



JOINT REPORT

DATE: February 24, 2026

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Fiscal Year 2025-26 Midyear Budget Status Report and Adjustments, Fiscal Year 2026-27 Preliminary General Operating Fund Forecast, and Fiscal Years 2025-27 Council Work Plan: 6-Month Project Update**

RECOMMENDATION

1. Receive and file the Fiscal Year 2025-26 Midyear Budget Status Report, the Six-Month Status of the Fiscal Year 2025-26 Performance Measures (Attachment 1 to the Council report), and the Fiscal Year 2026-27 Preliminary General Operating Fund Forecast.
2. A Resolution of the City Council of the City of Mountain View: (1) Amending the Fiscal Year 2025-26 Adopted Budget to Reduce Revenue Appropriations by \$2,177,370 in the General Operating Fund, Increase Revenue Appropriations by \$2,000,000 in the Capital Improvement Reserve, Increase Revenue Appropriations by \$1,000,000 in the Strategic Property Reserve, Increase Revenue Appropriations by \$1,000,000 in the Parental Leave Reserve; (2) Appropriate \$2,000,000 in the City Attorney's Office, Liability Self Insurance Fund for Litigation Cases, Appropriate \$2,000,000 in the General Operating Fund for a Transfer to the Capital Improvement Reserve, Appropriate \$1,800,000 in the Public Works Department, Wastewater Fund for Wastewater Treatment Costs, Appropriate \$1,000,000 in the General Operating Fund for a Transfer to the Strategic Property Acquisition Reserve, Appropriate \$1,000,000 in the General Operating Fund for a Transfer to the Parental Leave Reserve, Appropriate \$300,000 in the General Fund Parental Leave Reserve for the Parental Leave Program, Appropriate \$185,000 in the City Manager's Office, General Non-Operating Fund for Revenue Measure Consulting Services, Pilot Funding for Local Organization, and Homeless Prevention Program, Appropriate \$150,000 in the Finance and Administrative Services Department, General Non-Operating Fund for Revenue Measure Consulting Services and Transient Occupancy Tax Audit, Appropriate \$148,300 in the Community Services Department, General Non-Operating Fund for ActiveNet Fees, Power Washing Services, and Landscape Maintenance Services, Appropriate \$125,000 in the Public Works Department, General Non-Operating Fund for Facilities Services, Appropriate \$74,200 in the Public Works Department, General Operating Fund for a Facilities Maintenance Supervisor Position and Transportation Division Position Reclassifications, Appropriate \$70,400 in the Community Development Department, General Operating Fund for a Public Art Administrator Position, Appropriate \$48,000 in the Human Resources Department,

General Non-Operating Fund for Staff Training, Appropriate \$10,500 in the Public Works Department, Solid Waste Landfill 544 Acres Fund for Permit Fees; (3) Amending the Fiscal Year 2025-26 Adopted Budget to Transfer and Appropriate \$155,000 from the Capital Improvement Reserve to CIP 23-26, citywide Travel Demand Model Update, Transfer and Appropriate \$105,000 from the Construction and Conveyance Tax Fund to CIP 23-13, Annual Real Estate Technical and Legal Services, Transfer and Appropriate \$100,000 from the Capital Improvement Reserve to CIP 26-13 Planned and Emergency Facilities; and (4) Amending the Fiscal Year 2025-26 Adopted Budget to Transfer \$18,300 from the Information Technology Department, General Operating Fund, to the City Clerk's Office, General Operating Fund, for NetFile Services (Net Zero Impact), to be read in title only, further reading waived (Attachment 2 to the Council report). (Five votes required)

3. Adopt a Resolution of the Board of Directors of the Shoreline Regional Park Community Amending the Fiscal Year 2025-26 Adopted Budget to: (1) Reduce Revenue Appropriations by \$11,665,100 in the Shoreline Regional Park Community Fund; (2) Transfer and Appropriate \$475,000 from the Shoreline Regional Park Community Fund to CIP 26-10, Shoreline Landfill Gas, Cap and Leachate Maintenance; and (3) Appropriate \$4,100,370 in the Shoreline Regional Park Community Fund for Administrative Overhead, Appropriate \$136,800 in the Public Works Department, Shoreline Regional Park Community Fund for the Transportation Analysis Project and Facilities Maintenance Worker Position, Appropriate \$44,800 in the Community Development Department, Shoreline Regional Park Community Fund for the Public Art Administrator Position, and Appropriate \$27,300 in the Community Services Department, Shoreline Regional Park Community Fund for Landscape Maintenance Services, to be read in title only, further reading waived (Attachment 3 to the Council report).
4. Adopt a Resolution of the City Council of the City of Mountain View Authorizing the City Manager or Designee to Amend the City of Mountain View's Salary Plans for Regular and Hourly Employees, to be read in title only, further reading waved (Attachment 4 to the Council report).
5. Adopt a Resolution of the City Council of the City of Mountain View: (1) Authorizing the Addition of Ongoing Positions: 1.0 Full Time Equivalent (FTE) Public Art Administrator Position in the Community Development Department, 1.0 FTE Facilities Maintenance Supervisor in the Public Works Department, 1.0 FTE Lead Security Services Guard and 1.0 Librarian II FTE in the Library Department; (2) Authorizing the Addition of Limited-Period Positions through the end of Fiscal Year 2026-27: 1.0 FTE Limited-Period Account Clerk II Position in the Finance and Administrative Services Department, 1.0 FTE Limited-Period Senior Human Resources Analyst Position in the Human Resources Department; (3) Authorizing Reclassification of 1.0 FTE Deputy City Attorney Position to 1.0 FTE Senior

Assistant City Attorney position, 5.0 FTE Parks and Open Space Worker II Positions to 5.0 FTE Trails and Open Space Worker II Positions, 1.0 FTE Senior IT Analyst Position in the IT Department to 1.0 FTE Senior Systems Analyst Position in the Finance and Administrative Services Department; 1.0 FTE Transportation Planner Position to Chief Transportation Officer Position, 1.0 FTE Transportation Planner Position to Associate Transportation Planner Position; and (4) Authorizing a Title Change for 2.0 FTE Transportation Planner Positions, to be read in title only, further reading waved (Attachment 5 to the Council Report).

6. Receive and file the Fiscal Years 2025-27 Council Work Plan: 6-Month Project Update (Attachment 6 to the Council report).

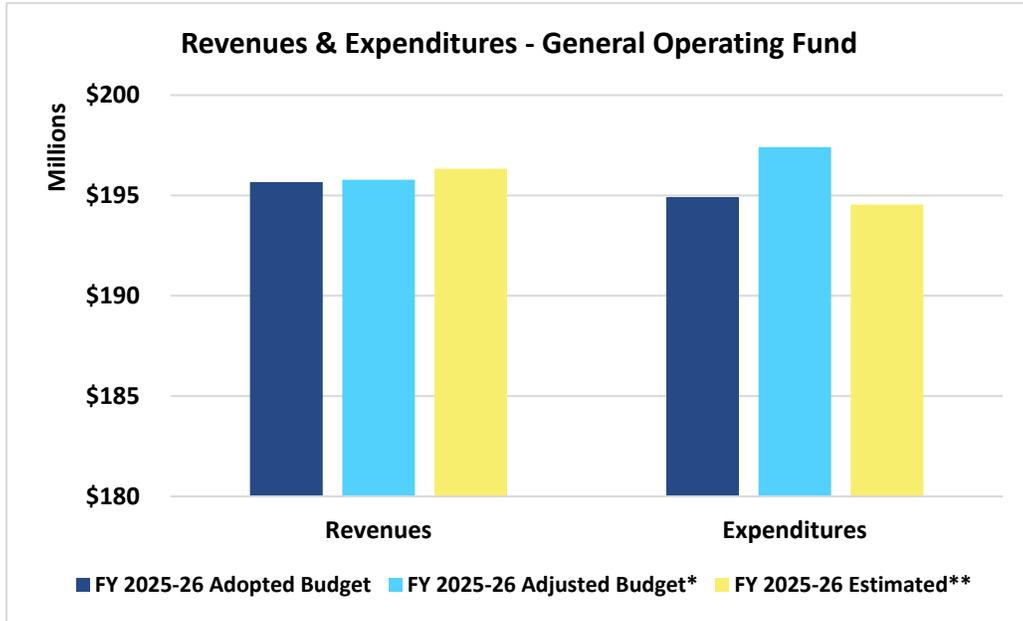
OVERVIEW

Fiscal Year 2025-26

The City Council approved the Fiscal Year 2025-26 Adopted Budget on June 24, 2025. The Midyear Budget Status Report is an important tool in the City's monitoring of its finances. It provides the City Manager and staff with an opportunity to update the City Council and the community on the major financial factors affecting the City's current fiscal year budget. This report provides an update of the City's budgetary position at the midway point in the fiscal year as well as projections for both revenues and expenditures for Fiscal Year 2025-26 for the General Operating Fund (GOF), and a preliminary GOF forecast for the upcoming fiscal year (Fiscal Year 2026-27). The Midyear Budget Status Report is developed using five months of actual (unaudited) activity, with projections of anticipated spending and revenue trends for the remainder of the fiscal year.

At midyear, estimated Fiscal Year 2025-26 GOF revenues total \$196.3 million, excluding the \$4.1 million midyear request included in this report, and is essentially consistent with both the Adopted and Adjusted Budgets. Including projected budget vacancy savings, operating expenditures are estimated at \$194.5 million, which is comparable to the Adopted Budget and \$2.8 million (1.5%) below the Adjusted Budget.

Based on current projections, the GOF is expected to end the fiscal year with an operating balance of approximately \$1.8 million, excluding any pending midyear budget changes. In prior fiscal years, operating balances, when available, have typically been carried forward and allocated toward reserves or limited-period (one-time) expenditures.



* Fiscal Year 2025-26 Adjusted Budget includes encumbrances and midyear adjustments for grants/donations/reimbursements, but does not include \$2.7 million in year-end adjustments, which include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

** Fiscal Year 2025-26 Estimated excludes staff recommendations pending approval by the City Council.

Other major funds of the City include the Development Services Fund (DSF), the Conveyance Tax Fund, the Shoreline Regional Park Community, and the Water, Wastewater, and Solid Waste Enterprise Funds. DSF revenues are currently trending \$4.5 million above budget, while expenditures are currently trending approximately \$410,000 below the adjusted budget, resulting in a lower, yet continuing, projected operating deficit of approximately \$4.8 million.

Conveyance Tax revenues and expenditures both are trending below budget. Shoreline Regional Park Community (SRPC) revenues are also trending below budget, primarily due to lower-than-anticipated property tax revenues associated with assessment appeals, while operating expenditures are trending below budget.

Within the Enterprise Funds, revenues for the Water, Wastewater, and Solid Waste Funds are currently trending at or above budget. Expenditures in the Water and Solid Waste Funds are trending below budget, while expenditures in the Wastewater Fund are trending above budget due to a reconciliation payment for prior-year wastewater treatment services. Further details regarding these major funds are provided below.

Fiscal Year 2026-27

The preliminary Fiscal Year 2026-27 GOF Forecast projects revenues to be \$11.5 million (5.9%) higher than the Fiscal Year 2025-26 Adopted Budget and \$10.8 million (5.5%) higher than the current fiscal year estimated revenues. Most revenue categories are expected to experience some growth in Fiscal Year 2026-27; however, Property Tax and Utility Users Tax revenues are currently projected to decline relative to the Fiscal Year 2025-26 Adopted Budget.

While projected revenues remain sufficient to meet currently estimated baseline expenditures, the margin by which revenues exceed expenditures has narrowed considerably compared with prior years. Based on current assumptions, the forecast results in a preliminary projected operating balance of approximately \$453,000, which includes \$871,000 in additional expenditures associated with the position recommendations included in this staff report. **Importantly, this projected balance does not yet reflect any ongoing expenditure proposals currently under consideration as part of the Fiscal Year 2026-27 budget development process.**

The major components of this staff report include the following:

I. Economic Update

An economic update on federal, state, and local trends provides context for the Fiscal Year 2025-26 Midyear Budget Status Report and Fiscal Year 2026-27 Preliminary GOF Forecast.

II. Fiscal Year 2025-26 Midyear Budget Status Summary

This portion of the Council report includes an update on estimated Fiscal Year 2025-26 operating results based on current revenue and expenditure trends approximately midway through the fiscal year.

III. Recommended Midyear Budget Amendments

This portion of the Council report includes proposed midyear budget amendments, including position-related amendments, for Fiscal Year 2025-26.

IV. Fiscal Year 2026-27 Preliminary General Operating Fund Forecast

This section discusses the General Operating Fund's estimated revenues and expenditures for Fiscal Year 2026-27 based on limited data and financial assumptions with information available at this time.

V. Fiscal Year 2024-25 General Fund Remaining Balance

This section displays the updated remaining unallocated balance of the General Operating Fund at June 30, 2025.

VI. Fiscal Year 2025-26 Midyear Performance Measure Update

This section provides a six-month status update of the current fiscal year's performance measures.

VII. Fiscal Years 2025-27 Council Work Plan: 6-Month Project Update

This section provides a six-month project update of the Fiscal Years 2025-27 Council Work Plan.

BACKGROUND AND ANALYSIS

I. ECONOMIC UPDATE

The economic conditions discussed below help inform the Fiscal Year 2025-26 Midyear Budget Status Report and Fiscal Year 2026-27 Preliminary GOF Forecast.

National

The national economy entered calendar year 2026 on relatively solid footing and has remained resilient despite ongoing economic uncertainty and market volatility. Recent data from the U.S. Department of Commerce shows that consumer spending remains the primary driver of economic growth. Consumer spending, which represents roughly 70% of the nation's Gross Domestic Product (GDP), grew at a healthy pace of 3.5% during the July through September 2025 period, contributing to an annualized GDP growth rate of 4.4%. This represents the strongest growth rate seen since mid-2023.

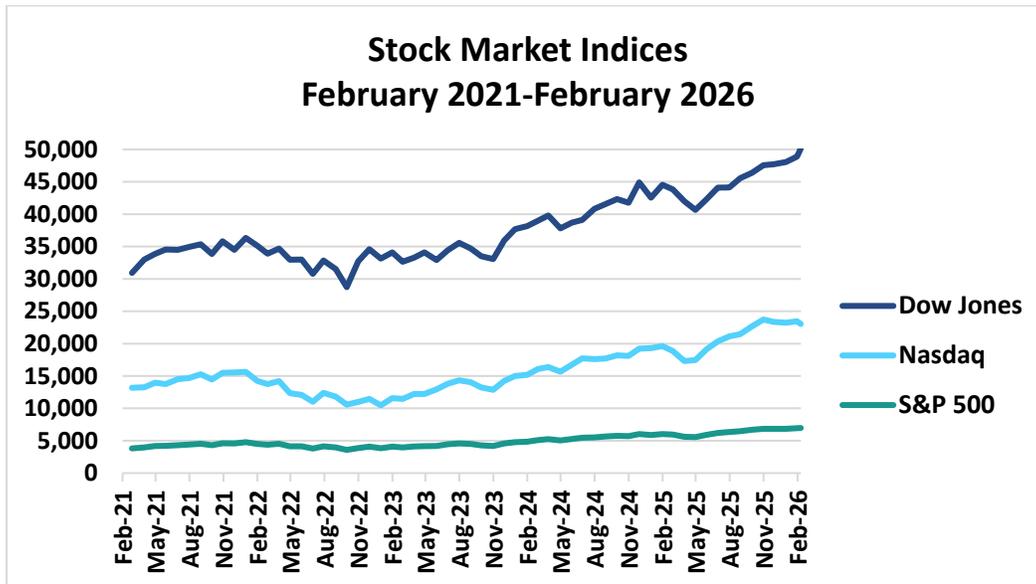
Despite this positive momentum, several risks and uncertainties remain. Inflation continues to concern the Federal Reserve, as consumer prices remain elevated compared with pre-pandemic levels. In addition, uncertainty surrounding tariffs on imported goods has created volatility in economic forecasts and financial markets. While tariff revenues increased last year, ongoing legal challenges could significantly reduce future revenues if current tariffs are overturned. In addition, it's yet to be determined if US consumers are bearing the brunt of price escalation due to the imposition of tariffs.

Another emerging economic trend is the continuation of what economists describe as a “K-shaped” economy, in which higher-income households continue to increase spending while lower-income households reduce spending due to rising costs for essentials such as housing, food, and fuel. According to Moody’s Analytics, this divergence appears to be structural rather than temporary. Currently, nearly 60% of all consumer spending comes from the top 20% of income earners, while the remaining 80% of households account for just over 40% of total spending — the widest gap on record.

