



CITY OF MOUNTAIN VIEW

MEMORANDUMFinance and Administrative
Services Department

DATE: June 13, 2017

TO: City Council

FROM: Helen Ansted, Principal Financial Analyst
Patty J. Kong, Finance and Administrative Services Director

VIA: Daniel H. Rich, City Manager

SUBJECT: Fiscal Year 2017-18 Narrative Budget Follow-Up

At the Narrative Budget Study Session held April 27, 2017, the City Council discussed the City Manager's recommendations for the Fiscal Year 2017-18 budget and requested additional information on various items. Below is a summary of the information provided by departments in response to City Council requests at the Narrative Budget Study Session.

Questions from Council

1. Credit Card Processing Fees

- a. *Is the City allowed to have a limit or place a cap on how much customers can charge on a credit card? If so, why is the rule different for the City versus other entities (i.e., car dealership)?*

While staff does not believe there is anything in the law that prohibits setting a maximum amount that can be charged on a customer's credit card for a transaction, the Visa and Mastercard rules prohibit setting a maximum amount except by U.S. Federal Government agencies/departments/corps and schools. As neither of these applies to the City, the City would be prohibited from setting a maximum amount under the merchant rules. Staff does not know how other entities may or may not be allowed to place caps on credit card amounts.

- b. *City Council gave direction for staff to develop a simple approach for assessing the credit card processing fee that will not be difficult or cause additional work for the City staff processing payments.*

Staff will do additional research and proposes to implement credit card processing fees on those areas where the City fee cannot be raised to include the recovery of the credit card processing costs (e.g., Transient Occupancy Tax, Business Licenses, etc.) and fees associated with development (e.g., Park Land Dedication, Parking In-Lieu, development services, building permits, etc.).

2. General Fund (GF) Reserve/CalPERS Contribution

What was the balance of the GF Reserve in 2010 and what is the current balance?

The balance of the reserve as of June 30, 2010 was \$ 22.7 million and the estimated balance as of June 30, 2017 is \$26.7 million.

When was the last time the City utilized a significant amount of money from the GF Reserve?

Based on a 10-year average, the City utilized approximately \$403,000 annually from the GF Reserve with Fiscal Year 2007-08 as the highest year at \$1.4 million. The City has always been able to replenish the reserve to meet the City's 25 percent of net adopted GOF expenditures funding policy.

The Council discussed the GF Reserve in conjunction with the CalPERS Discount Rate Change Funding Strategy (see Attachment 1 to the Transmittal Letter of the Proposed Budget). At the Narrative Budget Study Session, Council reviewed staff's analysis and recommendation and supported the strategy to allocate funds to contribute toward the City's unfunded pension liability, thereby reducing future significant increases in the City's annual required contribution toward this obligation. Council discussed the options presented for the funding and supported staff's recommendation to reduce the level of the GF Reserve from 25.0 percent to a range of 20.0 percent to 25.0 percent and the Compensated Absences Reserve from being fully funded to a minimum level of 80.0 percent funded.

The Proposed Budget includes the direction provided by Council to reduce the GF Reserve to the 20 percent to 25 percent range and the Compensated Absence Reserve to 80 percent funded and a separate agenda item proposes the specific modifications to Policy A-11 in order to implement the changes.

If the Council wishes to consider an alternative, another scenario is shown below. This alternative still requires changing the policy but would result in a higher balance in the General Fund Reserve. A table of the Status Quo, Proposed, and Alternative allocations, based on the numbers in the Proposed Budget, are as follows (dollars in thousands):

| | FY 2017-18 Status Quo | FY 2017-18 Proposed | FY 2017-18 Alternative |
|----------------------------|--------------------------|------------------------|---------------------------|
| GOF Balance Estimated | \$ 18,410 | 18,410 | 18,410 |
| PERS/OPEB/SPAR | (6,000) | (6,000) | (6,000) |
| Est. Available Balance | 12,410 | 12,410 | 12,410 |
| Added Est. Exp Savings | 500 | 500 | 500 |
| Total Sources | 12,910 | 12,910 | 12,910 |
| Allocations | | | |
| Limited Period Exp–New | 3,487 | 3,487 | 3,487 |
| Capital Outlay–New | 352 | 352 | 352 |
| General Fund Reserve | 3,160 | (3,171) | 0 |
| Comp Absences Reserve | 2,412 | 550 | 550 |
| CIP Reserve ⁽¹⁾ | 1,499 | 3,692 | 1,521 |
| CalPERS | 2,000 | 6,000 | 6,000 |
| Retirees’ Health | 0 | 2,000 | 1,000 |
| Total Uses | \$ 12,910 | 12,910 | 12,910 |

⁽¹⁾ Any balance remaining up to \$4.0 million to be allocated to the CIP Reserve.

