fiscal years and could significantly impact the City’s ability to maintain and improve the pavement conditions of City streets. Attachment 4 provides an overview of the PCI rating system and the City’s historical network PCI. As noted in the Attachment, the most cost-effective way to maintain a good pavement condition is to avoid deferred maintenance and invest in preventive maintenance and pavement preservation. In addition, the City has streets whose pavement quality has deteriorated to poor conditions and are in need of major rehabilitation and reconstruction. Should the gas tax funding not rebound, it will be necessary to backfill for this lost revenue from C/C Tax and CIP Reserve in order to maintain and improve pavement conditions for the City’s streets.

Recommendations for Prioritizing Use of CIP Unrestricted Funds

Staff recommends that the Non-Discretionary projects with no or insufficient dedicated funding sources continue to be funded off the top of available CIP Reserve and C/C Tax funds. These projects are essential in providing for critical infrastructure maintenance, maintaining current Citywide service levels, and supporting municipal operations.

For Discretionary Projects, staff recommends the following criteria be used to determine which roll-forward and new projects will receive priority for the unrestricted CIP revenues:

- Public and personnel safety;

- Compliance with regulatory requirements;
- Local match or cost-sharing to secure grants or other funding;
- Pavement rehabilitation/reconstruction and preventive maintenance as needed to maintain the City's current PCI rating;
- City Council Strategic Plan priorities; and
- Projects that benefit and/or do not burden communities of color and/or low-income residents.

In summary, staff recommends an approach of maximizing the availability of the unrestricted CIP Reserve and C/C Tax funds for projects with no dedicated funding sources, funding the Non-Discretionary projects off the top, and using the criteria listed above to prioritize the remaining Discretionary projects for CIP Reserve and C/C Tax funds.

Question 1: Does City Council support staff's recommended approach and criteria to determine which projects to prioritize for the CIP Reserve and C/C Tax funds?

City Hall/CPA HVAC System – Offsetting Carbon Emissions

On November 10, 2020, the City Council awarded a contract for replacement of the HVAC systems at City Hall/CPA and at Fire Station No. 1. Because of the extraordinary cost of and time required to install an all-electric system at City Hall/CPA, the Scope of Work includes replacement in-kind of the natural gas boilers. Staff recommended that the City seek offsets for 200 percent of GHG generation associated with the natural gas use of the new boilers at an estimated cost in the range of \$300,000 to \$600,000 over the 25-year life of the project.

Council directed staff to return during the budget review process with information about the following three options for offsetting the City Hall/CPA natural gas use:

1. Offsets, as recommended in the November 10, 2020 Council report;
2. Creating a sustainability fund to be used for costs associated with carbon emission reduction efforts on projects at other City facilities; and
3. Offsetting the emissions with carbon sequestration or reduction efforts in or near Mountain View.

Staff evaluated each of these options (see Attachment 5) and recommends Option No. 2, to create a sustainability fund in the CIP to use for replacement of natural gas appliances, such as water heaters, at City facilities. Converting these appliances is more expensive and requires more time than just replacing these natural gas appliances in-kind because electrical upgrades and/or installation of solar panels are required. Using “City Facility Natural Gas Appliance Replacement” CIP projects, staff could prioritize replacing the existing units based on age and condition before they fail, allowing the time necessary to convert from natural gas. Unlike the offsets evaluated in the other options, Option No. 2 would reduce the City’s municipal operations GHG inventory by replacing natural gas with clean electricity from Silicon Valley Clean Energy and/or solar panels.

Staff recommends budgeting \$450,000 in the five-year CIP for the replacement of City facility natural gas appliances, which is the midpoint of staff’s estimate of the cost of market offsets for 200 percent of the lifetime emissions of the new natural gas boilers at City Hall/CPA. The funding would come from either CIP Reserve or C/C Tax. Since appliances would be replaced over the next few years based on age and condition, staff would propose spreading this \$450,000 out over multiple CIP fiscal years to minimize the impact on these two funding sources.

Question 2: Does the City Council support adding “City Facility Natural Gas Appliance Replacement” projects to the five-year CIP to offset the GHG generation associated with the natural gas use of the new City Hall/CPA HVAC system?

RECOMMENDATION

Staff seeks Council input regarding the following to guide staff in determining the projects to include in the Proposed Fiscal Year 2021-22 through Fiscal Year 2025-26 CIP:

Question 1: Does Council support staff’s recommended approach and criteria to determine which projects to prioritize for the CIP Reserve and C/C Tax funds?

Question 2: Does Council support adding “City Facility Natural Gas Appliance Replacement” projects to the five-year CIP to offset the GHG generation associated with the natural gas use of the new City Hall/CPA HVAC system?

NEXT STEPS

Based on the direction provided by Council at the Study Session, staff will develop the proposed list of capital projects for the Fiscal Year 2021-22 through Fiscal Year 2025-26 CIP.

Staff will present the list of proposed transportation capital projects to the Bicycle/Pedestrian Advisory Committee in March 2021 and the proposed Park Land Fund projects to the Parks and Recreation Commission in April 2021 for review and input.

Staff will return to the City Council at a Study Session in May 2021 with the list of recommended capital projects and any further questions staff has in order to finalize the CIP for City Council adoption in June 2021.

PUBLIC NOTICING

Agenda posting, e-mail to neighborhood associations, and posts on social media and the City's website.

ND-JH-DSC/TS/1/CAM

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- Attachments:
1. Status of Active CIP Projects
 2. CIP Non-Discretionary Project List
 3. Planned CIP Discretionary Projects for Fiscal Years 2021-22, 2022-23, and 2023-24
 4. Pavement Condition Index and Pavement Management Program Update
 5. Options for Offsetting Carbon Emissions from City Hall/Center for the Performing Arts HVAC System

cc: APWD – Arango, APWD – Au, APWD – Skinner, SMA – Doan, SMA – Goedicke, PCE – Gonzales, AE – Houghton