This concentration of spending among higher-income households has supported overall economic growth, but it also increases vulnerability if financial markets or housing values decline, as consumer spending in this demographic could slow more quickly than in previous economic cycles.

Financial markets also play an increasingly important role in overall economic conditions, particularly given the concentration of household wealth among higher-income households. Equity markets remained strong through much of 2025, supporting household balance sheets and consumer spending, although market volatility has increased in recent months amid uncertainty regarding inflation, interest rates, and trade policy.

As shown in the chart below, major stock market indices remain near historically elevated levels despite recent fluctuations.

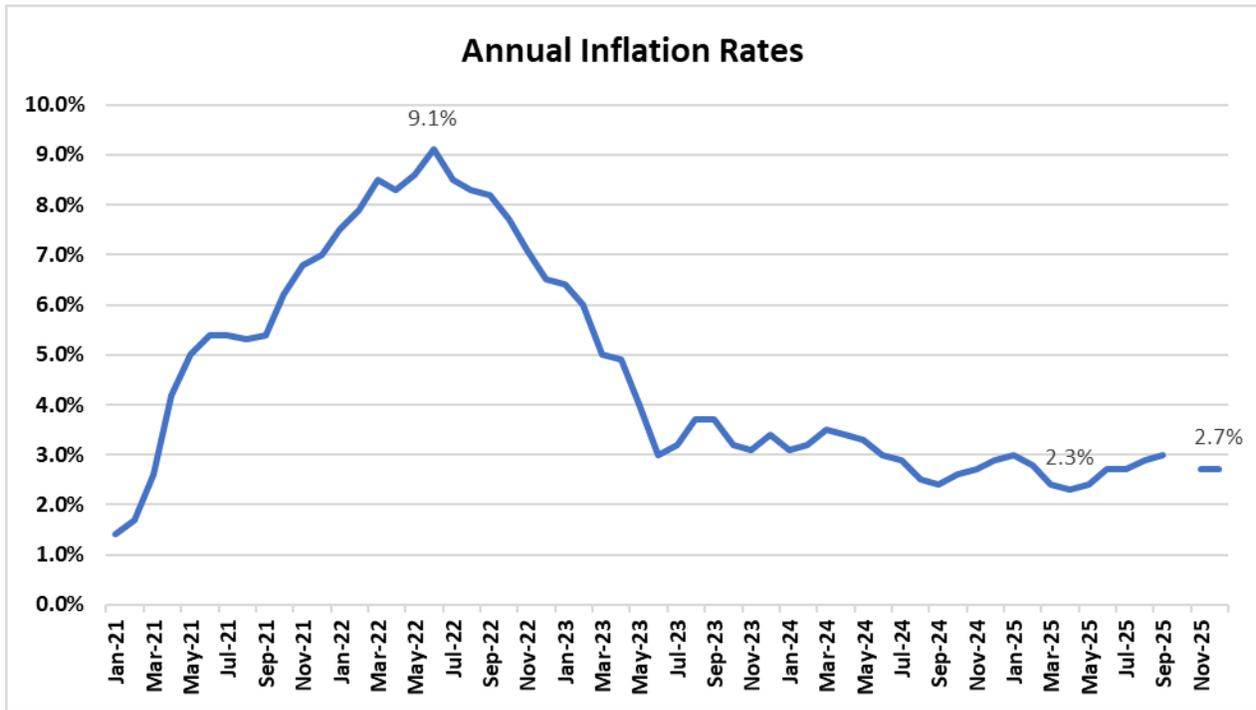


Source: Federal Reserve Economic Data

While inflation has declined significantly over the past three and a half years, it remains above the Federal Open Market Committee’s (Federal Reserve) long-term target rate of 2%.

The Federal Reserve expects inflation to continue gradually moving towards its 2% goal, although progress is expected to remain slow. As a result, the Federal Reserve continues to maintain a cautious monetary policy stance, seeking to balance the need to control inflation with the need to maintain overall economic stability amid continued uncertainty.

The most recent Consumer Price Index report shows inflation softened modestly in December 2025, continuing the trend of slow price growth observed in November. This supports the broader view that inflation continues to trend downward. As shown in the chart below, annual inflation peaked at 9.1% in June 2022, fell to a four-year low of 2.3% in April 2025, and stood at 2.7% in December 2025, down from 2.9% one year earlier (December 2024).



Source: U.S. Labor Department

Note: October 2025 data unavailable

A robust economic outlook will be provided in the Recommended Budget in June 2026 as more information is gathered on decisions being made at the federal level that could negatively impact the State of California and the City of Mountain View.

State

On January 9, 2026, Governor Newsom released the Administration’s proposed State budget for consideration by the California Legislature. The proposal projects a General Fund shortfall of

approximately \$21.0 billion for Fiscal Year 2026-27, reflecting revenues that are not keeping pace with planned expenditures.

The projected deficit results from both declining revenue expectations and continued growth in State spending commitments. Revenue projections are estimated to decline compared with the prior fiscal year, while expenditures are projected to increase, consistent with broader economic forecasts indicating that ongoing expenditures continue to outpace revenue growth, creating structural budget challenges for the State.

As a result, the proposal anticipates a significant drawdown of State reserves. The balance of the Special Fund for Economic Uncertainties is projected to decline from approximately \$25.5 billion at June 30, 2026 to \$4.5 billion by June 30, 2027, while the State’s overall General Fund reserve balance is projected to fall from \$36.8 billion to \$18.9 billion over the same period.

**2026-27 Governor’s Budget
 General Fund Budget Summary**
 (Dollars in Millions)

	2025-26	2026-27
Prior Year Balance	\$55,951	\$53,451
Revenues and Transfers	\$235,162	\$227,385
Total Resources Available	\$291,113	\$280,836
Non-Proposition 98 Expenditures	\$155,749	\$158,453
Proposition 98 Expenditures	\$81,913	\$89,877
Total Expenditures	\$237,662	\$248,330
Fund Balance	\$53,451	\$32,506
Reserve for Liquidation of Encumbrances	\$27,998	\$27,998
Special Fund for Economic Uncertainties	\$25,453	\$4,508
Public School System Stabilization Account	\$4,509	\$4,102
Safety Net Reserve	-	-
Budget Stabilization Account/Rainy Day Fund	\$11,327	\$14,350

Note: Numbers may not add due to rounding.

Source: California Department of Finance

The California Legislative Analyst’s Office (LAO) has cautioned that revenue projections remain uncertain, noting that significant portions of the State’s revenue outlook depend on continued strength in sectors tied to technology and artificial intelligence investment, as well as sustained stock market performance. The LAO has also indicated that current market conditions suggest the potential for increased volatility, which could affect future revenue collections.

City staff will continue to monitor revisions to the State budget and assess any potential impacts on local government funding as additional information becomes available.

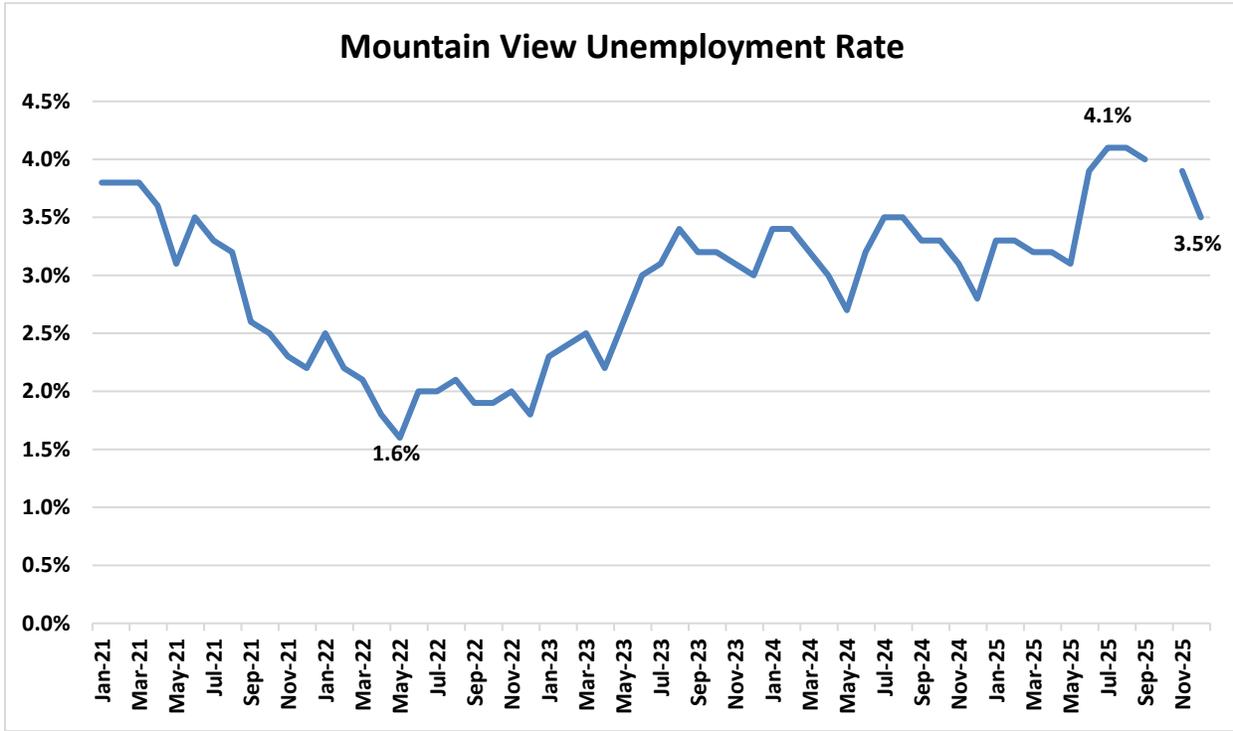
Local

The local economy continues to show signs of slowing after several years of strong post-pandemic recovery. Over the past several years, the City's major revenue sources generally experienced steady growth, benefiting from both inflationary impacts and higher interest rates. However, this period of stronger revenue growth is now slowing, and minimal growth is anticipated in the City's primary revenue sources, including property tax, transient occupancy tax, utility users tax, and business license tax revenues. While local economic indicators continue to project revenue stability, growth is expected to occur at a slower pace moving forward. Continued uncertainty surrounding inflation, interest rates, employment conditions, national and state economic policies, and geopolitical conflicts all contribute to this more cautious outlook.

Labor market conditions have also moderated, with employment trends moving toward a more balanced environment after an extended period of unusually tight labor conditions. The City's unemployment rate surged in early 2020 as the pandemic led to widespread business closures, but then declined rapidly as economic activity resumed and federal stimulus programs were enacted. The unemployment rate reached a historic low of 1.6% in May 2022, when many employers reported difficulty filling open positions. Since that time, unemployment has gradually increased, exceeding 4% in July 2025 – an unusual increase outside of a recessionary period. The preliminary unemployment rate for December 2025 is 3.5%. For comparison, California's statewide unemployment rate has remained between approximately 5.1% and 5.6% over the past 2 years.

While labor supply and demand have moved closer to balance, additional upward pressure on local unemployment remains possible as corporate layoffs within the region continue. Over the past three years, the City has received notifications of nearly 4,700 private-sector layoffs, reflecting ongoing workforce adjustments across multiple sectors.

Staff will continue to monitor corporate layoffs and local employment trends as they develop. Reductions in the number of employees working within the City can impact several revenue sources, particularly sales tax and business license tax revenues. Because the business license tax is based on employee headcount, reductions in employment levels directly reduce associated revenues. Conversely, policies or corporate decisions that encourage more employees to return to in-person work within the City can positively strengthen these revenue sources and overall local economic activity.



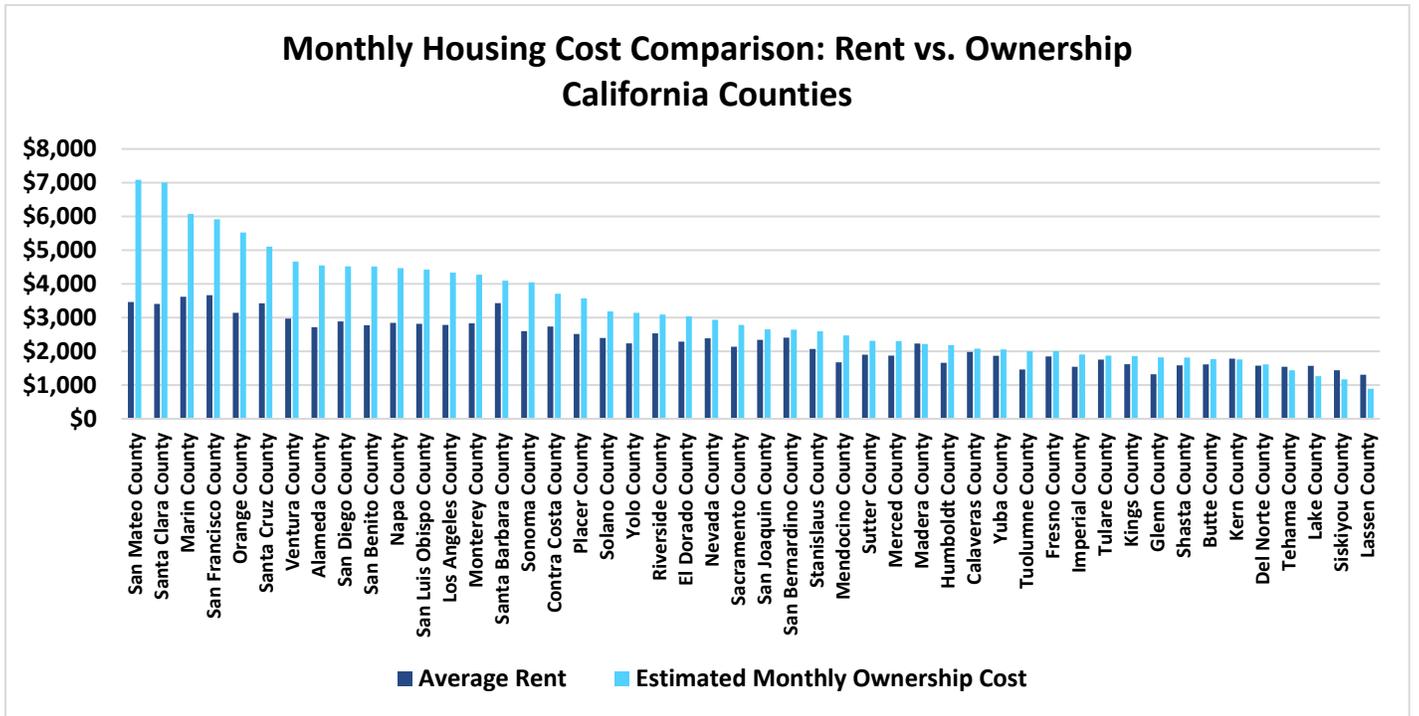
Source: Bureau of Labor Statistics

Note: October 2025 data unavailable

According to Zillow, the average market home value in Mountain View is \$1.9 million, down 0.7% from one year ago. The median rent for all bedroom types and property categories in Mountain View is approximately \$3,195, which is \$50 higher than a year ago.

As shown in the chart below, the housing costs in the Bay Area are significantly higher than in other areas. The cost difference between buying and renting is much higher in the Bay Area as well.

These statistics demonstrate the high cost of living in the Bay Area, particularly in Santa Clara County and Mountain View. While the City benefits financially from revenues gained through property taxes and real property conveyance taxes, the high cost of living also translates into a more expensive labor market, higher costs for goods and services purchased by the City, and a rising demand for investment in community service programs, such as those designed to prevent displacement and support the unhoused members of our community.



Source: Zillow

II. FISCAL YEAR 2025-26 MIDYEAR BUDGET STATUS SUMMARY

The Midyear Budget Status Report and the analyses that support the year-end revenue and expenditure projections are based on the most current data available at the time of publication, including statistical data, economic analyses, and professional judgment and expertise from economic consultants. The data represents staff’s best estimate of the City’s budgetary position at this point in time, approximately midway through the fiscal year, and makes certain assumptions regarding revenues and expenditures for the remainder of the fiscal year.

Staff will continue to monitor actual revenues and expenditures and will provide an update in April and June as part of the Fiscal Year 2026-27 budget development process. This section of the report includes a discussion of Fiscal Year 2025-26 revenue and expenditure estimates compared to budget for major funds.