The alternative would result in a GF Reserve balance of 22.8 percent and the compensated absences balance at 80.0 percent funded. The difference from the proposed is \$2.2 million less to the CIP Reserve and \$1.0 million less Retirees’ Health contributions.

The Council also asked if the City could contribute the second \$10.0 million in advance of the funds received from the Google Amphitheatre Lease Parking Revenues toward the CalPERS unfunded liability to assist in bringing the reserve level up to the recommended 80.0 percent funded level sooner. Staff has reviewed the Lease Agreement and there is a cancellation provision in the lease; therefore, the revenues from the Amphitheatre Parking are not certain at this time. Staff does not recommend contributing the funding from this revenue stream until the revenues are received.

3. *What are the investment returns of CalPERS and the City, and what is the risk associated with contributing additional funds with CalPERS?*

| Entity | FY 16-17 | 10 Year Average (2006-2015) | 20 Year Average (1996-2015) | High (1996-2015) | Low (1996-2015) |
|---------------|----------|-----------------------------|-----------------------------|------------------|-----------------|
| CalPERS | 7.5% | 6.1% | 7.7% | 21.7% | -24.0% |
| Mountain View | 1.25% | 2.8% | 4.0% | 5.9% | 1.1% |

The City’s portfolio is currently earning approximately 1.25 percent. The City’s investment returns over the past 20 years earned an average annual return of 4.0 percent, with a low of 1.1 percent and a high of 5.9 percent. CalPERS investment returns have varied over the past 20 years, with an average return of 7.7 percent, a low of 24.0 percent, and a high of 21.7 percent (see Attachment B–CalPERS History of Investment Returns). Although the City will receive credit at the assumed 7.5 percent CalPERS rate of return (reducing to 7.0 percent), the City will receive the actual earnings the CalPERS portfolio earns during each annual valuation when assumptions are trued up with actual results. This difference results in a gain or loss that is amortized over a 15-year period to smooth the differences, thus the risk to the City is that the City deposits the funds with CalPERS and CalPERS sustains significant losses. Staff will also research an alternative pension trust (i.e., PARS) and will return to Council if this is deemed a more appropriate alternative.

4. *How have the results of the Forecast compared to actual results?*

For the past 10 fiscal years, the actual results compared to the Adopted Budget are as follows:

| | Revenues | Expenditures |
|---------|----------|--------------|
| Average | 3.3% | 3.6% |
| Highest | 8.2% | 5.3% |
| Lowest | (1.1%) | 2.3% |

5. Friends of Caltrain

The Fiscal Year 2017-18 Proposed Budget includes continuation of the \$5,000 annual funding from the City. As a condition of approval in the Fiscal Year 2015-16 Adopted Budget, these funds were earmarked for education purposes only and not for advocacy. Friends of Caltrain has provided Attachment A which includes information about their educational programming, explanations of how the funds are utilized, and how the funds for advocacy and education are separately accounted. In addition, the attachment includes the 2017 annual budget detailing a breakdown of revenue sources and amounts. The City of Mountain View is the only public agency with restrictions on how the funds are to be utilized.

PJK/3/FIN

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- Attachments: A. Friends of Caltrain
B. CalPERS History of Investment Returns



May 12, 2017

Dear Mountain View City Council Members and staff,

Friends of Caltrain is a 501c3 nonprofit organization with over 5,000 participants in the Peninsula rail corridor from San Francisco to San Jose. The organization's goals include stable funding for Caltrain, successful modernization, and transit-supportive policies on the Peninsula corridor.

As you have experienced, Friends of Caltrain focuses on providing education about Caltrain and sustainable transportation on the Corridor. On regional issues such as Caltrain funding, and local topics such as the Mountain View Transit Center Master Plan, our educational activities foster constructive participation in regional and local decision processes.