General Operating Fund

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

	<u>2024-25</u> <u>Audited</u>	2025-26 <u>Adopted</u> <u>Budget</u>	2025-26 <u>Adjusted</u>	<u>2025-26</u> <u>Estimated</u>	Variance of 2025-26 Estimated to 2025-25 <u>Adjusted</u>
Revenues	\$195,257	\$195,664	\$195,783	\$196,328	\$ 545
Expenditures ¹	(181,954)	(194,921)	(197,407)	(194,543)	2,864
Year-End Adjustments ²	<u>(3,210)</u>	<u>-0-</u>	<u>2,728</u>	<u>-0-</u>	<u>(2,728)</u>
Operating Balance	10,093	743	1,104	1,785	681
Transfer to GNOF	<u>(10,093)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Ending Balance Before Midyear Requests	\$ <u>-0-</u>	\$ <u>743</u>	\$ <u>1,104</u>	\$ 1,785	\$ <u>681</u>
FY 2025-26 Midyear Requests:					
Revenues ³				4,100	
Expenditures (Positions) ⁴				(145)	
Transfers ⁴				(4,000)	
Ending Balance				<u>\$ 1,740</u>	

¹ Adopted and Adjusted Budgets include \$9.3 million for vacancy factor.

² Year-End Adjustments include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

³ Midyear increase to General Fund administrative overhead charged to the Shoreline Regional Park Community Fund based on the updated cost allocation plan.

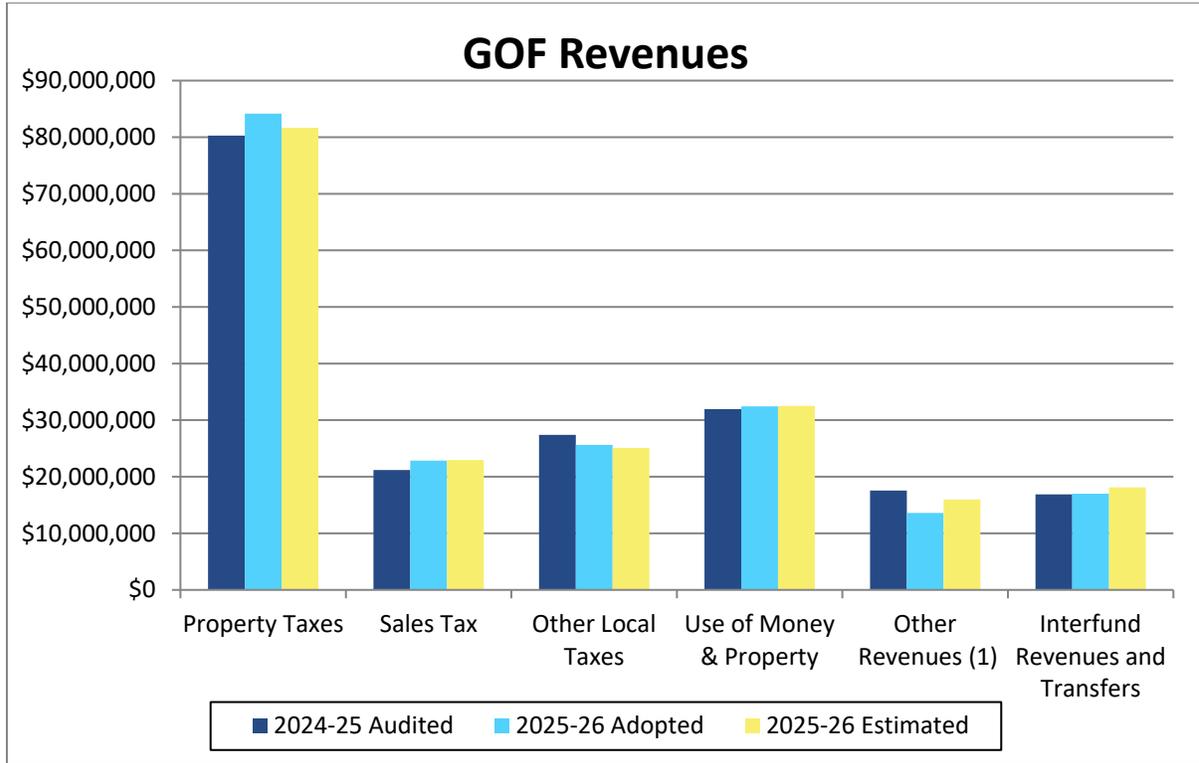
⁴ Additional expenditures and transfers at Midyear, pending Council approval.

At midyear, estimated Fiscal Year 2025-26 GOF revenues total \$196.3 million, excluding the \$4.1 million midyear request to right-size Shoreline administrative overhead charges as a result of an independent third-party cost allocation study. This estimate is essentially consistent with both the Adopted Budget of \$195.7 million and the Adjusted Budget of \$195.8 million. Including projected budget vacancy savings, operating expenditures are estimated at \$194.5 million, which is comparable to the Adopted Budget of \$194.9 million, and \$2.9 million (1.5%) below the Adjusted Budget of \$197.4 million.

Revenues

The projections for GOF revenues are based on actual revenue distributions received as of the midyear and the most recent economic information available to the City at the time of the

preparation of this report. The chart below compares the Fiscal Year 2024-25 Audited and Fiscal Year 2025-26 Adopted Budget and Estimated for GOF major revenue categories.



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

Estimated results of revenue categories, as shown above, are trending higher than budget with the exception of Property Tax and Utility Users Tax. A detailed discussion of major revenue categories is as follows:

Property Tax revenue is currently estimated at \$81.7 million, which is \$2.5 million (3.0%) below budget. The Fiscal Year 2025-26 Adopted Budget assumed property tax growth based on application of a positive 2.0% California Consumer Price Index adjustment to most properties, along with additional assessed value increases resulting from changes in ownership and new development, partially offset by projected assessment reductions related to appeals.

Updated information provided by the Santa Clara County Assessor after the start of the current fiscal year indicates that total General Fund Assessed Value (AV) as of July 1, 2025 increased by a net 2.3% compared with July 1, 2024, reflecting growth in secured AV and a decline in unsecured AV. This represents the slowest AV growth since Fiscal Year 2011-12, when AV increased by 1.9%.

Sales Tax revenue is currently estimated at \$23.0 million, in line with the budget.

Other Local Taxes

Transient Occupancy Tax (TOT) revenue is estimated to be \$9.7 million, \$297,000 (3.2%) higher than budget for Fiscal Year 2025-26 and includes a late payment from one hotel for the prior fiscal year. The City's current TOT rate is 10.0% with 1% of TOT equating to approximately \$969,000 in revenue. The current TOT rate was last modified in June 1991, increasing from 8.0% to 10.0%.

Utility Users Tax (UUT) revenue is estimated to be \$9.6 million, \$1.2 million (10.7%) lower than budget. UUT generated from telecommunications services has been steadily declining since Fiscal Year 2015-16, as the widespread use of cell phones has reduced reliance on traditional landline service for both personal and professional use. UUT generated from energy services is also trending significantly below budget. The City had anticipated large energy rate increases similar to those in prior years. However, PG&E rates reduced by 2% in September and additional increases are not anticipated in 2026. Silicon Valley Clean Energy generally aligns its rates with PG&E.

Business License revenue is estimated to be \$5.8 million, \$351,000 (6.5%) higher than budget. Staff continues to process renewal applications and will provide an updated estimate with the next budget update.

Use of Money and Property revenue is comprised of investment earnings and rents and leases and is estimated at \$32.5 million, essentially the same as budget.

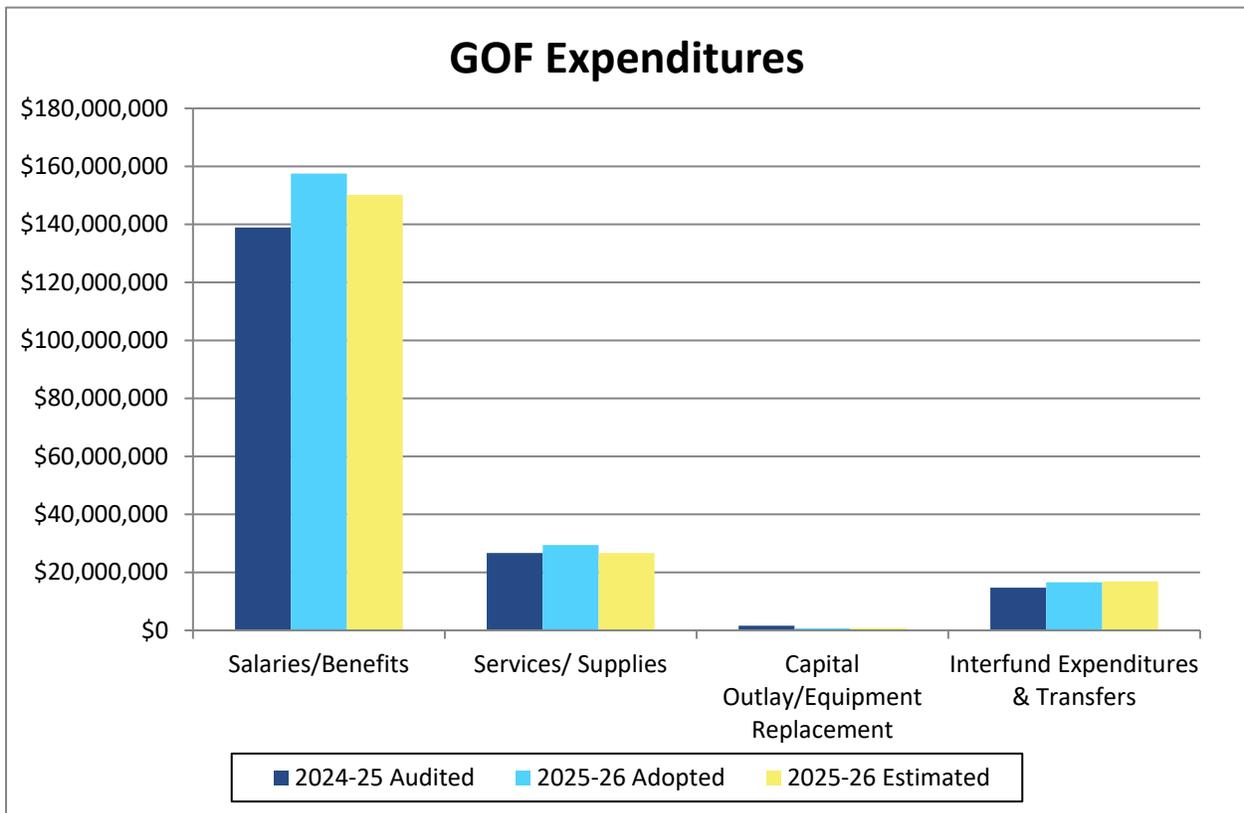
Other Revenues are estimated to be \$16.0 million, which is \$2.4 million (17.6%) higher than budget. The variance is primarily attributable to the exclusion from the budget of certain intergovernmental and miscellaneous revenues that are either variable in nature or not known at the time of budget adoption.

Interfund Revenues and Transfers are estimated at \$18.1 million, which is \$1.1 million (6.5%) higher than budget due to higher CIP administrative overhead. This estimate excludes the \$4.1 million midyear request, pending City Council approval, for additional administrative overhead revenue from the Shoreline Regional Park Community Fund based on the recently finalized cost allocation plan study.

Expenditures

A vacancy factor is anticipated each fiscal year and is presented in the Adopted Budget. Including the projected vacancy factor, total estimated expenditures are projected to be \$377,000 (0.2%) below the Adopted Budget and \$2.9 million (1.5%) below the Adjusted Budget, resulting in a favorable variance in both cases.

The chart below compares Fiscal Year 2024-25 Audited with Fiscal Year 2025-26 Adopted and Estimated GOF expenditures.



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

Salaries and Benefits expenditures are estimated at \$150.2 million, \$7.4 million (8.6%) below the Adjusted Budget. This is the result of vacant positions and personnel turnover during the first half of the fiscal year. For regular (nonhourly) positions, there are currently 62 vacancies. Although some savings are expected annually and included in the Adopted Budget, it is not possible to precisely predict the level and impact of vacancies. The number of current total

vacancies is less than last year, while turnover has remained steady. The City continues to monitor labor market trends and prioritize recruitment and retention.

Services and Supplies expenditures are estimated at \$26.7 million, \$2.7 million (9.2%) and \$5.1 million (16.1%) below the Adopted and Adjusted Budget, respectively. Savings are expected annually, and this is comparable to prior fiscal years.

Capital Outlay/Equipment Replacement expenditures are estimated at \$774,000, \$92,000 higher than the Adopted Budget but equal to the Adjusted Budget. **There is no Equipment Replacement funding budgeted in the General Operating Fund for this fiscal year.**

Interfund Expenditures and Transfers are estimated at \$16.9 million, \$316,000 higher than budgeted. This is primarily due to higher-than-expected business license tax revenue. The City Council earmarked by resolution 80% of additional revenue generated from the restructured tax to transportation and 10% to affordable housing.

Expenditures by Department

Nearly all departments are trending at or under budget for the current fiscal year. Non-departmental expenditures are trending slightly higher due to the transfer of additional business license tax to transportation and affordable housing. The variances detailed below do not take into consideration encumbrances that may be incurred as of the end of the fiscal year.

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

	2025-26 Adopted <u>Budget</u>	2025-26 Adjusted <u>Budget</u>	2025-26 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>	Percent Savings of Adjusted <u>Budget</u>
City Council	\$ 524	\$ 526	\$ 430	\$ 96	18.3
City Clerk	1,414	1,414	1,298	116	8.9
City Attorney	4,348	4,465	3,802	663	14.8
City Manager	7,464	7,512	6,901	611	8.1
Human Resources	4,090	4,150	3,536	614	14.8
Information					
Technology	9,186	9,315	7,819	1,496	16.1
Finance and Admin.					
Services	8,683	8,897	7,847	1,050	11.8
Community					
Development	2,709	2,748	2,357	391	14.2
Public Works	17,398	17,767	15,845	1,922	10.8
Community Services	26,102	26,419	23,474	2,945	11.1
Library	8,218	8,436	7,419	1,017	12.1
Fire	39,092	39,291	37,712	1,579	4.0
Police	57,543	58,278	58,331	(53)	(0.1)
Housing	537	576	548	28	4.9
Nondepartmental ¹	16,913	16,913	17,224	(311)	(1.8)
Projected Budget					
Vacancy Savings	<u>(9,300)</u>	<u>(9,300)</u>	<u>Included</u>	<u>(9,300)</u>	<u>100.0</u>
Total Operating					
Expenditures	<u>\$194,921</u>	<u>\$197,407</u>	<u>\$194,543</u>	<u>\$2,864</u>	<u>1.5</u>

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

General Operating Fund Summary

In summary, revenues are currently estimated at \$196.3 million, prior to the \$4.1 million midyear request for additional administrative overhead, and is essentially the same as the Adopted and Adjusted Budgets. Including projected budget vacancy savings, operating expenditures for the current fiscal year are estimated at \$194.5 million, \$3.6 million (2.0%) below the Adopted Budget and \$6.3 million (3.4%) below the Adjusted Budget. The operating balance is currently estimated to be \$1.8 million, which excludes a net \$3.9 million of midyear budget requests that are pending

Council's approval (in this report). In previous fiscal years, operating balances, if any, have been carried over and approved to fund reserves and limited-period funding costs.

Development Services Fund

Development Services Fund (DSF) is a General Fund program that is accounted for separately from the GOF to improve transparency and tracking of development-related activity. This structure allows for more accurate matching of development-related revenues and expenditures. Initially established to account for Building Services activity, the DSF was expanded in Fiscal Year 2014-15 to include all City development services.

The DSF is currently projected to close the fiscal year with a deficit. A portion of this deficit reflects the timing mismatch inherent in development activity, as fees are collected upfront while services - such as Building and Public Works inspections – are provided over multiple years throughout the life of a project. In addition, current economic conditions have contributed to lower development activity levels from historic norms, further constraining revenue growth.

The ongoing deficit has also been driven by structural factors over time, including:

- Development fees that do not fully recover the cost of staff time required to review and inspect projects;
- Fees that were not regularly reviewed or updated, despite industry best practices recommending updates every three to five years; and
- Growth in staffing levels supported by the DSF without corresponding adjustments to fee rates.

To address these issues, staff completed a comprehensive Citywide Fee Study in Fiscal Year 2024-25, with a key objective of improving the long-term fiscal sustainability of the DSF. The study concluded that broad fee increases, along with the addition of certain fees not previously included in the Master Fee Schedule, were necessary to better align revenues with the cost of providing services.

The recommended fee adjustments were incorporated into the amended Master Fee Schedule adopted by Council resolution in June 2025. Prior to this effort, many DSF-related fees had not been substantially updated in more than 20 years.

A comparison of midyear estimated revenues and expenditures to the adopted budget for the Development Services Fund is provided below (dollars in thousands):

	2025-26 Adopted <u>Budget</u>	2025-26 Adjusted <u>Budget</u>	2025-26 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$10,645	\$10,645	\$ 15,105	\$4,460
Expenditures	<u>(18,922)</u>	<u>(19,686)</u>	(19,276)	410
Operating Balance (Deficit)	(8,277)	(9,041)	(4,171)	4,870
Transfer to Land Use Document Reserve	<u>(5,745)</u>	<u>(5,766)</u>	(5,766)	- 0 -
Excess (Deficiency) of Revenues	(14,022)	(14,807)	(9,937)	4,870
Beginning Balance	5,109	5,109	5,109	-0-
Ending Balance	<u>(\$8,913)</u>	<u>(\$9,698)</u>	(\$4,828)	<u>\$4,870</u>

¹ Staff recommendations pending approval by the City Council.

Development Services revenues are currently estimated at \$15.1 million, which is \$4.5 million (41.9%) above the Adjusted Budget. Higher-than-budgeted revenues are primarily attributable to the implementation of the Citywide fee study, as well as unanticipated permit and plan check activity associated with several large development projects that were not assumed in the adopted budget.

Estimated operating expenditures total \$19.3 million, which is \$410,000 (2.1%) below the Adjusted Budget, reflecting continued expenditure management and timing-related savings.

The resulting projected operating deficit of \$4.2 million, combined with a one-time transfer of \$5.8 million to the Land Use Document Reserve Fund, results in an estimated year-end fund balance deficit of \$4.8 million.

The Land Use Document Fee was established in Fiscal Year 2015–16 to recover costs associated with preparing and updating major land use planning documents. Use of these fees is restricted to activities related to General Plan updates, Precise Plan updates, and zoning updates. As part of the Citywide fee study and to improve fiscal accountability and transparency, a new special revenue fund was established at the beginning of Fiscal Year 2025–26 to separately account for these restricted revenues. Accordingly, a one-time transfer of \$5.8 million was made from the DSF to the newly established Land Use Document Fund to align the reserve balance with its intended purpose.

Excluding the one-time transfer of the Land Use Fee Reserve, the DSF is projected to close the fiscal year with an operating deficit of \$4.2 million. This deficit is primarily driven by reduced large-scale development activity, legacy fee structures that did not fully recover the cost of services, and increased staffing levels necessary to address growing legal, regulatory, and procedural complexity in development review. While the adoption of new and amended fees resulting from the Citywide fee study is expected to improve cost recovery over time, near-term impacts will be limited, as projects submitted prior to the fee adoption continue to be assessed under the previous fee structure.

Conveyance Tax Fund (Real Property Transfer)

The Conveyance Tax Fund is a subfund of the General Fund, separate from the GOF, established to provide clearer tracking and accounting of Real Property Transfer (Conveyance) tax revenues. The City conveyance tax currently consists of two tiers:

- Tier 1 charges \$1.65 for every \$500 (or portion thereof) of property value.
- Tier 2 charges \$15 for every \$1,000 of the total sale price for properties over \$6.0 million.

Creation of this subfund enables clearer tracking of revenues and expenditures directed by the City Council for this revenue source. Previously, conveyance tax revenues were recorded in a Special Revenue Fund, along with Construction Tax revenues. However, effective December 20, 2024, with the implementation of Measure G, which added a second tier to the Real Property Transfer tax, conveyance tax revenues are now classified as General Fund revenues and recorded within this new subfund.

Pursuant to resolutions adopted by the City Council, Measure G revenues are allocated as follows:

- 35.0% to 40.0% to Public Safety Facilities;
- 30.0% to 35.0% to Parks, Open Space, and Biodiversity;
- 20.0% to 25.0% to Affordable Housing; and
- 5.0% to 15.0% to other General Government Services.

Additionally, if annual Measure G revenues exceed \$12.0 million in any fiscal year, the amount above this threshold will be allocated as follows:

- 45.0% to 55.0% to Parks, Open Space, and Biodiversity;
- 25.0% to 35.0% to Affordable Housing; and
- 10.0% to 20.0% to other General Government Services.

A comparison of midyear estimated amounts to budget for Conveyance Tax revenues and expenditures follows (dollars in thousands):

	2025-26 Adopted <u>Budget</u>	2025-26 Adjusted <u>Budget</u>	2025-26 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$14,630	\$14,630	\$9,786	(\$4,844)
Expenditures	<u>(8,550)</u>	<u>(8,550)</u>	(4,181)	<u>4,369</u>
Operating Balance	6,080	6,080	5,605	(475)
Beginning Balance	<u>1,946</u>	<u>1,946</u>	<u>1,946</u>	<u>-0-</u>
Ending Balance	<u>\$ 8,026</u>	<u>\$ 8,026</u>	<u>\$7,551</u>	<u>(\$ 475)</u>

For Fiscal Year 2025-26, the estimated revenue for this subfund is approximately \$9.8 million, with \$5.0 million generated from Tier 1, \$4.6 million from Tier 2 (Measure G), and \$140,000 from investment earnings. After the projected transfers based on the Council-adopted Tier 2 allocations, the fund is estimated to have an ending balance of approximately \$7.6 million.

As part of the adopted Measure G allocations, staff will return to Council in June during the budget process with a full accounting of Measure G proceeds and a breakdown by each allocation category.

Shoreline Regional Park Community

The Shoreline Regional Park Community (Shoreline Community) is a separate legal entity created by legislation in 1969, known as the Shoreline Regional Park Community Act (the Act), to fund a regional park, develop the surrounding North Bayshore Area economically and environmentally, and provide a means of financing the short- and long-term responsibilities of the Shoreline Community. In accordance with the Act, all tax revenues received by the Shoreline Community are deposited into a special fund and used to pay the principal of and interest on loans, advances, or other indebtedness of the Shoreline Community. The Act further stipulates that the Shoreline Community was created to:

- a. Contribute to better living conditions through improved overall community design;
- b. Make substantial contributions to the sound and economic growth of the area;
- c. Provide needed additions to the general housing supply;
- d. Provide opportunities for innovation in housing and community development technology and land use planning;

- e. Enlarge housing, employment, and investment opportunities;
- f. Encourage a diversified local homebuilding industry; and
- g. Provide a suitable environment to a significant public recreational facility which is the park.

However, for purposes of financial reporting, the Shoreline Community is considered a blended component unit of the City, and its financial activities are reported with the City’s financial documents. A comparison of midyear estimated amounts to budget for the Shoreline Community Fund follows (dollars in thousands):

	2025-26 Adopted <u>Budget</u>	2025-26 Adjusted <u>Budget</u>	2025-26 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$81,817	\$81,817	\$69,074	\$(12,743)
Expenditures	<u>(61,951)</u>	<u>(62,359)</u>	<u>(59,506)</u>	<u>2,853</u>
Operating Balance	19,866	19,458	9,568	(9,890)
Development Impact Fees ¹	909	909	987	78
Bond Proceeds Interest	-0-	-0-	1,194	1,194
Capital Projects from Landfill Reserve	-0-	(300)	(300)	
Capital Projects from Sea Level Rise Reserve	(11,665)	(11,665)	(11,665)	-0-
Capital Projects	<u>(14,082)</u>	<u>(14,082)</u>	<u>(14,082)</u>	<u>-0-</u>
Excess (Deficiency) of Revenues	(4,972)	(5,680)	(14,298)	(8,618)
Beginning Balance Reserve	129,586	129,586	129,586	-0-
Reserve	(10,700)	(10,700)	(10,700)	-0-
Reserve for Bond Proceeds	(6,809)	(6,809)	(8,003)	(1,194)
Site Contamination Reserve	(5,000)	(5,000)	(5,000)	-0-
Commitment for AWPS Project	(5,000)	(5,000)	(5,000)	
Reserve for CIP	(10,236)	(10,236)	(10,236)	
Landfill Reserve	(14,000)	(13,700)	(13,700)	-0-
Sea Level Rise Reserve	(13,210)	(13,210)	(13,210)	-0-
Dev. Impact Fee Reserve	<u>(5,549)</u>	<u>(5,549)</u>	<u>(5,627)</u>	<u>(78)</u>
Dev. Impact Fee Reserve	<u>(430)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Ending Balance Before Midyear Requests	<u>\$53,680</u>	<u>\$53,702</u>	<u>\$43,812</u>	<u>(\$9,890)</u>
FY 2025-26 Midyear Requests ²			<u>(4,784)</u>	
Ending Balance			<u>\$39,028</u>	

¹ Includes interest earned on the balance.

² Staff recommendations pending approval by the Shoreline Regional Park Community Board of Directors.

Operating revenues, primarily property taxes, for the current fiscal year are estimated at \$69.1 million, \$12.7 million (15.6%) lower than budget. Property Tax revenue is trending below budget. Subsequent to adoption of the budget, the County released the July 1, 2025 tax roll for the Shoreline Community, which reflects a 9.5% decrease, primarily due to successful appeals – most notably those granted to Google. In addition to the decline in the tax roll, the City anticipates approximately \$7.2 million less in property tax revenue related to prior-year roll corrections. It is important to note that assessed value in the Shoreline Community can be significantly impacted by economic conditions. While the City anticipated some level of successful appeals when developing the adopted budget, the impact exceeded projections, as the budget assumed the tax roll would remain flat. For context, the Shoreline Community's assessed value has averaged approximately 7% annual growth over the past 10 and 20 years. However, recent economic conditions and an unusually high level of successful appeals have resulted in a significant deviation from this historical trend.

Operating expenditures for the current fiscal year are estimated at \$59.5 million (excluding midyear requests), \$2.9 million (4.6%) lower than budget. Included in operating expenditures are \$18.7 million for the combined annual interagency payments to the school districts and the County, \$17.0 million one-time payment for the Advanced Treatment and Water Purification System (AWPS) project, and \$5.8 million for debt service.

It is estimated that operating revenues will exceed operating expenditures by \$9.6 million, which will partially fund \$14.1 million for Capital Projects. In addition, capital projects will be funded by an additional \$11.7 million from the Sea Level Rise Reserve and \$300,000 from the Landfill Reserve. The North Bayshore Development Impact Fees (NBSDIF) revenue is designated for transportation improvements in the Shoreline Community, and because the timing of each development process and the payment of fees are uncertain, fees are not budgeted. A portion of the NBSDIF revenue is for water and wastewater infrastructure improvement projects and is accounted for in those funds. After reserving \$71.5 million for the General Reserve, the Landfill Reserve, the Sea Level Rise Reserve, bond proceeds (mainly from interest earnings), the Development Impact Fee Reserve, CIP Reserve, commitment for AWPS Project, and the reserve for a potential site contamination liability, the fund is estimated with a \$43.8 million ending balance before midyear requests.

Staff recommends a total of \$4.8 million to fund the following midyear requests, which would reduce the ending balance to \$39.0 million:

- \$4.1 million for additional General Fund administrative overhead based on updated cost allocation plan study;
- \$475,000 transfer to CIP 26-10 Shoreline Landfill Gas, Cap and Leachate Maintenance;
- \$120,000 for the Multimodal Transportation Analysis Project;

- \$44,800 for partial funding of a new Public Art Administrator position;
- \$27,300 for a landscape maintenance contract; and
- \$16,800 for partial funding of a Facilities Maintenance Worker III.

A 2021 Shoreline Sea Level Rise Study Update was presented to the City Council on June 22, 2021. The current cost estimate, based on the 2021 study, for the identified sea level rise adaptation projects in the Sea Level Rise Capital Improvement Program (SLR CIP) is \$122 million. Over half of the projects are in planning and design. The Sailing Lake Access Road project and the North Landfill Erosion Protection at Pond A2W are constructed. Currently, staff is working to update the SLR CIP based on the updated regional planning guidance and sea level rise projection, with an updated program cost estimate. It is anticipated additional reserves will be needed to provide for increased costs due to projected additional improvement needs, project cost inflation, and more stringent regulatory requirements. Currently, the Shoreline Community set aside \$6.0 million annually for the Sea Level Rise Projects and the Shoreline Community has accumulated approximately \$13.2 million to date.

Enterprise Utility Funds

The City's three enterprise utility funds (Water, Wastewater, and Solid Waste) are fully funded by the rates charged to customers; there is no General Fund support to the utility funds. Utility rates charged by governmental entities for water, sewer, and trash/recycling/compost services are considered property-related fees and are subject to the procedural requirements of Proposition 218, Article XIII, of the California Constitution. The City has complied with Proposition 218, and during Fiscal Year 2023-24, each enterprise fund underwent a cost-of-service study, which is done periodically to ensure the rate structures comply with Proposition 218 and the City is collecting appropriately for the cost of each service.

The City held a public hearing on June 25, 2024 for all utility rates recommended for Fiscal Years 2024-25 through 2028-29 and the allowance of inflationary and pass-through adjustments for water and sewer rates for Fiscal Years 2025-26 through 2028-29. Rates for Fiscal Year 2025-26 were within the utility rates recommended at the public hearing, including the allowed inflationary and pass-through adjustments for water and sewer rates. Staff will be reviewing the revenues and expenditures for each of the utility funds for Fiscal Year 2026-27, as well as considering the inflationary and passthrough adjustments for water and sewer rates and returning to the City Council with rate recommendations in the next quarterly update report in April.

Water Fund

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

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

	2025-26 Adopted <u>Budget</u>	2025-26 Adjusted <u>Budget</u>	2025-26 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$50,570	\$50,570	\$50,968	\$ 398
Expenditures ¹	<u>(46,453)</u>	<u>(46,792)</u>	<u>(41,550)</u>	<u>5,242</u>
Operating Balance	4,117	3,778	9,418	5,640
Capacity/Development				
Impact Fees	-0-	-0-	671	671
Capital Projects from	-0-	-0-	-0-	-0-
Fees				
Capital Projects	<u>(6,169)</u>	<u>(6,169)</u>	<u>(6,169)</u>	<u>-0-</u>
Excess (Deficiency) of				
Revenues	(2,052)	(2,391)	3,920	6,311
Beginning Balance	49,111	49,111	49,111	-0-
Capacity/Dev Impact				
Fees Reserves	(10,553)	(10,553)	(11,224)	(671)
Water Transfer Reserve	(5,000)	(5,000)	-0-	5,000
Reserves	<u>(15,052)</u>	<u>(15,052)</u>	<u>(15,052)</u>	<u>-0-</u>
Ending Balance	<u>\$16,454</u>	<u>\$16,115</u>	<u>\$26,755</u>	<u>\$10,640</u>

¹ Adjusted Budget excludes encumbrance carryover for the water purchase.

Fiscal Year 2025-26 water rates effective July 1, 2025 were adopted reflecting a total revenue increase of 5.0%, comprised of 2.5% pass-through and inflationary increases and a 2.5% scheduled increase previously approved at the June 25, 2024 public hearing. Water rates include two components: the fixed monthly meter charge and the water consumption charge. The recycled water rate was set to be no more than 85% of the uniform potable water rate. Operating revenues are estimated at \$51.0 million, \$398,000 (0.8%) higher than budget. Water usage through November, compared to the same period the prior fiscal year, is trending lower at about the same level as the same period during Fiscal Year 2023-24. It should be noted that water usage continues to be well below the 2013 drought baseline usage. Recycled water sales are also trending lower when comparing usage through November in the current fiscal year to last fiscal year.

Operating expenditures are estimated at \$41.6 million, which is \$5.2 million (11.2%) below budget, primarily as a result of the lowering of the SFPUC purchase requirement and savings in operations.

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

Over the past two years, staff continued to work with the SFPUC and the Bay Area Water Supply and Conservation Agency (BAWSCA) to amend the minimum annual purchase quantities affecting three agencies, including Mountain View. This change required amending and restating the Water Service Agreement (WSA) with approval from all 26 BAWSCA member agencies. The final agency approved the WSA in December 2025, thereby reducing the City's minimum annual purchase to an achievable level. With this change, the \$5.0 million received from East Palo Alto will no longer be reserved and will be used for future capital projects. This change will also be taken into consideration when calculating rates for Fiscal Year 2026-27.