Also as you have experienced, Friends of Caltrain provides community education on topics relating to transit and transit-supportive policies. Below is a partial listing of educational programming we have conducted in Mountain View and neighboring communities in the last year, often partnering with local and regional groups. In the last year,

- We have provided information about the planning of the blended system with High Speed Rail, helping to foster constructive participation in these issues.
- We have provided education targeted at professionals regarding transportation demand management in partnership with Santa Clara County health department and emerging transportation management associations.
- We have provided educational forums on regional housing and transportation issues in Mountain View with prominent speakers including Egon Terplan and Kim-Mai Cutler
- In partnership with SPUR and TransForm, we have organized programming on the the vision and future of the Caltrain/101 corridor for the Managers Mobility Forum, and public forums in San Mateo, upcoming nearby in Palo Alto and Redwood City
- We have programming planned in partnership with the Chamber in support of the Mountain View Transit Center Master Plan process, bringing in international expertise and examples of multi-modal transit centers that provide effective transportation, and contribute to the public realm and local economy
- We've provided relevant information on regional transportation decisions for policymakers and staff on a periodic basis, including most recently regarding refining VTA's proposed policies to fund Caltrain grade separations

We provide blog posts, social media, and email updates informing community members regarding Caltrain and transit-supportive policies in the corridor. A few examples include:

Consequences for Caltrain of the passage of SB1 transportation funding

<http://www.greencaltrain.com/2017/04/gas-tax-cap-and-trade-and-consequences-for-caltrain/>

Topics to consider regarding planning decisions for High Speed Rail and Caltrain blended system

<http://www.greencaltrain.com/2017/02/hsr-community-working-group-updates-how-will-blended-system-affect-caltrain-service/>

Blog post on Mountain View transit center planning

<http://www.greencaltrain.com/2016/11/tuesday-mountain-view-council-considers/>

We not only provide educational content, we help participants stay engaged in the community meetings and decision processes over time. At a recent Mountain View outreach event focusing on the Transit Center, the outreach consultant, Apex Strategies, told us that our outreach via email and social media provided the single most effective distribution channel to foster turnout at this as well as other public participation forums and venues in the area.

Friends of Caltrain is a 501c3 nonprofit, and as such is prohibited by the IRS from conducting more than a small limited amount of activity in lobbying activity, defined as communicating directly with or encouraging others to communicate with policymakers regarding specific decisions.

In order to provide support for Friends of Caltrain, it has been a requirement from the City of Mountain View to ensure that the city's funding was used only for educational purposes and not for advocacy/lobbying. To fulfill this requirement, Friends of Caltrain has submitted reports showing that the funding has been used only for such activities according to the procedure initially defined according to the agreement. Attached are the reports from the last two years as submitted to staff with invoices, and a budget for 2017, showing revenue sources and expenditures.

Mountain View is joined by cities including San Mateo, Redwood City, Palo Alto and San Jose in participating to support our efforts at community education regarding support for modernized Caltrain and sustainable transportation on the Peninsula Corridor.

Thank you for your support and participation to date. We would appreciate continued support and partnership.