The estimated operating balance is \$9.4 million, primarily due to the lowering of the SFPUC minimum purchase requirement, sufficient to fund the current fiscal year's \$6.2 million for capital projects.

Restructured capacity fees were adopted by the City Council effective July 1, 2015. The updated fee structure accounts for increased water and sewer infrastructure costs based on additional

demands resulting from new development or changes to the type of development. Capacity fees are not included in the Adopted Budget as the fees are uncertain; funds are available for capital projects after the fees are actually received. The capacity fees received through December 2025 total \$107,400, and interest is estimated at \$263,200. Various development impact fees have been adopted by the City Council, and for Fiscal Year 2025-26, no revenue has been received through December 2025, but interest is estimated at \$300,800. Any fees received and interest earned will be designated for specific projects and will be identified in the Five-Year Capital Improvement Program (CIP). There were no capital projects funded by capacity fees or development impact fees for Fiscal Year 2025-26. Balances in these funds will fund future projects. The Water Fund is estimated to have an ending available balance of \$26.8 million and \$26.3 million in reserves.

Wastewater Fund

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

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

	2025-26 Adopted <u>Budget</u>	2025-26 Adjusted <u>Budget</u>	2025-26 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
Revenues	\$38,747	\$38,747	\$39,362	\$ 615
Expenditures	<u>(29,436)</u>	<u>(30,961)</u>	<u>(31,238)</u>	<u>(277)</u>
Operating Balance	9,311	7,786	8,124	338
Capacity/Development Impact				
Fees	-0-	-0-	619	619
Capital Projects from Fees	673	673	673	-0-
Capital Projects	<u>(1,811)</u>	<u>(1,811)</u>	<u>(1,811)</u>	<u>-0-</u>
Excess (Deficiency) of				
Revenues	8,173	6,648	7,605	957
Beginning Balance	46,778	46,778	46,778	-0-
Capacity/Dev. Impact				
Fees Reserves	(3,358)	(3,358)	(3,977)	(619)
Treatment Plant Reserve	(21,096)	(20,561)	(19,634)	927
Reserve for Loan Proceeds	(265)	(265)	(265)	-0-
Reserves	<u>(10,036)</u>	<u>(10,036)</u>	<u>(10,036)</u>	<u>-0-</u>
Ending Balance	<u>\$20,196</u>	<u>\$19,206</u>	<u>\$20,471</u>	<u>\$1,265</u>

Fiscal Year 2025-26 wastewater rates effective July 1, 2025 were adopted to account for an overall 6.0% revenue increase, including the second year of adjustments to the rate structure to align rates with the cost of providing service. The 6.0% increase is made up of 3.5% from pass-through and inflationary increases, and 2.5% included in the schedule of rates approved at the June 25, 2024 public hearing. The 2.5% scheduled rate increase includes a 2.0% rate increase for future Treatment Plant capital costs. 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% was projected, and the City Council approved a gradual phase-in of 2.0% annually for 10 years to fund these long-term capital costs, of which Fiscal Year 2023-24 was the tenth year. As noted in prior year budget documents, construction costs have risen dramatically and, thus, the forecast for the future Treatment Plant capital costs have risen since the Treatment Plant's original forecast over 10 years ago. An additional up to five years of the additional 2% increases beyond the original 10-year plan has been approved to fund the City's share of these additional costs.

Operating revenues are estimated at \$39.4 million, \$615,000 (1.6%) higher than budget. Estimated operating expenditures of \$31.2 million are trending \$277,000 over budget. This is primarily due to \$2.0 million owed for prior-year treatment costs offset by 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 was \$2.0 million more than budgeted, resulting in an additional amount owed. Past practice has been to put reconciliation credits (amounts overpaid and returned to the City) into reserve so that funding is available for years when there is an amount due. The current balance in this reserve is \$3.6 million, sufficient to cover this payment. However, funds need to be appropriated, and this report includes a request to appropriate the \$1.8 million, the net of the \$2.0 million payment and the available balance in the prior year purchase order. The estimated operating balance of \$8.1 million includes \$4.3 million collected for future and new debt for Treatment Plant Capital Costs, as stated above, and the balance is sufficient to fund the current fiscal year's \$1.8 million for Capital Projects.

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 December 2025 total \$46,900, and interest is estimated at \$473,200. Various Development Impact fees have been adopted by the City Council, and no revenue has been received through December 2025, but interest is estimated at \$99,100. Any fees and interest earned will be designated for specific projects and will be identified in the Five-Year CIP. There were no capital projects funded by capacity fees or development impact fees for Fiscal Year 2025-26. Balances in these funds will fund future projects.

The majority of the trunk main infrastructure was installed in the 1950s and 1960s. Staff have previously indicated through the CIP process that there are major City sewer main replacement projects necessary over the next 10 years. As identified in the Fiscal Year 2018-19 Midyear Report, Capacity and Development Impact fees have provided a source of funding for some projects; however, the fees received are not sufficient to fund all projects, and staff recommended issuing debt to secure additional funds. On October 23, 2018, the City Council approved a \$10.1 million loan financing for Wastewater infrastructure projects. The proceeds have funded \$3.1 million of midyear capital projects in Fiscal Year 2018-19, \$6.3 million of scheduled and midyear capital projects in Fiscal Year 2019-20, \$640,000 of scheduled projects in Fiscal Year 2020-21, and \$15,350 of midyear capital projects in Fiscal Year 2023-24. There is \$265,000 of interest earned on proceeds, and proceeds returned from a capital project currently not allocated to a capital project. Staff will return to the City Council with a recommendation for use of these funds at a later time. The financing structure includes the ability to prepay 10.0% of

the outstanding balance each year and all of the outstanding balance after 10 years without penalty. Annual payments are approximately \$852,000. There are still significant projects necessary over the next 5 years, and it is anticipated at this time there will be available fund balance to fund these projects.

The fund is estimated to have an ending balance of \$20.5 million and \$33.9 million in reserves, which includes the accumulation of the rate increases needed for future and new debt for Treatment Plant capital expenditures, net Treatment Plant credits for prior fiscal years, and the Capacity and Development fees balance.

Solid Waste Management Fund

The Solid Waste Management Enterprise Fund is a utility fund that accounts for the revenues and expenditures of solid waste-related services, including trash collection and disposal, recycling/compost 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, recyclables, and compost. The City bills and collects all revenues for solid waste services.

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

	2025-26 Adopted <u>Budget</u>	2025-26 Adjusted <u>Budget</u>	2025-26 <u>Estimated</u>	Variance of Estimated to Adjusted <u>Budget</u>
City Revenues	\$18,646	\$18,646	\$18,231	\$ (415)
Recology Revenues ⁽¹⁾	<u>22,202</u>	<u>22,202</u>	<u>22,612</u>	<u>410</u>
Total Revenues	<u>40,848</u>	<u>40,848</u>	<u>40,843</u>	<u>(5)</u>
City Expenditures	(19,630)	(24,898)	(21,635)	3,263
Recology Payments ¹	<u>(22,202)</u>	<u>(22,202)</u>	<u>(22,612)</u>	<u>(410)</u>
Total Expenditures	<u>(41,832)</u>	<u>(47,100)</u>	<u>(44,247)</u>	<u>2,853</u>
Operating Balance (Deficit)	(984)	(6,252)	(3,404)	2,848
Capital Projects	<u>(928)</u>	<u>(928)</u>	<u>(928)</u>	<u>-0-</u>
Excess (Deficiency) of Revenues	(1,912)	(7,180)	(4,332)	2,848
Beginning Balance	20,182	20,182	20,182	-0-
Reserve for Future Facility Equipment	(4,000)	-0-	-0-	-0-
Reserves	<u>(4,903)</u>	<u>(4,903)</u>	<u>(4,903)</u>	<u>-0-</u>
Ending Balance	<u>\$ 9,367</u>	<u>\$ 8,099</u>	<u>\$10,947</u>	<u>\$2,848</u>

¹ Neither revenues nor expenditures are adopted for Recology.

Fiscal Year 2025-26 trash/recycling/compost rates effective July 1, 2025 were adopted to account for an overall 3.0% revenue increase as well as the second year phase-in rate increases from the cost-of-service study, both included in the schedule of rates approved at the June 25, 2024 public hearing. The City's Solid Waste Fund operating revenues are estimated at \$18.2 million, 2.2% below budget. City operating expenditures are estimated at \$21.6 million, \$3.3 million (13.1%) below budget, as a result of savings in lower compost service charges, operational savings, and a prior-year credit as part of the year-end payment reconciliation with the SMaRT[®] Station. 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 2024-25, the City overpaid its share of services \$216,000 and received a credit on the second quarter invoice. It should be noted that City operating expenditures include a one-time payment of \$4.0 million for SMaRT[®] Station capital costs. The City accumulated \$2.6 million from prior capital debt payments that

ended in Fiscal Year 2016-17 and since have been reserved for future facility equipment. This, along with \$1.4 million from available fund balance, is now being used to partially pay the City's share of SMaRT® Station capital costs and keep new debt payments approximately level with the previously mentioned prior debt payments so that minimal additional rate increase is needed.

There is an estimated operating balance deficit of \$3.4 million, of which \$4.0 million is the one-time SMaRT® payment coming from reserve as mentioned above. The remaining \$600,000 will come from available balance along with the current fiscal year's capital projects of \$928,000. The fund is estimated to have an ending balance of \$10.9 million and reserves of \$4.9 million. The balance is needed to continue to smooth the phased-in rate structure adjustments resulting from the cost-of-service study prepared during Fiscal Year 2023-24.

III. RECOMMENDED MIDYEAR BUDGET ADJUSTMENTS

The midyear budget review provides an opportunity for the City to adjust the budget to recognize unanticipated revenues and costs and to propose expenditures to address high-priority community and operational needs. Any such proposed adjustments are made in the context of assessing the resources needed to provide high-quality services to the public and the fiscal capacity to fund this level of resources. Each department continuously reviews its programs and operations as well as changing conditions and emerging community needs. In addition, special studies may be conducted to assess a program area and recommend changes to increase effectiveness or efficiency, with a focus on continuous improvement.

The following sections briefly describe the proposed midyear adjustments and recommendations are summarized in Exhibit A of Attachment 2.

Expenditures Changes

Appropriate \$4,100,370 in the Shoreline Regional Park Community Fund for administrative overhead.

Provides increased funding for administrative overhead costs based on the updated cost allocation plan study.

Appropriate \$2,000,000 in the Liability Self Insurance Fund in the City Attorney's Office for potential litigation costs.

Provides increased funding for outside counsel support for known and anticipated litigation matters through the end of the fiscal year.

Appropriate \$2,000,000 for a transfer from the General Operating Fund to the Capital Improvement Reserve.

Provides funding for a midyear transfer from the General Operating Fund to the Capital Improvement reserve to support planned and future capital projects.

Appropriate \$1,800,000 in the Wastewater Fund in the Public Works Department for Fiscal Year 2024-25 Treatment Plant reconciliation payment owed.

Each fall, the Palo Alto Treatment Plant performs an annual reconciliation of the prior fiscal year's wastewater treatment costs based on actual treatment volumes and provides an adjustment to each member agency. For the prior fiscal year, the City's share of audited treatment plant expenditures exceeded the budgeted amount by \$2.0 million, resulting in an additional payment due.

Historically, reconciliation credits – amounts previously overpaid and returned to the City – have been placed into a reserve to help offset future years when additional payments are required. The current reserve balance of \$3.6 million is sufficient to cover this payment. However, an additional appropriation of \$1,800,000 is still required, representing the net amount due after applying the remaining balance available in the prior year purchase order.

Appropriate \$1,000,000 for a transfer from the General Operating Fund to the Parental Leave Reserve.

Provides funding for a midyear transfer from the General Operating Fund to the Parental Leave Reserve in anticipation of future costs for the Parental Leave Program for City employees.

Appropriate \$1,000,000 for a transfer from the General Operating Fund to the Strategic Property Acquisition Reserve.

Provides funding for a midyear transfer from the General Operating Fund to the Strategic Property Acquisition Reserve to fund planned and future property acquisitions.

Transfer and Appropriate \$475,000 from the Shoreline Regional Park Community Fund to CIP 26-10: Shoreline Gas, Cap and Leachate Maintenance.

Provides increased funding to the closed landfill CIP for consultant services, methane gas sensors, and well drilling.

Appropriate \$300,000 in the Parental Leave Reserve Fund for the Parental Leave Program.

Provides additional budget for anticipated costs for the Parental Leave Program for City employees.

Transfer and Appropriate \$155,000 from the Capital Improvement Reserve to CIP 23-26: Citywide Travel Demand Model Update

Provides increased funding to cover consultant modeling services and VTA base model licensing fees needed for the travel demand model update.

Appropriate \$125,000 from the General Non-Operating Fund in the Public Works Department for Facilities contract services.

Provides funding for a staff augmentation contract for facilities services. The contract allows the facilities team to bring in added resources when necessary to assist with heavy workload.

Transfer and Appropriate \$105,000 from the Construction and Conveyance Tax Fund to CIP 26-26: Annual Real Estate Technical and Legal Services.

Provides increased funding to the Real Estate CIP for analysis and evaluations needed for several strategic acquisition opportunities.

Appropriate \$100,000 from the General Non-Operating Fund in the City Manager's Office for Revenue Measure Strategic Consulting.

Provides funding for consultant services to complete the analysis of revenue options for funding long-term City needs as part of a potential 2026 ballot revenue measure.

Appropriate \$100,000 from the General Non-Operating Fund in the Finance and Administrative Services Department for Revenue Measure Financial Consulting.

Provides funding to a Registered Municipal Advisor to provide financial analysis and advisory services related to the potential 2026 ballot revenue measure.

Transfer and Appropriate \$100,000 from the Capital Improvement Reserve to CIP 26-13: Planned and Emergency Facilities.

Provides funding for updated office space and equipment for the Facilities Maintenance Supervisor and Chief Transportation Officer recommended positions.

Appropriate \$70,400 from the General Operating Fund and \$44,800 from the Shoreline Regional Park Community Fund in the Community Development Department for a Public Art Administrator Position.

Provides partial-year funding for the recommended Public Art Administrator position in the Community Development Department.

Appropriate \$67,200 from the General Operating Fund and \$16,800 from the Shoreline Regional Park Community Fund in the Public Works Department for a Facilities Maintenance Supervisor position.

Provides partial-year funding for the recommended Facilities Maintenance Supervisor position in the Public Works Department.

Appropriate \$60,000 from the General Non-Operating Fund in the Community Services Department for ActiveNet Fee Increases.

Provides funding to cover increased transaction fees for the ActiveNet online software, which is used to process class and camp registrations, facility reservations, memberships for aquatics programs, deposits and daily passes, and other financial transactions in the Community Services Department.

Appropriate \$50,000 from the General Non-Operating Fund in the Finance and Administrative Services Department for a Transient Occupancy Tax (TOT) Audit.

Provides funding for contract services with an independent auditing firm to conduct Transient Occupancy Tax compliance audits of the City's hotel operators.

Appropriate \$50,000 from the General Non-Operating fund in the City Manager’s Office for Pilot Funding to Local Organization

Several CBOs work closely with the unhoused community and are uniquely able to identify challenges that may impede the path for more stable housing. Flexible funding for people in need of assistance is a way that could make a positive impact on their stability, such as transportation to attend medical appointments, hygiene kits, and phone chargers. The Council-adopted *Pathways to Housing* homelessness response strategy included this pilot initiative that will be done in partnership with a non-profit provider.

Appropriate \$48,000 from the General Non-Operating Fund in the Human Resources Department for staff training.

Provides funding for digital applications training related to document processing and Interest Based Bargaining for City staff in anticipation of upcoming labor negotiations.

Appropriate \$45,000 from the General Non-Operating Fund in the Community Services Department for power washing services.

Provides funding for increased power washing contract costs and to add monthly pressure washing services along the Castro Street Pedestrian Mall corridor.

Appropriate \$43,300 from the General Non-Operating Fund and \$27,300 from the Shoreline Regional Park Community Fund in the Community Services Department for landscape maintenance.

Provides increased funding for contract services for roadway landscape maintenance. The landscape maintenance contract went out for competitive bid in May 2025, resulting in a new contract scope and vendor.

Appropriate \$35,000 from the General Non-Operating Fund in the City Manager’s Office for Homeless Prevention Direct Financial Assistance Program

The homelessness action plan, *Pathways to Housing*, included a new modest, but impactful program that builds off the successful emergency direct financial assistance programs as part of the larger COVID-19 rent relief program with the Community Services Agency (CSA) for \$100,000 to provide flexible funds for extremely low-income households to help in paying for maintaining housing (e.g. rent, mortgage, utilities), assistance with vehicle repairs, transportation access, and medical, dental and eye care and other challenging costs due to unforeseen circumstances. For

FY 2025-26, Human Services can absorb \$65,000 of unprogrammed funds from the FY 2025-26 General Housing Fund, leaving a remaining unfunded balance of \$35,000.

Transfer \$18,300 in the General Operating Fund from the Information Technology Department to the City Clerk's Office for Netfile services.

Transfers the budget for Netfile services previously under the Information Technology Department but now under the City Clerk's Office.

Appropriate \$10,500 from the Solid Waste Fund in the Public Works Department for environmental health permit fees.

Provides funding for a new annual permit fee required by the County of Santa Clara Department of Environmental Health for the City's closed landfill site.

Appropriate \$7,000 in the General Operating Fund in the Public Works Department for Transportation Division reclassifications.

Provides partial-year funding for the reclassification of three Transportation Planner positions to one Chief Transportation Official and two Associate Transportation Planner positions.

Position Recommendations and Salary Plan Changes

New Ongoing Positions

1.0 FTE Public Art Administrator

A new 1.0 FTE Public Arts Administrator position is recommended in the Community Development Department's Economic Development Division. The City Council's Fiscal Years 2025-27 Work Plan recognizes the important role that arts and culture play in enhancing Livability & Quality of Life, one of Council's seven strategic priorities. A key initiative supporting this priority is the development and adoption of a Public Art Strategy to formalize and guide the City's public art efforts. As part of this initiative, Council directed staff to establish a new position dedicated to advancing the City's public art program.

The position would enable greater focus on public art initiatives by designating a staff member whose primary responsibilities include managing public art solicitations and contracts, coordinating with artists and arts organizations, integrating cultural initiatives across City programs, staffing the Visual Arts Committee, and completing the adoption and implementation of the programs and initiatives identified in the Public Art Strategy. The annual cost of this

position is \$255,700. The department has requested partial funding for this position for the remainder of the current fiscal year, with the full annual cost of \$255,700 to be incorporated into the Fiscal Year 2026–27 Budget Development process.

1.0 FTE Facilities Maintenance Supervisor

A new 1.0 FTE Facilities Maintenance Supervisor position is recommended in the Public Works Facilities Section. The Facilities Section is responsible for maintaining approximately 800,000 square feet of City-owned buildings and leased facilities, as well as supporting maintenance operations for 45 urban parks. The Section performs a wide range of technical repairs and maintenance activities for City facilities and related building systems and fixtures. The Facilities Section currently receives up to 300 work orders per month, all of which are managed by a single supervisor responsible for reviewing, assigning, coordinating, communicating, and tackling work orders, in addition to performing advanced troubleshooting and field support.

The additional supervisor position is recommended due to the increasing volume and complexity of facility maintenance needs across the City. The annual cost of this position is \$261,900. The department has requested partial funding for this position for the remainder of the current fiscal year, with the full amount of \$261,900 to be incorporated into the Fiscal Year 2026–27 Budget Development process.

1.0 FTE Librarian II

1.0 FTE Lead Security Services Guard

The addition of 1.0 FTE Librarian II and 1.0 FTE Lead Security Services Guard positions is recommended in the Library Department to support **expanded public service hours at the Mountain View Public Library**. Council has directed staff to explore options to increase Sunday operating hours, currently from 1:00 p.m. to 5:00 p.m. The recommended positions would enable the Library to extend Sunday service by two additional hours each week.

The new positions will also improve customer accessibility, reduce scheduling pressures caused by staff shortages, and ensure consistent security coverage to maintain a safe and welcoming environment for patrons and staff. The estimated annual cost is \$210,900 for the Librarian II position and \$170,000 for the Lead Security Services Guard position. The department has sufficient savings to cover costs for the remainder of the current fiscal year, and the full-year cost of both positions will be incorporated into the Fiscal Year 2026–27 Budget Development process.

New Limited-Period Positions

1.0 FTE Senior Human Resources Analyst

A new limited-period 1.0 FTE Senior Human Resources Analyst is recommended in the Human Resources Department. The position will manage employee leave administration and provide critical support across high-priority HR functions during a period of significant organizational demand from succession planning recruitments in public safety. The position is recommended to be limited-period through Fiscal Year 2026-27. The annual cost of the position is \$264,700. The department has enough savings to cover the rest of this fiscal year, but the full-year cost of this position will be incorporated into the Fiscal Year 2026–27 Budget Development process.

1.0 FTE Account Clerk I/II

A new limited-period 1.0 FTE Account Clerk I/II position is recommended for the Finance and Administrative Services Department to support the high workload within the Accounts Payable Section. The position will assist with processing invoices and payment requests, monitoring blanket purchase order spending, coordinating with vendors to establish electronic payment setup, and performing other critical Accounts Payable functions. This position is recommended as limited-period through Fiscal Year 2026-27.

The estimated annual cost of the position is \$185,800. The department has sufficient savings to cover costs for the remainder of the current fiscal year, and the full-year cost of this position will be incorporated into the Fiscal Year 2026–27 Budget Development process.

Position Reclassifications

1.0 FTE Deputy City Attorney to 1.0 FTE Senior Assistant City Attorney

A reclassification of a 1.0 FTE Deputy City Attorney to Senior Assistant City Attorney is recommended in the City Attorney's Office. The senior-level legal support is needed to handle the volume and complexity of legal work, and to provide depth and back-up necessary to maintain continuity of service across City departments. The department has enough savings to cover the rest of this fiscal year for this reclass, but the full-year additional cost of \$102,800 will be incorporated into the Fiscal Year 2026–27 Budget Development process.

1.0 FTE Senior IT Analyst to 1.0 FTE Senior Systems Analyst

A transfer and reclassification of a 1.0 FTE Senior IT Analyst in the Information Technology Department to a Senior Systems Analyst in the Finance and Administrative Services Department

is recommended to address the continuing need for IT support for finance-related software. The position will support the implementation of the new utility billing system software, as well as provide ongoing support and maintenance for the City's financial system, the OpenGov website, and other new technologies and systems in use by the department. There is no fiscal impact associated with this reclass, as it is a transfer between departments.

Transportation Division Reorganization and 1.0 FTE Chief Transportation Officer position

The reclassification of 4.0 FTE Transportation Planner positions to 1.0 FTE Chief Transportation Officer, 2.0 FTE Senior Transportation Planner, and 1.0 FTE Associate Transportation Planner is recommended in the Public Works Department. The reclassifications are part of the reorganization of the Transportation and Business Services Division to create a new division to focus solely on transportation and traffic.

The new division would combine the Transportation Planning and Traffic Engineering Sections, headed by the new Chief Transportation Officer position, to guide the City in the implementation of major policy documents such as the Active Transportation Plan, Vision Zero, and Transportation Demand Management. The department has requested partial funding to cover the cost of this request for Fiscal Year 2025-26, and the full year net cost of \$20,100 will be incorporated into the Fiscal Year 2026–27 Budget Development process.

5.0 FTE Parks & Open Space Worker I/II to 5.0 FTE Trails & Open Space Worker I/II

The reclassification of 5.0 FTE Parks & Open Space Worker I/II positions to Trails & Open Space Worker I/II is recommended in the Community Services Department. The reclassification allows for updating job responsibilities to more accurately reflect the role's desired dual focus on trail patrol, public engagement, and supportive maintenance across parks, trails, and open spaces. The reclassification also clarifies operational expectations, promotes internal equity, and establishes a clearer pathway for recruitment, retention, and career development. The department has enough savings to cover the rest of this fiscal year for this reclassification request, and the full-year cost of \$85,000 will be incorporated into the Fiscal Year 2026–27 Budget Development process.

Salary Plan Changes

In conjunction with the position changes listed above, staff is recommending an amendment to the salary plans for regular and hourly employees. The complete list of salary plan changes is outlined in Attachment 4 of this report.

Revenue Changes

The Finance and Administrative Services Department monitors the Citywide budget and adjusts estimates based on trends. The following table includes major revenues that have experienced significant changes from the Adopted Budget. Staff is requesting a budget adjustment to reflect more accurate estimates, and for the addition of three interfund transfers outlined in the Expenditure Changes section above. Please refer to Section II, Midyear Budget Status Summary, for additional information on the major revenue sources.

Fund	Description	Adopted Budget	Change	Revised Budget
General Operating Fund	Increase Revenue Appropriations for FY 2025-26 GF admin overhead from SRPC	\$ 8,199,000	\$ 4,100,370	\$ 12,299,370
Capital Improvement Reserve	Increase Revenue Appropriations for FY 2025-26 Transfer from General Operating Fund	1,881,000	2,000,000	3,881,000
General Operating Fund	Increase Revenue Appropriations for FY 2025-26 admin overhead from CIP	1,500,000	1,100,000	2,600,000
Strategic Property Acquisition Reserve	Increase Revenue Appropriations for FY 2025-26 Transfer from General Operating Fund	-	1,000,000	1,000,000
Parental Leave Reserve	Increase Revenue Appropriations for FY 2025-26 Transfer from General Operating Fund	-	1,000,000	1,000,000
General Operating Fund	Increase Revenue Appropriations for FY 2025-26 Business License Tax	5,423,000	351,000	5,774,000
General Operating Fund	Increase Revenue Appropriations for FY 2025-26 Transient Occupancy Tax	9,390,000	297,000	9,687,000
General Operating Fund	Decrease Revenue Appropriations for FY 2025-26 Utility Users Tax	10,801,000	(1,159,000)	9,642,000
General Operating Fund	Decrease Revenue Appropriations for FY 2025-26 Property Tax	84,168,000	(2,512,000)	81,656,000

IV. FISCAL YEAR 2026-27 PRELIMINARY GENERAL OPERATING FUND FORECAST

This section of the report focuses on the Fiscal Year 2026-27 Preliminary GOF Forecast. This forecast is based on limited data and financial assumptions made with information available at this time. An updated Five-year forecast will be incorporated into the Recommended Budget, scheduled for the June 9, 2026 City Council meeting.

Risks to the Forecast

The uncertainty surrounding federal policy presents a risk to the forecast. Potential changes in federal policies – such as new or increased tariffs, immigration regulations, income tax reform, shifts in unemployment, inflation, and interest rates, or a potential freeze or reduction in federal funding – could all impact the local economy and the City’s financial outlook. Staff have not incorporated a recession scenario into the current forecast.

The Forecast

The **preliminary** projection for Fiscal Year 2026-27 follows (dollars in thousands):

	<u>2024-25</u> <u>Audited</u>	<u>2025-26</u> <u>Adopted</u> <u>Budget</u>	<u>2025-26</u> <u>Estimated</u>	2026-27 Preliminary Forecast	Variance of 2026-27 Forecast to 2025-26 <u>Adopted</u>
Revenues	\$195,257	\$195,664	\$196,328	\$207,150	\$11,486
Expenditures ¹	(181,954)	(194,921)	(194,543)	(205,826)	(10,905)
Year-End Adjustments ²	<u>(3,210)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Operating Balance	10,093	743	1,785	1,324	
Transfer to GNOF	<u>(10,093)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Ending Balance Before Midyear Requests	\$ <u>-0-</u>	\$ <u>743</u>	\$ 1,785	\$ 1,324 ⁴	\$581

FY 2025-26 Midyear Requests:

Revenues ³	4,100	-0-
Expenditures (Positions) ⁴	(145)	(871)
Transfers to Reserves	<u>(4,000)</u>	<u>-0-</u>
Ending Balance	\$ <u>1,740</u>	\$ <u>453</u> ⁵

¹ Adopted Budget and Preliminary Forecast include \$9.3 million and \$10.3 million in estimated budget vacancy savings, respectively.

² Year-End Adjustments include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

³ Midyear increase to General Fund administrative overhead from the Shoreline Regional Park Community Fund based on the updated cost allocation plan.

⁴ Additional costs for Midyear recommended positions pending Council approval. FY2025-26 includes partial funding; FY2026-27 includes the full cost of positions.

⁵ The balance does not include any Fiscal Year 2026-27 ongoing budget requests.

The preliminary forecast projects total GOF revenues of \$207.1 million, \$11.5 million (5.9%) and \$10.8 million (5.5%) higher than the current fiscal year Adopted Budget and Estimated, respectively.

Baseline expenditures are anticipated to increase \$11.9 million; however, the vacancy factor increased by \$1.0 million, resulting in a net increase of \$10.9 million (5.4%), compared to the current fiscal year Adopted Budget. For Fiscal Year 2026-27, there is a preliminary ending balance of approximately \$453,000. **Notably, the forecast does not include any Fiscal Year 2026-27 ongoing budget recommendations from the City Manager as those are currently under evaluation as part of the budget development process.**

The full five-year forecast will be updated and presented at the Preliminary Review of the Fiscal Year 2026-27 Recommended Budget in April and subsequently during both the Recommended and Adopted Budget meetings in June. **The currently projected operating balance of approximately \$453,000 is preliminary and will likely change as revenue and expenditure assumptions are refined and forecast adjustments are developed between now and preparation of the Recommended Budget.**

Revenue projections are based on reasonable assumptions utilizing available information from a wide variety of sources, including analysis of the City's historical trends, consultation with economists specializing in Silicon Valley regional economics, review of economic indicators such as unemployment rates, coordination with neighboring agencies, evaluation of State and national economic trends, and consideration of local factors affecting Mountain View, including lease agreements and planned property development.

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

Revenues

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

	2024-25 <u>Audited</u>	2025-26 Adopted <u>Budget</u>	2025-26 <u>Estimated</u>	2026-27 Preliminary Forecast	Variance of 2026-27 Forecast to 2025-26 <u>Adopted</u>
Property Taxes	\$ 80,293	\$ 84,168	\$ 81,656	\$ 84,139	\$ (29)
Sales Tax	21,177	22,843	22,966	23,521	678
Other Local Taxes	27,389	25,614	25,103	25,705	91
Use of Money and Property	31,947	32,436	32,504	33,332	896
Other Revenues	17,556	13,595	15,985	14,518	923
Interfund Revenues and Transfers	<u>16,895</u>	<u>17,008</u>	<u>18,114</u>	<u>25,935</u>	<u>8,927</u>
 Total Operating Revenues	 <u>\$195,257</u>	 <u>\$195,664</u>	 <u>\$196,328</u>	 <u>\$207,150</u>	 <u>\$11,486</u>

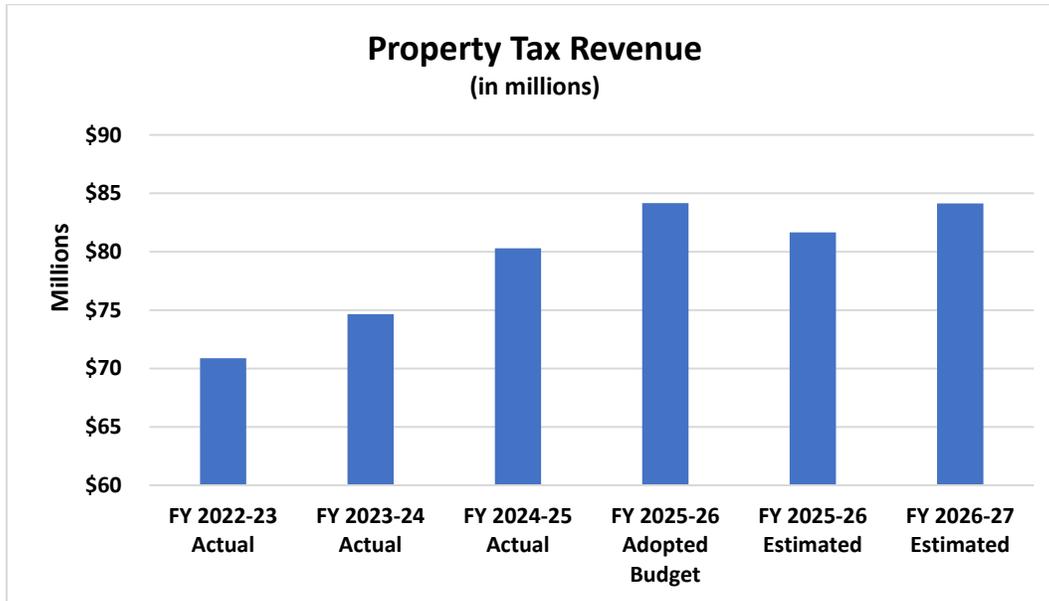
A brief explanation of the assumptions and changes for the preliminary Fiscal Year 2026-27 forecast follows:

Property Tax revenue is projected at \$84.1 million (or 40.6% of total GOF revenue), essentially unchanged from the current fiscal year Adopted Budget and \$2.5 million higher than the Estimated. Compared to the July 1, 2025 tax roll, the Fiscal Year 2026-27 AV of secured property-generating tax revenues for the GOF is projected to reflect net growth, driven by the following factors:

- A 2.0% increase in AV for most properties resulting from the annual CCPI inflation factor (October 2024 to October 2025);
- AV increases from changes in ownership, trended using information received for January 1, 2025 through October 31, 2025;
- Increased AV related to new development anticipated to be included in the July 1, 2026 tax roll; and
- Anticipated AV decreases resulting from the resolution of current appeals and projected new appeals.