Sincerely,



- Adina

Adina Levin

Executive Director, Friends of Caltrain

<http://greencaltrain.com>

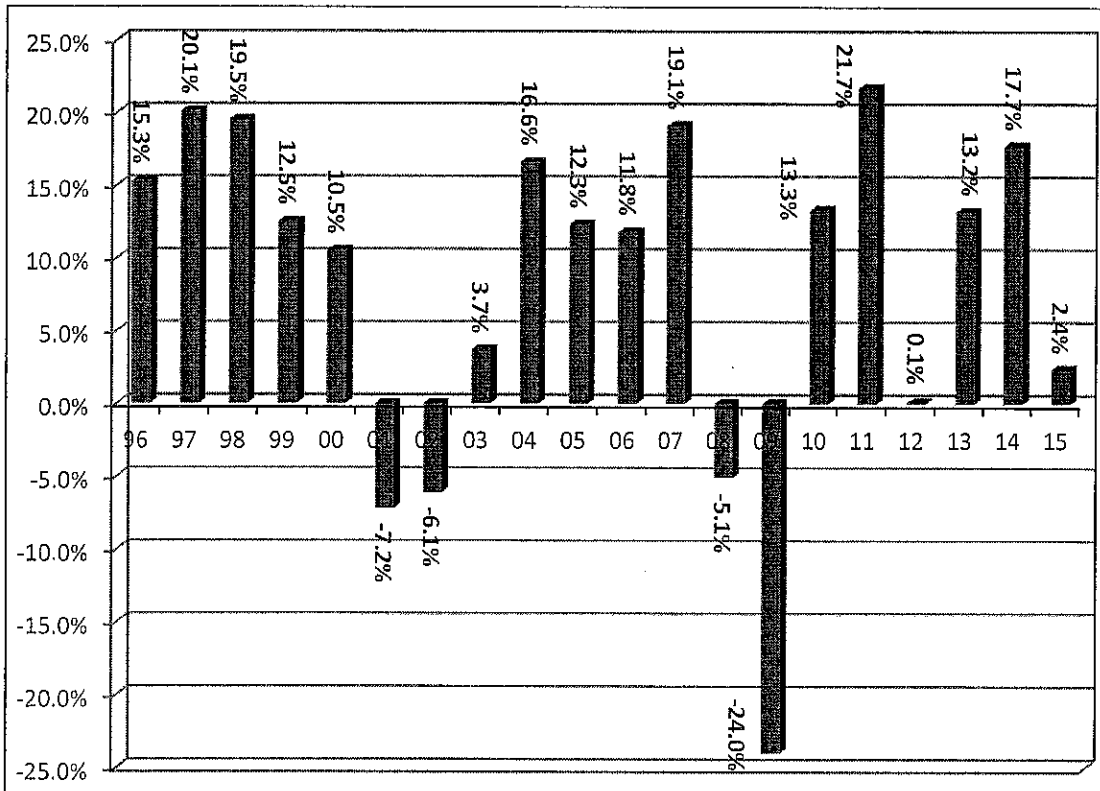
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ATTACHMENT A

| Friends of Caltrain Budget 2017 | | | |
|--|---|----------|---------------------|
| Budget Category | | | Organization Budget |
| Projected revenue - Grants | | | \$60,000 |
| | Silicon Valley Community Foundation w/Transform | \$10,000 | |
| | TransitCenter | \$10,000 | |
| | Private foundations w/Bay Area Forward | \$30,000 | |
| | Other applications | \$10,000 | |
| Projected revenue - Organizational Memberships - Public sector | | | \$25,000 |
| | City of San Mateo | \$5,000 | |
| | City of Redwood City | \$7,500 | |
| | City of Palo Alto | \$5,000 | |
| | City of Mountain View (TBD) | \$5,000 | |
| | City of San Jose | \$2,500 | |
| Projected revenue - Private sector donations | | | \$55,000 |
| Total revenue | | | \$140,000 |
| Total salaries and contract labor | 1 FTE + project contracts | | \$110,000 |
| Consultant and professional fees | | | \$2,000 |
| Occupancy expenses | | | \$0 |
| Financial and IT services | | | \$5,000 |
| Supplies | | | \$3,000 |
| Equipment rental/maintenance | | | \$0 |
| Employee expenses including travel | | | \$2,500 |
| Conferences, conventions and meetings | | | \$5,000 |
| Outreach and promotion | | | \$6,000 |
| Printing and publications | | | \$4,000 |
| Other | | | \$2,500 |
| Total Expenses | | | \$140,000 |

CalPERS History of Investment Returns

The following is a chart with the 20-year historical annual returns of the Public Employees Retirement Fund for each fiscal year ending on June 30. Beginning in 2002, the figures are reported as gross of fees.



The table below shows historical geometric mean annual returns of the Public Employees Retirement Fund for various time periods ending on June 30, 2015, (figures are reported as gross of fees). The geometric mean rate of return is the average rate per period compounded over multiple periods. It should be recognized that in any given year the rate of return is volatile. Although the expected rate of return on the recently adopted new asset allocation is 7.5 percent, the portfolio has an expected volatility of 11.76 percent per year. The volatility is a measure of the risk of the portfolio expressed in the standard deviation of the fund's total return distribution, expressed as a percentage. Consequently, when looking at investment returns, it is more instructive to look at returns over longer time horizons.

| History of CalPERS Geometric Mean Rates of Return and Volatilities | | | | | |
|--|--------|--------|---------|---------|---------|
| | 1 year | 5 year | 10 year | 20 year | 30 year |
| Geometric Return | 2.4% | 10.7% | 6.1% | 7.7% | 9.1% |
| Volatility | - | 9.4% | 14.0% | 11.8% | 10.5% |