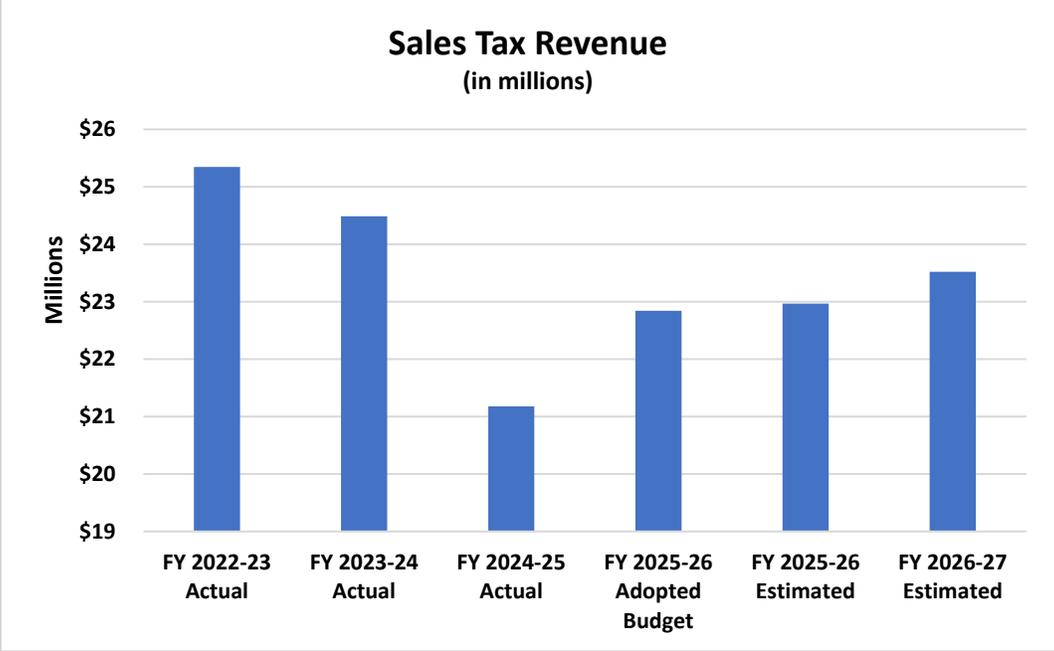
Staff will continue to collect data from the Santa Clara County Assessor and revise the property tax forecast with updated information pertaining to new development and appeal resolutions.

Recent and projected property tax revenue data is included below.



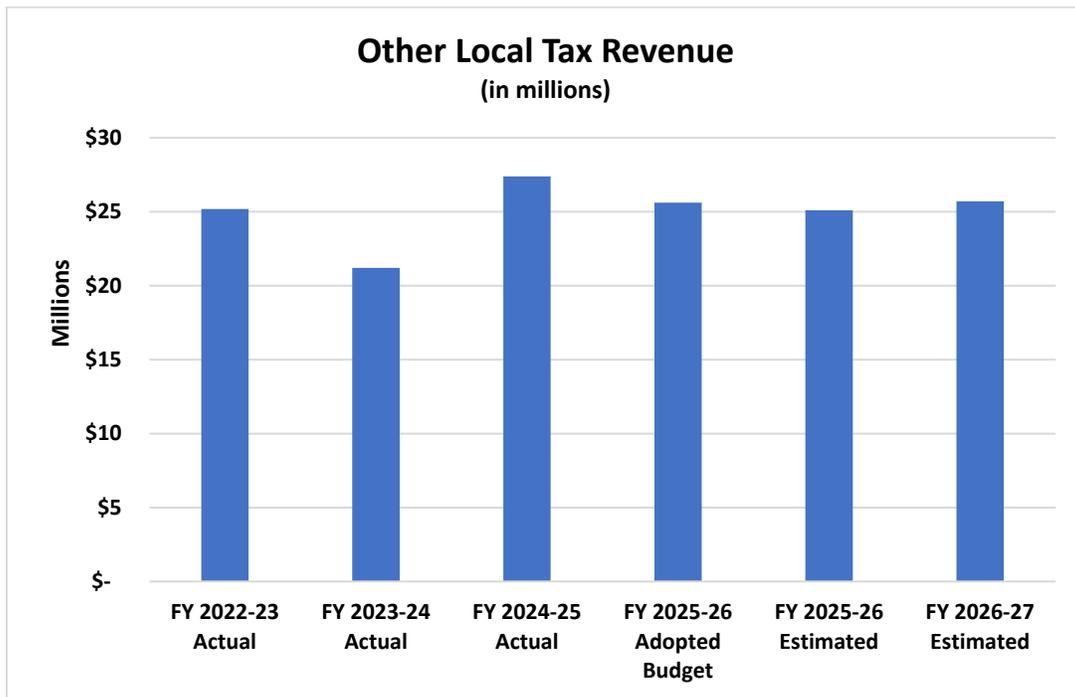
Sales Tax revenue is projected at \$23.5 million (or 11.4% of total GOF revenue) for Fiscal Year 2026-27, \$678,000 higher than the current fiscal year Adopted Budget and \$555,000 higher than the current fiscal year Estimated. Staff will continue to monitor the sales tax collection and work with the City’s sales tax consultant and the City’s Economic Development Division to revise the sales tax forecast.

Recent and projected sales tax revenue data is included below.



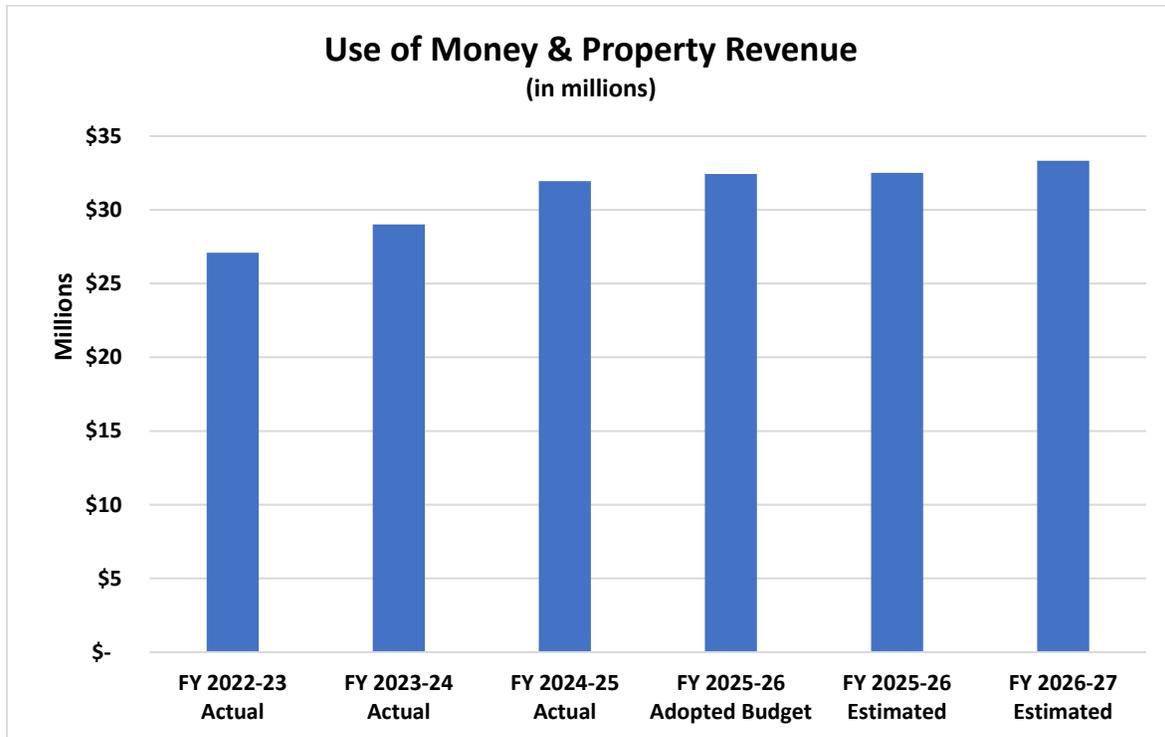
Other Local Taxes revenue is projected at \$25.7 million (or 12.4% of total GOF revenue), essentially unchanged from the current fiscal year Adopted Budget and \$602,000 (2.4%) higher than Estimated. TOT revenue is projected to be \$346,000 (3.6%) higher than the Estimated, reflecting moderate growth. The Fiscal Year 2026-27 Business License Tax (BLT) is projected to increase by \$115,000 compared to the current fiscal year Estimated, reflecting a 2.0% estimated annual inflation factor to the tax. The City Council earmarked 80.0% of the increased business license tax for transportation and 10.0% for housing; transfers are included and discussed in the Expenditure section below. Fiscal Year 2026-27 UUT revenue is projected to be \$141,000 higher than the current fiscal year Estimated, driven by revenues generated from energy services.

Recent and projected other local tax revenue data is included below.



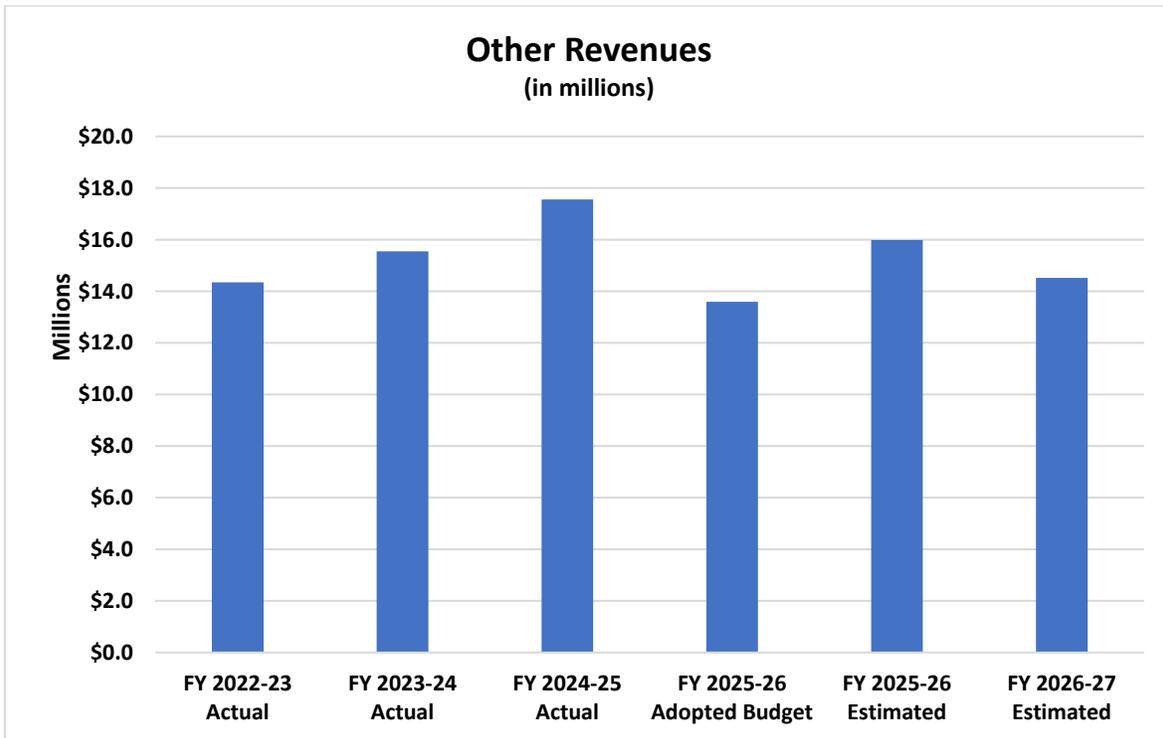
Use of Money and Property revenue is projected to be \$33.3 million (or 16.1% of total GOF revenue), an increase of \$896,000 (2.8%) and \$828,000 (2.5%) compared to the current fiscal year Adopted Budget and Estimated, respectively. Investment revenue is projected to increase due to the current market of high interest rates. The City has a practice of laddering its portfolio so the impact of higher interest rates will have a greater impact on future fiscal years as lower-yielding securities mature and are replaced with higher-yielding securities. Lease revenues are projected with inflators as stipulated in the leases or estimated with 2.0% increases.

Recent and projected use of money and property revenue data is included below.



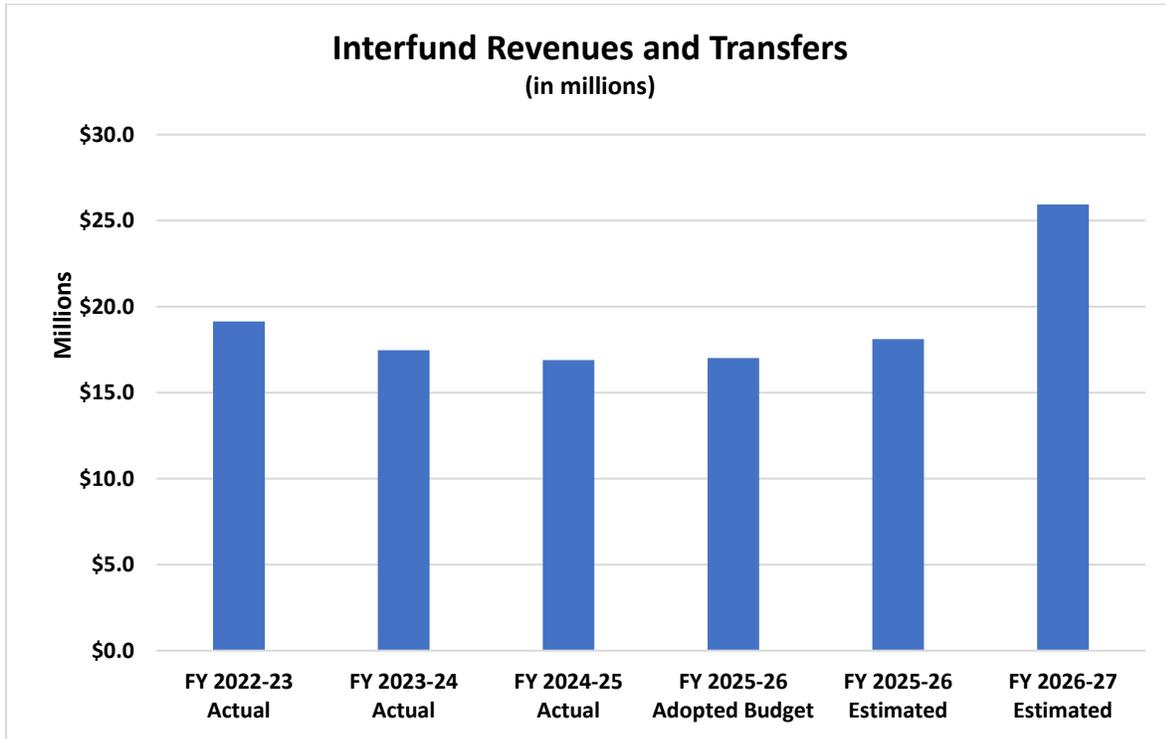
Other Revenues revenue is projected to be \$14.5 million (or 7.0% of total GOF revenue), an increase of \$923,000 (6.8%) compared to the current fiscal year Adopted Budget and \$1.5 million (9.2%) decline compared to the Estimated. The variance is primarily due to the exclusion from the budget of certain intergovernmental and miscellaneous revenues that are either variable in nature or not known at the time of budget adoption.

Recent and projected other revenues data is included below.



Interfund Revenues and Transfers are projected at \$25.9 million (or 12.5% of total GOF revenue), \$8.9 million and \$7.8 million higher than the current fiscal year Adopted Budget and Estimated, respectively. This increase is primarily due to the updated administrative overhead based on the recently finalized cost allocation plan study.

Recent and interfund and transfer revenue data is included below.



As new information becomes available, all revenue sources and projections will be reviewed and revised as appropriate for the next quarterly update.

Expenditures

A comparison of the Preliminary Forecast to current fiscal year Estimated and Adopted Budget and prior fiscal year Audited for the GOF follows (dollars in thousands). **As stated previously, the Fiscal Year 2026-27 department budgets are currently under review, and any new ongoing recommendations are not included in the Preliminary Forecast.**

	2024-25 <u>Audited</u>	2025-26 Adopted <u>Budget</u>	2025-26 <u>Estimated</u>	2026-27 Preliminary Forecast	Variance of 2026-27 Forecast to 2025-26 <u>Adopted</u>
Salaries and Benefits	\$138,904	\$157,538	\$150,169	\$165,377	\$7,839
Services and Supplies	26,691	29,431	26,714	30,807	1,376
Capital Outlay/Equipment Replacement	1,621	682	774	2,250	1,568
Interfund Expenditures and Transfers	14,738	16,570	16,886	17,691	1,121
Vacancy Factor	<u>Included</u>	<u>(9,300)</u>	<u>Included</u>	<u>(10,300)</u>	<u>(1,000)</u>
Total Operating Expenditures	<u>\$181,954</u>	<u>\$194,921</u>	<u>\$194,543</u>	<u>\$205,825</u>	<u>\$10,904</u>

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

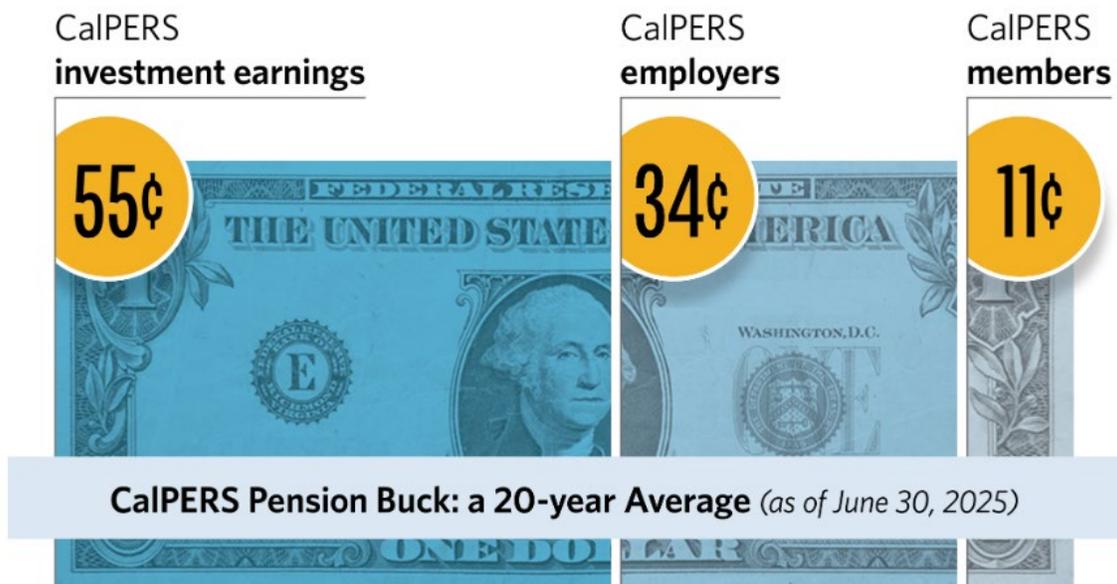
Salaries and Benefits expenditures are projected to be \$7.8 million (5.0%) higher than the current fiscal year Adopted. The forecast includes a cost-of-living adjustment for all employee groups. All labor agreements expire as of June 30, 2027. When compared to the prior fiscal year, the City’s Normal Cost rates for Miscellaneous have decreased by 0.3% and Normal Cost rates for Safety have decreased by 0.8%. The City’s Unfunded Actuarial Liability rates for Miscellaneous have decreased by 0.4% while rates for Safety have increased by 1.3%. The Miscellaneous rate is based on the City’s projected payroll and adjusted for salary savings due to vacant positions. Health benefit costs are projected with increases based on historical trends.

Rising employee-related costs, such as medical cost increases, and costs related to additional positions that were added in the past two years are the most significant contributor to rising expenditures. As shown below, pension benefits are funded by a combination of employer contributions, employee contributions, and investment earnings on those contributions.

Based on data over the past 20 years ending June 30, 2025, for every dollar CalPERS pays in pensions:

- 55 cents comes from investment earnings;
- 34 cents comes from employer contributions; and
- 11 cents comes from employee contributions.

Essentially, 66 cents out of every public employee pension dollar is funded by CalPERS' investment earnings and employee contributions. For the fiscal year ended June 30, 2025, CalPERS paid out more than \$34 billion in pension benefits.



When there is a gap between the assets available to fund benefits and the assets needed to fund benefits, the City must make up the difference.

The City's most recent actuarial report from CalPERS, released in December 2025, reports an unfunded pension liability of \$140.9 million for the Safety Plan and \$139.4 million for the Miscellaneous Plan, for a combined total of \$280.3 million as of June 30, 2024. This represents a decrease of \$18.6 million, or 6.2%, from the prior year total of \$298.9 million.

This reduction is primarily attributable to CalPERS achieving an investment return of approximately 9.3% in Fiscal Year 2023-24, which exceeded the assumed investment return of 6.8% by 2.5%.

As of June 30, 2024, the City's funded status improved to 72.2% for the Safety Plan and 76.1% for the Miscellaneous Plan. Overall, the City's combined funded status increased to 74.3%, up from 71.4% one year earlier.

Services and Supplies expenditures are currently projected to increase \$1.4 million over the current fiscal year Adopted Budget, primarily related to projected increases for City utility costs and maintenance and operations. The forecast does not include the adjustments recommended in this midyear report. Any recommended increases will be included with the Recommended Budget in June.

Capital Outlay/Equipment Replacement expenditures include \$750,000 for Capital Outlay. The annual Equipment Replacement Fund (ERF) funding amount is projected at \$1.5 million. Council has directed staff to pause ERF funding and re-purpose those resources to the Public Safety Reserve, and to review ERF funding annually and provide recommendations on whether to resume ERF funding over the next three years. Staff is currently reviewing all equipment replacement needs and will return to Council with recommendations on whether the annual ERF funding pause should continue. The \$1.5 million is included as a placeholder in the General Operating Fund for planning purposes.

Interfund Expenditures and Transfers are projected to increase \$1.1 million (6.8%) over the current fiscal year Adopted. This is primarily due to the addition of \$1.3 million in ongoing funding for the Parental Leave Reserve to provide parental leave for City employees. The Parental Leave Reserve was previously funded on a limited-period basis from the General Non-Operating Fund.

V. FISCAL YEAR 2024-25 GENERAL FUND REMAINING BALANCE

As discussed in the Analysis of Fiscal Year 2024-25 Audited Financial Results for the GOF and General Fund Available Balance report, which is Attachment 1 to the Annual Comprehensive Financial Report on the December 16, 2025 Council Agenda, the City's General Fund ended the 2024-25 fiscal year with an unallocated balance of \$8.9 million.

The table below details the General Fund balance, including one-time revenues and expenditure savings, budgeted transfers, limited-period expenditure allocations, and the midyear adjustments contained in this Council report (dollars in thousands):

GOF Balance from Fiscal Year 2024-25	\$ 10,093
Remaining Available Balance from Prior Fiscal Years	9,805
Fiscal Year 2024-25 Midyear Allocations Approved by City Council	(148)

Additions:

One-Time Revenues and Expenditure Savings in Fiscal Year 2024-25:	
Property Taxes—Excess ERAF	9,477
Unspent Limited-Period Expenditures	3,803
Miscellaneous Revenues	139
Child-Care Center Rent	<u>212</u>
 Subtotal	 <u>\$33,381</u>

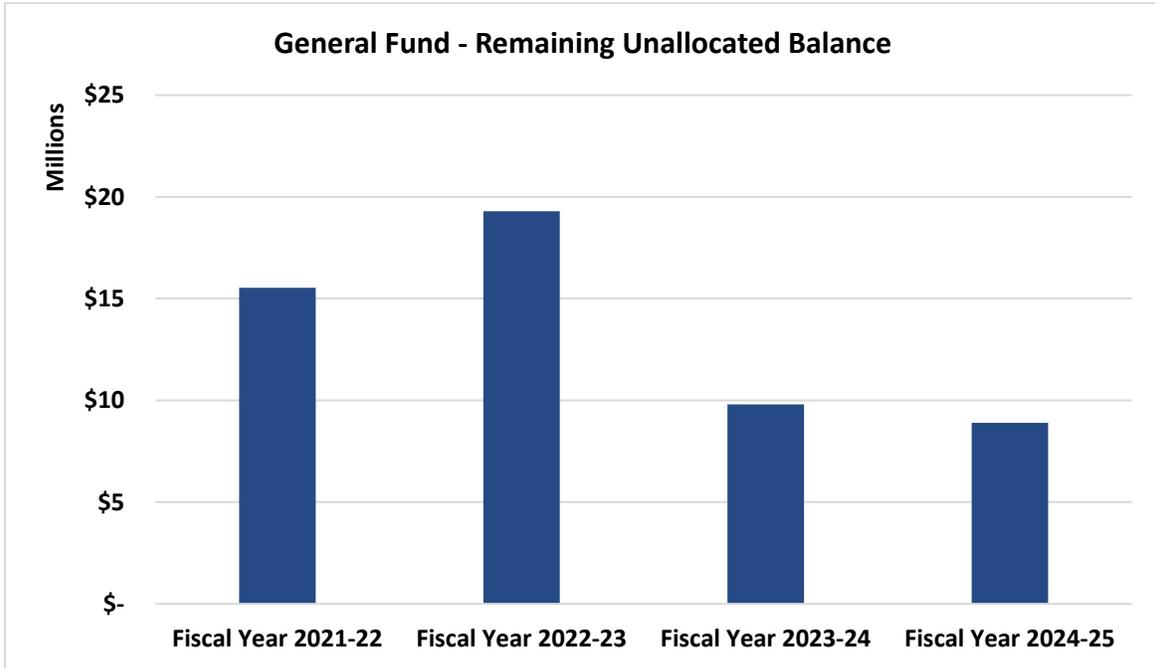
Subtractions:

Allocations in the Fiscal Year 2025-26 Adopted Budget:	
Limited-Period Expenditures	(7,768)
Public Safety Building Reserve	(5,000)
General Fund Reserve	(2,300)
Compensated Absences Reserve	(2,220)
General Liability Fund	(2,200)
Strategic Property Acquisition Reserve	(2,000)
CIP Reserve	(1,000)
Parental Leave Reserve	(1,000)
Development Services Fund	<u>(1,000)</u>
 Subtotal of Allocations	 <u>(24,488)</u>

Remaining Unallocated Balance at June 30, 2025	\$ 8,893
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Fiscal Year 2025-26 Midyear Council Actions	(325)
Recommendations in this Midyear Report from GNOF	<u>(656)</u>
Remaining Available Balance	<u>\$ 7,912</u>

The chart below illustrates the remaining available year-end balance for the past four fiscal years, representing funding available for limited-period (one-time) expenditures and reserves.



Council Policy A-11 provides that, to the extent possible, the GOF carryover funds remaining, not designated for other reserve purposes, shall be applied to the Capital Improvement Reserve. However, as in prior years, there are multiple funding needs in other areas currently under review as part of the budget development process, and staff will provide recommendations for the use of the remaining unallocated balance in the Fiscal Year 2026-27 Recommended Budget in June.

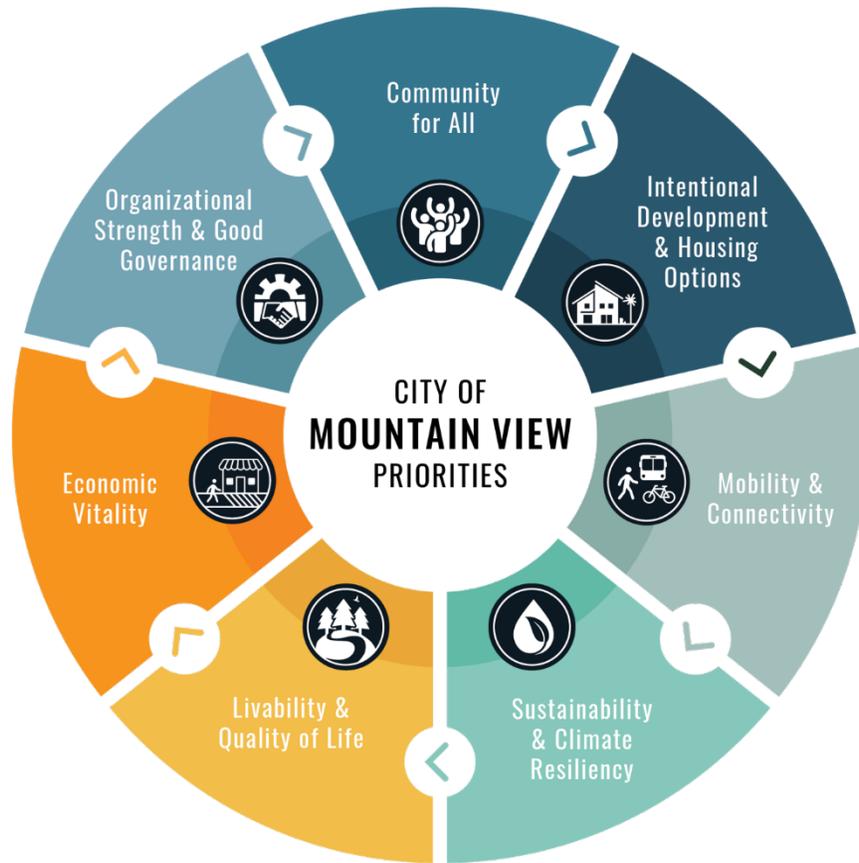
VI. FISCAL YEAR 2025-26 MIDYEAR PERFORMANCE MEASURES UPDATE

Departments periodically review and update their performance measures to ensure they continue to provide relevant and meaningful information about departmental operations. Attachment 1 presents Fiscal Year 2024-25 actual results, annual targets, and midyear (six-month) status updates for each performance measure for the current fiscal year.

Updated results for Fiscal Year 2025-26 will be included in the Fiscal Year 2026-27 Adopted Budget.

VII. FISCAL YEARS 2025-27 COUNCIL WORK PLAN: 6-MONTH PROJECT UPDATE

On June 24, 2025, the City Council adopted the Fiscal Years 2025-27 (FY 25-27) Council Work Plan. The FY 25-27 Council Work Plan identifies 16 priority projects to advance the Council’s Strategic Priorities. **Attachment 6** provides an update on the status of the Council work plan projects following the first six months of implementation.



FISCAL IMPACT

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

LEVINE ACT

California Government Code Section 84308 (also known as the Levine Act) prohibits city officials from participating in any proceeding involving a “license, permit, or other entitlement for use” if the official has received a campaign contribution exceeding \$500 from a party, participant, or agent of a party or participant within the last 12 months. The Levine Act is intended to prevent financial influence on decisions that affect specific, identifiable persons or participants. For more

information see the Fair Political Practices Commission website: www.fppc.ca.gov/learn/pay-to-play-limits-and-prohibitions.html

Please see below for information about whether the recommended action for this agenda item is subject to or exempt from the Levine Act.

EXEMPT FROM THE LEVINE ACT

General policy and legislative actions

ALTERNATIVES

1. Do not approve the recommendations.
2. Provide other direction.

PUBLIC NOTICING—Agenda posting.

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Services Director

Approved by:

Derek Rampone
Finance and Administrative Services Director

Arn Andrews
Assistant City Manager

Kimbra McCarthy
City Manager

- Attachments:
1. Fiscal Year 2025-26 Six-Month Performance Measures Update
 2. City of Mountain View Resolution Approving Midyear Budget Requests
 3. Shoreline Regional Park Community Resolution Approving Midyear Budget Requests
 4. City of Mountain View Resolution Approving Salary Plans for Regular and Hourly Employees.
 5. City of Mountain View Resolution Approving Changes to Authorized Positions
 6. Fiscal Years 2025-27 Council Work Plan: 6-Month Project Update